HIGHER EDUCATION LEADERSHIP & MANAGEMENT

DELIVERABLE 2
ASSESSMENT OF FINANCING OF THE HIGHER EDUCATION SECTOR IN INDONESIA

Contract No. AID-497-C-12-00001

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HELM PROJECT ABBREVIATIONS, ACRONYMS, AND GLOSSARY

BAN-PT	Badan Akreditasi Nasional-Perguruan Tinggi (National Accreditation Agency for HE)
BAPPENAS	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
BLU	Badan Layanan Umum (a semi-autonomous higher education institution)
BHMN	Badan Hukum Milik Negara (State Own Legal Institution, or Autonomous Institution)
BHP	Badan Hukum Pendidikan (an autonomous legal entity)
Bidik Misi	Financial Aid (for disadvantaged students)
BPK:	BadanPemericksaan Keuangan: Supreme Audit Board (external auditing by Government)
BPS	Biro Pusat Statistik(Central Bureau of Statistics)
BSNP	Badan Standardisasi Nasional Pendidikan (Board of National Education Standards)
DEPDIKBUD	Departemen Pendidikan dan Kebudayaan (Department of Education and Culture)
DEPKEU	Departemen Keuangan (Department of Finance)
DIKBUD	Kementerian Pendidikan dan Kebudayaan (Ministry of Education and Culture)
DIKTI	Direktorat Jendral Pendidikan Tinggi (Directorate General of Higher Education (DGHE))
DIPA	Daftar Isian Pelaksanaan Anggaran (budget line item)
DPR	Dewan Perwakilan Rakyat (Legislative Assembly)
ESC	External Stakeholder Collaboration
FPM	Financial Planning and Management
FM	Financial Management
GAAP	Generally Accepted Accounting Principle
GAL	General Administration and Leadership
GOI	Government of Indonesia
GRA	Gross Enrollment Rate
HE	Higher Education
HEI	Higher Education Institution
HELM	Higher Education Leadership and Management
HEMIS	Higher Education Management Information System
IPB	Institut Pertanian Bogor (Agricultural University at Bogor)
KAP	Kantor Akuntan Publik (Public Accounting Office)
LAKIP	Laporan Kinerja Instansi Pemerintah (Government Unit Performance Report)
MOEC	Ministry of Education and Culture—formerly Ministry of National Education
MOF	Ministry of Finance
MORA	Ministry of Religious Affairs
MWA	Majelis Wali Amanat (Board of Trustees)

PDPT	Pangkalan Data Perguruan Tinggi (Higher Education Database System)
Prodi	Program Studi (Study Program)
PT	Perguruan Tinggi (Higher Education)
PTN	Perguruan Tinggi Negeri (State Higher Education Institution)
PTS	Perguruan Tinggi Swasta (Private Higher Education Institution)
QA	Quality Assurance
RENSTRA	Rencana Strategis (Strategic Plan at universities or Government level (DIKTI))
RIP	Rancangan Induk Pengembangan (Master Development Plan)
RPJP	Rancangan Pembangunan Jangka Panjang (Long-term Development Plan)
RPJM	Rancangan Pembangunan Jangka Menengah (Medium-term Development Plan)
S-2	Strata 2 (Master's Degree)
S-3	Strata 3 (PhD equivalent)
SAP	Standard Auditing Principle
SATKER	Satuan Kerja (Project manager)
SIMAK	Sistem Informasi Manajemen (Management Information System)
SPM	Standar Pelayanan Minimal (Minimum Service Standard (MSS))
TUP	Tambahan Uang Persediaan (Additional funding)
UUPT	Undang-undang Perguruan Tinggi (Higher Education Law)

HELM PROGRAM OVERVIEW

The five-year USAID/Indonesia Higher Education Leadership and Management Project (HELM), contract AID-497-C-12-00001, is a Cost Plus Fixed Fee contract awarded to Chemonics International Inc. on November 28, 2011 to be completed on November 30, 2016. Chemonics International Inc. is the prime contractor for HELM and will implement the project with the assistance of its subcontract consortium partners: JBS International Inc., Aguirre Division, University of Kentucky Research Foundation, and the Indiana University Alliance. HELM works in close collaboration with the Directorate General of Higher Education (DIKTI) and Indonesian Higher Education Institution (HEI) partners and under guidance from USAID.

HELM aims to support and sustain reforms in the Indonesian higher education sector which will result in, as stated by the sub IR "increased management capacity of Indonesian Higher Education Institutions (HEI)." Through collaboration with DIKTI, HELM will target increased capacity in four core management areas:

1. General administration and leadership;
2. Financial management;
3. Quality assurances; and,
4. Collaboration with external stakeholders.

HELM is designed to promote the reform process within the Ministry of Education and Culture (MOEC) as the Higher Education (HE) system moves toward increased institutional autonomy. Implementation of the newly developed Strategic Plan for 2010-2014 is underway. DIKTI has requested both assistance on improving their strategic plan as well as support for improved implementation of the plan at the HEI level. A new law governing HE has recently passed, and all agree that it is a time of change and opportunity within the HE sector.

HELM is committed to programming that responds to needs identified by DIKTI as well as informing and advancing the reform process at the national level and among partner institutions. HELM goals will be achieved through a three-phase process:

1. The first phase will consist of an intensive, collaborative effort to assess the current context across the higher education sector, including challenges and constraints to the implementation of the newly developed strategic plan. Integral to this is responding to needs identified by the DIKTI as well as informing and advancing the successful design of the implementation phase of the project.
2. The implementation phase will be the second phase of HELM; efforts will focus on improved implementation of reform efforts both within DIKTI and within partner HEIs.
3. The final phase is considered the institutionalization phase. Institutionalization will be a focus throughout the program but in the final program years an intensified effort will sustain best practices and improve channels for dissemination of reform efforts.

HELM phase one assessment activities are intended to better identify, define, and focus the program implementation that will form the foundation of the HELM project out-year activities, while simultaneously providing research to DIKTI. As such, HELM will apply approaches and methodologies deemed as global best practices while remaining mindful of the unique character of the contextual specificity in Indonesia. HELM will coordinate closely with other donors and implementers working in the HE sector, and strive to learn from their experiences to build upon the successes of prior and existing projects. HELM will seek to complement existing work and create synergies with other programs working in the HE sector. Successes and lessons learned will be shared widely and will remain in the public domain in an effort to disseminate best practices for systemic improvements and to build support for reform within DIKTI and across the HE sector as well as across a wider range of stakeholders. Recommendations will link the initial assessment report to future program implementation activities.

The deliverables for the HELM program, as outlined in the contract, are organized under the following five key components:

A. Provide analytical support for strategic planning and policy analysis at DIKTI.
B. Design technical assistance approaches to achieve effective implementation of key reforms across system, coordinating with DIKTI and maximizing opportunities to internalize best practice within HE system.
C. Provide technical assistance to increase management capacity and improve performance at HEI—and disseminate best practices.
D. Strengthen graduate level programs in Higher Education Leadership and Management.
E. Support special initiatives by providing assistance to advance reforms and innovation within management of HEIs.

Much HELM's Year One work is focused under Component A and will provide the analytical foundation to inform implementation in future HELM activities. The assessment described below is one among the group of assessments.

OVERVIEW OF COMPONENT A

The purpose of Component A is to provide analytical support for strategic planning and policy analysis at DIKTI. Based on discussions with USAID, DIKTI, and the Ministry of People's Welfare (Menko Kesra) several of the deliverables outlined under Component A were adapted to be more responsive to expressed need and current context. The overall approach to development of the assessments has included:

- Close coordination with counterparts within DIKTI and other Higher Education stakeholders including other donors, implementers, and beneficiaries.
- Desk reviews of appropriate laws, regulations, available data, earlier studies, and other relevant documents to understand the DIKTI mission, the strategic vision for HE in Indonesia as set forth in the strategic plan, the pending new law, and other factors.
- Presentation and dissemination of findings relevant to DIKTI and HEI representatives as well as to other HEI stakeholders through channels such as the HELM Discussion Forum Series.

The assessments under the first deliverable of Component A focused on the implementation of the DIKTI strategic plan, including a focus on the governance and fiscal responsibilities in relation to the recent attention given to autonomy, as well as an assessment of the quality and use of indicators that DIKTI has defined within the strategic plan. The second and third deliverables are designed to examine the fiscal environment and the current student financial aid needs and strategies. The fourth deliverable was designed to provide in-depth information to inform future HELM program interventions based on a detailed data set drawn from a cross section of representative HEIs across Indonesia. The fifth deliverable focuses on issues surrounding quality assurances and collaboration with external stakeholders, while the sixth looks for examples of best practice in Indonesia and around the region to form the foundation of action research within Indonesian partner HEIs. The final two assessments will be determined based on needs expressed by DIKTI upon completion of the initial six assessments. This report is one of the set of assessments that will be completed under the HELM contract.

This report will focus on Deliverable 2, an assessment of the overall fiscal context for HEI in Indonesia. This assessment was defined because DIKTI identified the need to better understand the constraints and opportunities within the fiscal and regulatory environment. A wide range of data has been collected to illuminate the current legal and fiscal environment within the context of moving toward a system with more HEI autonomy—but in particular toward status as 'legal entities' (BLU status) which many HEI are moving toward. Data collected at the HEI institutional level and at the national level will be synthesized and analyzed in an effort to represent a range of different stakeholders and diverse data sets, and to fully understand the fiscal and regulatory context. The data and analysis for this assessment were also presented during the first HELM Round Table forum, where discussion centered around the following:

- Fiscal and regulatory context for the implementation of particular components of laws governing BLU and recommendations to review the responsibilities (both fiscal and governance) which will be required for HEI to become BLU.
- Actionable points to inform the design and development of future HELM activities related to financial management within the greater context of the pending HE law.

A more in depth discussion of Deliverable 2 follows.

OVERVIEW OF DELIVERABLE 2

This assessment of higher education financing in Indonesia supplements previous analytical work by the GOI, the World Bank, AusAID, the Asian Development Bank and others, (please refer to the bibliography, which provides a bibliography of sources used for this report and Annex A, which list people met) to better understand the history and current context of the financial and regulatory environment for higher education institutions in Indonesia.

In particular, this assessment will examine and address the following five questions:

1. What is the regulatory environment facing higher education institutions (HEIs) and how does it affect the level of financial capacity that they need?
2. Are GOI requirements for granting additional financial responsibility to HEIs adequate for assessing HEI financial capacity? Are the requirements sufficiently transparent concerning the particular competencies being sought by the GOI?
3. To what extent are HEIs able to meet the financial capacity criteria for additional financial responsibilities?
4. Is the level of GOI funding to higher education institutions adequate to meet its higher education priorities and reform objectives?
5. What are the modalities/mechanisms that can most effectively and efficiently mobilize any additional finances at the institutional level, through public or private financing or a combination of both?

The financial assessment includes three main activities:

1. Assessment of the capacity of different types of higher education institutions (autonomous/non-autonomous, large/small, urban/regional, etc.) to successfully manage the additional financial responsibilities identified in Deliverable 1a and identification of the resource and training needs required to take on the added responsibilities.
2. Investigation of adequacy of existing GOI funding to institutions for meeting reform objectives including access for low income students and quality from different stakeholders points of views (including efficiency).
3. Identification and evaluation of existing models for mobilizing additional finances at HEIs, and assessment of the potential for adapting and scaling up these models and/or developing new models with attention to the differences between 'line-item' and 'block grant' funding for HEI.

The first activity of the financial assessment, i.e. assessment of the capacity of different types of higher education institutions to successfully manage additional financial responsibilities (see below) is closely tied to Deliverable 1a. This deliverable developed a multi-functional definition of higher education autonomy, which reflects the reality that financial autonomy is more a series of responsibilities than a single concept. The criteria developed as part of Deliverable 2 to assess HEI financial capacity can be further developed to match individual financial requirements/criteria with the specific financial responsibilities identified in Deliverable 1a.

RESEARCH METHODOLOGY

This research addresses the five research questions posed in the preceding section "Overview of Deliverable 2" by a) conducting a desk review of laws, research and data sets, b) developing a set of criteria for assessing HEI financial capacity, c) using this set to analyze GOI requirements for different HEI legal statuses and to examine the financial capacity of a representative set of pilot HEI, d) holding meetings with government representatives and donors, and e) organizing a discussion forum with an array of stakeholders. The research will be divided into three main activities that are described below.

Activity One: HEI Financial Capacity

Development of the Assessment Instruments

Given changes in project's deliverable schedule, the methodology for assessing HEI financial capacity has been somewhat changed since the HELM planning meeting held in late January 2012. It had originally been thought that timing issues would preclude the use of the collaborative assessment visits to ten HEIs to gather information for the HEI financial capacity assessment and that separate independent key informant interviews would have to be held in selected HEIs near and around Jakarta. As the timing of the collaborative assessments (Deliverable 4) was pushed forward, this was not the case, and the FPM Advisor was able to participate in the planning for, and fielding of, the institutional assessments to collect information on HEI financial capacity throughout the country.

At a three day meeting in April 2012, the HELM team finalized the methodology for the collaborative site visits to 11 HEIs, recommended by DIKTI as indicative of a variety of categories of HEI across Indonesia. These site visits included interviews with key informants in the four areas of covered by the HELM project. In particular, the interview guides for Vice Rectors of Finance and Administration and External Collaboration included questions aimed at collecting information on the draft criteria developed by the FPM Advisor and on those areas in which the HEIs required technical assistance and/or training to strengthen their capacity to take on additional financial responsibility. The team also developed a self-evaluation questionnaire for submission to the 11 HEIs that included questions on financial capacity.

Six Criteria for Increased HEI Financial Autonomy

Prior to the assessment visits, the methodology called for the development of draft criteria for increased higher education institutional financial autonomy based on a desk review of data and documents on higher education autonomy and institutional financial planning and management and on meetings with key informants including donors and government officials. Once developed, the criteria would be used 1) to assess the degree to which the requirements for increased institutional autonomy in Indonesia (as outlined in government regulations and ministerial regulations and decrees) corresponded to the criteria developed, 2) the extent to which the various institutions visited met these criteria and 3) to organize the training and technical assistance needed by HEIs to strengthen their capacity to take on additional financial responsibilities.

Based on a review of secondary sources on higher education autonomy and institutional financial capacity including project documents for the World Bank's Higher Education for Relevance and Efficiency (IMHERE) project, a recent report on HEI capacity indicators prepared for the Ministry of Higher Education in Malaysia, United States accreditation standards and tools used to assess institutional financial capacity, and meetings with key informants including donors and government officials, six draft criteria and accompanying indicators were developed for increased higher education institutional financial autonomy to be used to assess the degree to which criteria for increased institutional autonomy in Indonesia correspond to the commonly accepted criteria for increased institutional autonomy and the extent to which the various institutions visited met these criteria.

While there is no conclusive research that proves that these are the *best* criteria for assessing HEI capacity, they are a commonly accepted group of criteria for determining a HEI's capacity to take on additional financial and governance responsibilities.

The six criteria or conditions that are necessary for increased HEI financial responsibilities include:

1. The presence of an independent financial management, planning and reporting system (that is integrated with the institutions human resources and quality assurance systems).
2. The presence of an independent human resource management system.
3. The presence of an independent infrastructure & facilities management system.
4. Demonstrated independent strategic decision making.
5. Sufficient cost recovery.
6. Institutional efficiency and productivity monitoring.

Increased HEI financial responsibility requires an independent financial management, planning and reporting system that is comprised of five sub-systems that have sufficient numbers of qualified staff. These sub-systems include an accounting and financial reporting system, a planning and budgeting system, a purchasing and disbursement system, an audit system and a cash management system. An adequate accounting and financial reporting sub-system is integrated into, and can be used by, all departments. It requires the reporting of revenue and expenditure by all departments/faculties, maintains a chart of accounts that reflects categories of income, expenditures, assets and liabilities, and prepares trial balances at the end of fiscal period. Such a system periodically prepares financial reports for different faculties/departments and prepares annual financial statements (balance sheet and income statement and a statement of cash flow) within some time period following the end of the fiscal year.

An adequate planning and budgeting system reviews the financial implications of the institution's strategic plan, prepares annual and multi-year budgets, and produces budget performance reports on a quarterly or monthly basis. An adequate purchasing & disbursement system must have policies and procedures that are disseminated and followed throughout the institution. It should verify all purchases against the approved budget before the purchase is initiated and record all purchases in a register per policies and procedures. The audit system should include the auditing of annual financial statements by external auditors and an internal audit office. An adequate cash management system differentiates responsibilities so that the personnel handling cash receipts are not the same as those who sign checks. It reconciles bank statements, reconciles cash receipts or posts to the General Ledger, requires that bank accounts are opened and closed only with authorization from the Rector and limits authorized signatures on bank accounts to a few officers.

Increased HEI financial responsibility requires an independent human resource management system that, among other things, communicates HR policies and procedures across the institution, aligns recruitment, selection and promotion criteria with the HEI's strategic objectives, maintains job descriptions, and bases wages and salaries on scales that vary with job types. It also requires an independent infrastructure and facilities management system that is indicated by, among other things, an infrastructure or facilities master plan and facilities/infrastructure life-cycle management plan, a manual with policies and procedures for stock management, inventory and fixed assets and an assets register.

The fourth criterion for increased HEI financial responsibility is independent strategic decision making as demonstrated by (for example) the preparation of a strategic plan informed by an assessment of the institution's available resources and clear evidence based decision making processes and the presence of institutional decision support systems.

The fifth criterion for increased HEI financial responsibility is the capacity for sufficient cost recovery as indicated by a cost recovery strategy and plan, a fee structure based on student unit cost, the regular evaluation of existing commercial entities/partnerships, institutional participation in funding agreements and competition for research contracts and grants, and the diversification of revenue sources using several approaches (commercialization, consultation, investment, endowments, etc.).

The sixth criterion is institutional efficiency and productivity monitoring as indicated by (for example) the regular assessment of internal institutional efficiency in terms of graduates, time to graduation, faculty productivity, student-faculty ratios and ratios of administrative to academic staff.

Using the framework provided by the six criteria, the assessment will examine the criteria that *were* used in Indonesia for designation as a Badan Hukum Milik Negara (BHMNN - State Own Legal Institution, or Autonomous Institution), those that *are* used to indicate if an HEI is ready to become a Badan Layanan Umum (BLU - a semi-autonomous higher education institution) and those that were recently introduced in the new Higher Education Law to indicate if a HEI is ready to become a *Badan Hakum* (PTN BH – state higher education legal entity) to tease out the specific HEI capacities that the government is looking for in granting HEIs additional financial authority.

Assessment Visits

The HEI site visits were carried out by two teams, each visiting five institutions, and a combined team visiting one institution. Each team had five members focused on general administration and quality assurance, as well as four members focused on financial management and external stakeholder collaboration. The HEIs included a cross section of different types of public and private universities and politekniks located in Sumatra, Sulawesi, East Kalimantan, East Java, Central Java, and Jakarta. The HEIs visited included: Universitas Sumatera Utara (USU), Politeknik Negeri Medan (PolMed), Universitas Hasanuddin (UNHAS), Universitas Negeri Makassar (UNM), Universitas Mulawarman (UNMUL), Politeknik Negeri Samarinda (POLNES), Universitas Muhammadiyah Malang (UMM), Universitas Gadjah Mada (UGM), Universitas Bina Nusantara (BINUS), Universitas Negeri Jakarta (UNJ), and Universitas Indonesia (UI). As these HEIs were chosen by DIKTI and the HELM team to be representative of a number of different categories of HEIs and regions of Indonesia, they are not representative of all HEIs in Indonesia though they provide a cross-section. The assessment visits were used to gather information on HEI financial capacity.

Review of Regulatory Environment in Indonesia for Additional HEI Financial Responsibility

As increased higher education autonomy in Indonesia has been largely implemented through the conversion of state universities into state owned legal entities (Badan Hukum Milik Negara [BHMNs]) and public service boards (Badan Layanan Umum [BLUs]), a comprehensive review of all legislation (including government regulations, ministerial regulations and decrees) was carried out to identify first, as part of Deliverable 1, the individual financial responsibilities inherent in each type of HEI and second, the criteria that were used in the awarding of these more independent statuses. The present draft report (August 2012) has been updated to include information from the recent Higher Education Law approved by Parliament in July.

Collation of Collected Information

The information gathered from the assessment visits, additional meetings, and the review of the regulatory environment in Indonesia was collated in order to a) assess the degree to which the BHMN and BLU criteria corresponded to the six draft criteria and provided HEIs with concrete and transparent readiness criteria that they could use to evaluate their own institutional capacity and identify areas that needed further strengthening and b) review the extent to which the different types of HEIs in Indonesia meet these criteria.

Identification of Training needs and Policy Changes

Based on the assessment visits and interviews and using the six criteria, the FPM Advisor identified those specific areas in which HEIs require additional financial capacity building in order to take on additional financial autonomy. A list of HEI training and technical assistance needs was compiled in the area of finance, but further detailed verification of the individual competencies to be included in such initiatives is needed.

Ground Truthing the Findings at a Round-Table

The criteria and their correspondence to the HEI requirements in Indonesia were ground-truthed during a one-day Round Table forum in Jakarta held on June 24, 2012. Participants were from the 10 of the 11 pilot HEIs who had been involved in the assessment visits and government officials. There was general consensus that the six criteria identified were appropriate for assessing HEI readiness for further financial autonomy and some discussion in response to the discussion questions, but no definitive answers to them were forthcoming. The questions included:

- Does the administrative and financial information collected adequately assess HEI capacity to take on additional financial responsibility?
- Based on experiences in the last several years, is there additional information that is needed?
- Is more transparency needed about the process used by the Ministry of Finance to evaluate the information that it collects?

- From an HEI perspective, is the information collected indicative of its readiness to take on additional financial responsibilities? Is there additional information that would reflect readiness more accurately?

Activity Two: Investigation of Adequacy of Existing GOI funding to Institutions for Meeting Reform Objectives from Different Stakeholders Perspectives

In order to assess the adequacy of existing GOI funding to HEIs for meeting its reform objectives, the FPM Advisor has reviewed data and laws, met with key stakeholders in the government, participated in collaborative assessment visits and developed qualitative research with senior secondary students and secondary school principals and quantitative research with higher education students.

Activity Three: Identification and Evaluation of Existing Models for Mobilizing Additional Finances at HEIs, and Assessment of Potential for Adapting and Scaling up these Models and/or Developing New Models

The aim of the third activity is to identify existing successful initiatives in Indonesia that could be scaled up and/or replicated to increase private sector and local government investment in higher education and in the provision of financial assistance for economically disadvantaged students.

In order to review the existing involvement of the private sector (corporations and foundations) and local government, the HELM project collected information via web research and meetings with key informants in DIKTI, local (provincial) government offices, the higher education institutions included in the assessment visits, and selected foundations and corporations about:

- Existing laws and derivatives such as government regulations, presidential decrees, and finance minister decrees, etc. that encourage corporate social responsibility and philanthropy by foundations, corporations and individuals;
- The impact of current philanthropic initiatives carried out by foundations and corporations (including scholarships);
- Existing public private partnerships involving higher education;
- The magnitude of alumni donations and initiatives to involve them more in the future;
- HEI consulting opportunities with local governments and others;
- Revenue raised from intellectual property; and
- Revenue raised by zakat and other individual contributors.

HELM project staff also used the key informant meetings to collect their impressions of those initiatives that have expansion potential, new initiatives for revenue mobilization that could be explored and the constraints that impede increased community involvement.

The issue of private sector and local government investment in higher education will also be taken up in the report on student financial assistance (Deliverable 3).

Conceptual Framework

Through collaboration with Indonesian counterpart agencies and officials, HELM has identified the following five issues to be addressed in this assessment:

1. The adequacy and transparency of criteria used to assess institutional readiness for increased financial responsibility.
2. The extent to which higher education institutions currently have this readiness.
3. HEI training and technical assistance needs to prepare them for additional financial responsibility.
4. The adequacy of GOI funding to HEIs to meet institution level financial needs.
5. The ability of HEIs to raise funds from non-governmental sources.

To accomplish this objective, this methodology seeks to develop a picture of where Indonesian higher education is today with respect to the critical components of financing, reviewing the potential impact of the recently passed HE Law, and recommending how the current structure might be changed to improve the effectiveness of the HE financing sector in the future.

ACTIVITY ONE

Regulatory Environment

Different levels of financial autonomy (responsibility and authority) require different levels of institutional financial planning and management capacity. At the present time in Indonesia, there are four types of public HEIs with different levels of authority and responsibility:

1. State HEIs (*Perguruan Tinggi Negeri* – PTN), also referred to as conventional, non-BLU, non BHMN, universities;
2. Autonomous HEIs (*Badan Hakum Milik Negara* institutions - BHMN);[1]
3. Public Service Board HEIs (*Badan Layanan Umam* institutions - BLU) also referred to as government service agencies or government implementing units; and
4. Government HEIs (*Perguruan Tinggi Permerinta* - PTP).[2]

[1] The BHMNs were given until September 2013 (Government Regulation No. 66 of 2010) to finalize their status as BLUs or state universities. In the recently passed higher education law, a new HEI status is outlined, Badan Hakum, to which presumably the BHMNs will convert.

2 The PTPs were created by two Presidential Decrees (43 and 44) passed in early May 2012. These Decrees withdrew BHMN status from ITB and UPI and decreed that they are government higher education institutions (PTPs) managed by the Minister with BLU status.

A fifth type of HEI, the State Higher Education Legal Entity (*Badan Hakum* – BH), was introduced in the new Higher Education Law that was passed in July 2012. The *Badan Hakums* will have more governance and management authority than the BLUs or conventional state HEIs. Presumably the BHMNs will choose, subject to government approval, whether to become BLUs or *Badan Hakum* (though this is not clearly determined in the legislation). Table 1 outlines the respective responsibilities of each type of HEI.

To be fully financially autonomous, an institution would receive most government funding in a block grant and have the authority to: retain any unspent funds from year to year, set tuition fee levels, retain all tuition fee and other earnings, set enrollment levels, hire and fire and set remuneration levels for lecturers and staff, borrow without government authorization, and own its own assets. The BHMNs as conceived in their respective Government Decrees come the closest to this model, but several key provisions (block grants and hiring/firing lecturers and staff) were never implemented. The legal entity HEI, the *Badan Hakum*, as described in the recently passed Higher Education law appears to have most of these responsibilities, but some points remain to be clarified in new Government Regulations. Few countries have public institutions that are fully autonomous on all dimenesions. Nevertheless, there is a global movement towards more autonomy in which HEIs are being given responsibility for many of these tasks.

TABLE 1. Respective Financial Responsibilities of the Different Types of Public HEIs in Indonesia

Authority & Responsibilities	State Universities (*Government Service Units*) PTN	Badan Layanan Umum (BLU) (*Public Service Units*)	Badan Hakum Milik Negara [BHMNs] (*State Owned Legal Entities AKA autonomous HEIs*)	Perguruan Tinggi yang diselenggarakan oleh Pemerintah (PTP) (*Government HEI*) (UPI and ITB)	Badan Hakum (described in new Higher Education Law)
Form of Government grant allocation	Line item budgeting Competitive grants	Allocated in accordance with BLU business plan & budget (RBA) approved by Min of Finance	Block grant funding Line item budgeting[3] Competitive grants	Treated as BLUs	A new Government Regulation will regulate government funding to BHs
Type of audit	Government	Audited by BPK using private auditors	Private audit	Not mentioned, but presumably same as for other BLUs	Private audit
Treatment of government surplus	Must be returned to government	Some retained by HEIs	Retained by HEIs	Not mentioned, but presumably same as for other BLUs	Not mentioned
Setting of tuition fee levels	Set by HEI subject to approval by MoEC	Set on basis of per unit cost of service calculation subject to approval by MoE/MoF[4]	Set by HEI	Not mentioned, but presumably same as for other BLUs	To be set using the standard unit operating cost established by GOI.
Treatment of tuition fees	Projected revenue from tuition fees included in central government budget[5]	Internally generated income treated as non-tax revenue of government	Need to report DIPA utilization and submit annual financial statement to Ministry	Not mentioned, but presumably same as for other BLUs	Not specifically mentioned
Treatment of other income	HEIs may keep income only from non-regular students	Can retain & directly use revenue, but must submit quarterly report to Ministry	Have discretion in use of own income.	Not mentioned, but presumably same as for other BLUs	Not specifically mentioned
Setting of enrollment levels	Can set subject to capacity (but govt often sets quotas through its budget allocation)	Can set subject to capacity	Can set subject to capacity	Not mentioned, but presumably same as for other BLUs	Can set subject to capacity
Hiring/firing faculty and staff & setting salary levels	Civil servants (must be approved by Ministry)	Both civil servants & HEI employees	Shift to employees of HEI within 10 years of creation (not done)	Both civil servants & HEI employees	Can appoint and remove lecturers and staff
Allowed to borrow	Not allowed to borrow	May borrow with government permission	May borrow	Not mentioned, but presumably same as for other BLUs	Not mentioned
Can own and sell assets	Government owns	Government owns	HEIs own privately acquired assets	Government owns	Initial wealth in the form of state property

[3] The autonomous universities were to switch to block grant funding, but this has not been done and they continue to get allocations for their civil servants and can apply for competitive development grants; performance based contracts are being piloted in 5 institutions.
[4] The most recent amendment to PP 23/2005 allegedly has all fee setting at BLUs delegated to the Rector, but it is not yet signed.
[5] Tuition fees from non-regular students may be retained by Rector.

Higher education autonomy first began to be talked about in Indonesia in the 1980s. In 1989, Law 2 on Higher Education autonomy was passed, which gave HEIs autonomy to manage their own institutions in order to allow them to be more efficient and to better respond to local needs. HEI autonomy was further validated in DIKTI's Higher Education Long-Term Strategy (1996-2005), which introduced a new paradigm based on quality, autonomy, accountability, accreditation and evaluation.

The concept of autonomy was expanded upon in several subsequent government regulations in the late 1990s (Nos. 60 and 61 of 1999). Government Regulation No. 60 recognized that some public HEIs are capable of independent management and should become independent legal entities. Government Regulation No. 61 defined autonomous higher education institutions as State Universities in the form of legal entities (BHMNs) that report to their Board of Trustees rather than to the Minister. It outlined the prerequisites for becoming a state owned legal entity (BHMN), the authority/responsibilities that a BHMNs would gain for decision making, financial management and budgeting and staffing and the reporting requirements that a BHMN would have to the Ministry. Prerequisites for becoming a BHMN included the ability to provide efficient and quality education, meet minimum standards of financial eligibility, and implement the management of higher education based on economic principles and accountability. It was stated that in order to become a BHMN, a university would go through a process of in depth assessment of its proposal and development plan with the Minister determining the procedures and requirements to be met by the institution.

The government next experimented with those universities that it deemed ready for increased autonomy. In the early 2000s, the government issued decrees (SK) in the form of government regulations awarding autonomous (BHMN) status to seven HEIs. These decrees included:

- Republic of Indonesian Government Regulation No. 152 of 2000 established the University of Indonesia (UI) as a State Owned Legal Entity (BHMN);
- Republic of Indonesian Government Regulation No.153 of 2000 established the University of Gajah Mada (UGM)) as a State Owned Legal Entity (BHMN);
- Republic of Indonesian Government Regulation No. 154 of 2000 established the Bogor Agricultural Institute (IPB) as a State Owned Legal Entity (BHMN);
- Republic of Indonesian Government Regulation No. 155 of 2000 established the Institute of Technology Bandung (ITB) as a State Owned Legal Entity (BHMN);
- Republic of Indonesian Government Regulation No.153 of 2003 established North Sumatra University (USU) as a State Owned Legal Entity (BHMN);
- Republic of Indonesian Government Regulation No. 6 of 2004 established the University of Education Indonesia (UPI) as a State Owned Legal Entity (BHMN);
- Republic of Indonesian Government Regulation No. 30 of 2006established Universitas Airlangga (UNAIR) as a State Owned Legal Entity(BHMN).

Under the decrees, funds coming from the government were to consist of a regular budget and a capital budget. Funds from the public were to be included in the category of non-taxable State Revenue. Supervision of implementation was to be done by the Minister of Higher Education who would delegate this authority to the Board of Trustees. Internal inspection of the financial management was to be conducted by the university's internal audit staff.

One of the key points of higher education autonomy is in the areas of property and funding. The SKs regulate property issues and funding in almost the same way for all of the seven autonomous HEIs. According to the government regulations, 'initial wealth is the wealth of the state university separated from the State Budget' and the 'magnitude of the initial wealth is the entire wealth embedded in the university, except for land whose value is determined by the Minister of Finance under calculations carried out jointly by the Ministry of National Education and Ministry of Finance.' In addition to land, other property, including intellectual property and facilities, was to be recorded as the legitimate property of the university with its use managed by the Board of Trustees. The individual regulations, for each institution, also stated that civil servants would gradually become HEI employees.

Despite the government's commitment to autonomy and decentralization as reinforced in the fourth Higher Education Long Term Strategy (2003-10), there were legal issues and regulatory gaps. State Finance Law 17/2003, for example, which provided a comprehensive definition of the role and scope of state finance, did not recognize public funding for autonomous institutions. Yet Education Law 20/2003, which was approved shortly thereafter, seemed to be moving towards a full-scale conversion of HEIs to BHPs and required that all public HEIs be established as Badan Hukum Pendidikan (BHPs), with responsibilities similar to those held by BHMNs.

This regulatory gap remained until the passage of the Education Legal Entity Decree (UU BHP No. 9 of 2008) in 2009 that provided the overall legal foundation for institutional autonomy. It described a new type of legal entity (BHP) that would have substantial financial autonomy but would also be regulated by law. All education entities were given until 2014 to convert to BHP status.

Under the law it was stated that the government together with Government Education Legal Entity (BHPP) would bear all investment costs and scholarship and education assistance costs; that the government together with BHPP would cover at least one-half of operating costs of a BHPP delivering higher education based on minimum standard services; and that tuition fees charged to students would not exceed one-third of total operational cost (the government intended to us the minimum service standard of higher education delivery to derive a standard unit cost). It also gave BHPs authority to invest and engage in business activities.

A subsequent Circular Letter (Number 170/D/T/2010) in February 17, 2010 stated that all autonomous HEIs (PT-BHMNs) should propose changing to Government Education Legal Entity (BHPP) status no later than June 2010. All public universities with BLU status were to propose a change to BHPP form no later than August 2010 and other HEIs were to so do according to a schedule that was attached to the circular letter.

Less than a month later, however, in March 2010, the Education Legal Entity law was revoked by the Indonesia Constitutional Court and the legal body principal established in Law 20 of 2003 on the National Education System was declared to be against the 1945 Constitution of the Republic of Indonesia. The Court explained that the BHP Law:

- Had serious shortcomings in terms of juridical clarity and alignment with other existing laws;
- Assumed that education institutions have the same management and financing capacities, which is not the case in Indonesia;
- Would lead to the under-funding of many institutions, and negatively affect education; and
- Did not guarantee the achievement of national education goals as contained in the 1945 Constitution.

Therefore, the status of the BHMNs (autonomous universities) was thrown back into confusion. Since then the government has been working to develop a new Law on Higher Education that would resolve the legal problems with the BHMNs once and for all and delineate the different legal status that HEIs could have depending on their individual financial and management capacity.

In the interim, the GOI passed Government Regulation 66, which gave the seven BHMN 36 months (scheduled to expire in September 2013) to develop statutes and structures to replace the BHMN status, in anticipation that a new higher education law would be promulgated before Sept 2013 to formalize the autonomy. In 2011, the President decreed that all finance, assets and human resource functions in the BHMNs must follow both state finance law number 17 of 2003 and State Treasury Law number 1 of 2004. Some BHMNs, such as USU, have been negotiating with the Ministry of Finance for months to get the best practices in the BHMN status incorporated into their BLU status.

BLU Status

Given the uncertain inpact of the higher education law, the Ministry of Education and Culture has encouraged HEIs to apply for the Ministry of Finance's public service board (BLU) status as a step towards increased financial authority. BLUs are defined in Law no. 1/2004 on the State Treasury as government agencies that provide services to the community and have flexible financial management with an emphasis on productivity, efficiency, and effectiveness. The fundamental principles embodied in the legislation became the basis for establishing government agencies such as hospitals as Public Service Boards (BLU).

The Public Service Board, as further defined in Government Regulation Number 23 of 2005 concerning Financial Management Agency General Services, is an agency within the government that is established to provide services to the community including the provision of goods and/or services being sold without profit that benefit from the principles of efficiency and productivity.

A Public Service Board:

- Serves as a government agency that is not separated from the wealth of the State;
- Produces goods and / or community services;
- Is non-profit;
- Is autonomously managed using the principles of corporate-style efficiency and productivity;

- Prepares an annual work plan and budget that is consolidated at the appropriate line ministry;
- May directly use income or donations;
- May have employees who are civil servants and institutional employees; and
- Is not subject to tax.

The Regulation states that institutions that can apply for BLU status are agencies that meet substantive, technical, and administrative requirements. Substantive requirements are met if the government agency provides services to the public. Technical requirements are met if its services are performed properly and it can demonstrate financial health in the documents provided with its application. Administrative requirements are met if the government agencies concerned provide all of the following documents:

- Statement of ability to improve service performance, financial and societal benefits, approved by the line Minister (in the case of HEIs, the Minister of Education and Culture);
- Patterns of governance;
- Strategic business plan;[5]
- Basic financial statement;
- Minimum service standards (HEIs use the National Standards for Higher Ed – PP19/2005); and
- The last audit report or statement prepared for independent audit.

The Regulation states that the line Ministry must propose the government agencies that meet these requirements to the Ministry of Finance, which may grant it full BLU status or gradually staged BLU status (taking up to three years).

Further discussion of the requirements that are necessary to become BHMNs and BLUs will follow in the review of baseline criteria developed to assess readiness for increased higher education institution autonomy.

Higher Education Law of July 2012

A new higher education law was passed in Parliament on July 13, 2012 after many months of debate and revision. The law describes the forms that higher education institutions may take (including a new form, the state higher education legal entity [*Badan Hakum*]) and the rules for their establishment and management. In terms of higher education autonomy, the draft law states that "universities have the autonomy to manage their own agency as a central organizing *Tridharma* (which defines the three main functions of an HEI to be education, research and community service)" and that autonomous management of higher education should be implemented in accordance with this basis, purpose, and the ability of universities as evaluated by the Minister and must be based on the principles of accountability, transparency, quality, effectiveness, and efficiency. Autonomous management is defined as including both academic and non-academic dimensions so its implementation involves the establishment of norms and operational policy in the areas of organization, finance, student affairs, staffing and infrastructure.

The law states that higher education institutions may be awarded additional autonomy as BLU's or as legal entities (*Badan Hakum*) based on a performance evaluation by the Minister. *Badan Hakum* have, among other things, authority to:

- Appoint and remove employees;
- Set up business entities and develop an endowment;
- Conduct and close programs; and
- Manage state assets except land separately.

Under the law, all HEIs may set enrollment levels (maintaining a balance between the maximum number of students in each study program and the capacity of infrastructure, faculty, staff and other educational resources) and they may set tuition fees based on standard unit operating costs established by the GOI.

The law states that funding from the state budget or the regional budget will be allocated to HEIs to finance investment, personnel, operational costs and institutional development. The particular funding mechanism that will be used to fund the *Badan Hakum*, however, will only be addressed in future government regulations.

Six Criteria

As described above (please refer to page 11) the six criteria or conditions that are necessary for increased HEI financial responsibilities include:

1. The presence of an independent financial management, planning and reporting system (that is integrated with the institution's human resources and quality assurance systems);
2. The presence of an independent human resource management system;
3. The presence of an independent infrastructure and facilities management system;
4. Demonstrated independent strategic decision making;
5. Sufficient cost recovery; and
6. Institutional efficiency and productivity monitoring.

There are detailed rules that HEIs, once BHMNs and BLUs,[6] must conform to in these six areas within a number of different government regulations, decrees and decisions, however, this section is looking specifically at the conditions that must be in place for a HEI to *qualify* as a BHMN or a BLU. Once a HEI has been granted BHMN or BLU status there are multiple reporting procedures that must be developed in order to comply with accountability and reporting requirements. At one BLU visited by the collaborative assessment team, the Vice Rector for Finance and Administration observed that once his HEI became a BLU, the real work began as they had to develop internal standard operating procedures and an accounting system for revenue, and train financial staff to use the new system.

[6] Presumably they will also be developed for Badan Hakums.

Requirements in Indonesia for Increased HEI Financial Responsibility as a BHMN

In both PP 61 of 1999 and Ministry of Education Decree 042/U/2000, the criteria required to be awarded BHMN status are fairly general and there is much that is left unsaid (at least explicitly). Table 2 outlines the criteria touched on by the government regulations.

TABLE 2. Administrative and Financial Criteria to Become a BHMN

1. Independent financial management, planning & reporting system	
1a. Staff sufficient in training & number to maintain financial accountability	MOE Decree 042/U/2000
1b. Accounting & Financial Reporting	MOE Decree 042/U/2000
1c. Financial Planning and Budgeting	MOE Decree 042/U/2000
1d. Purchasing & Disbursement	====
1e. Audit	====
1f. Cash Management	====
2. Independent human resource management system	MOE Decree 042/U/2000
3. Independent infrastructure & facilities management system	MOE Decree 042/U/2000
4. Independent decision making	MOE Decree 042/U/2000
5. Sufficient cost recovery	MOE Decree 042/U/2000
6. Institutional efficiency & productivity	PP61 of 2009

In PP 61 of 2009, the prerequisites for HEIs to be awarded BHMN status include its ability:

- To efficiently provide high quality higher education;
- To meet minimum standards of financial eligibility; and
- To implement the management of higher education in an accountable manner,using economic principles.

These general requirements are further outlined in Ministry of Education Decree 042/U/2000 on the Requirements and Procedures for Determining State Higher Education Eligibility as a Legal Entity.

In terms of the first criteria - independent financial management and accounting systems - as part of its self-evaluation, the HEI applying for BHMN status must provide information on its organizational structure and decision-making process. As to accounting and financial reporting system criteria, the HEI must provide five years of financial statements (part of self-evaluation) and show that it makes efficient use of budgets to achieve optimal results and impact and is accountable in the provision of higher education. The references to financial planning and budgeting systems are fairly minimal. The HEI must demonstrate the efficient use of budgets (as mentioned above) to achieve optimal results. In terms of purchasing and disbursement, audit and cash management systems, there are no specific criteria outlined in the decree.

In terms of the second criteria - human resource management systems - the HEI must provide a management plan as part of its strategic plan that includes information on its human resource policies.

As to the third criteria - an independent infrastructure and facilities management system - the HEI's management plan must include information on basic policies regarding facilities and infrastructure and its self-evaluation must include information on the acquisition, utilization and development of capital owned by the university.

In terms of the fourth criteria - independent decision making - the HEI must provide a strategic plan that outlines its vision, mission, and goals. The strategic plan must also include a management plan that describes, in detail, the management of its transition from a state university to a legal entity that:

- States its general purpose;
- Outlines its phasing, objectives, measures, and schedules;
- Provides information on its organizational structure and management and basic policies regarding human resources, information resources, funds, facilities, and infrastructure;
- Provides information on its basic policies regarding education, research, and community service and its support for business and commercial enterprises; and
- Provides information on its policies in the areas of financial sustainability and accountability.

The self-evaluation must also provide information on the HEI's organizational structure and decision-making processes.

As to the fifth criteria - sufficient cost recovery - the minimum standards of financial feasibility must be demonstrated by the HEIs' ability to cover costs on an ongoing basis to maintain efficiency and higher education quality. As mentioned previously, the HEI management plan must include information on its basic policies for supporting businesses and commercial enterprises.

In terms of the sixth criteria - institutional efficiency - PP61 of 1999 states that HEIs must demonstrate efficiency and quality through:

- The frugality of its resource use;
- The legal and transparent implementation of activities;
- Their ability to choose processes that achieve optimal results and impact;
- The degree of correspondence between the results achieved and the stated objectives; and
- Their ability to maintain quality and adapt to environmental changes.

The self-evaluation must provide information on the effectiveness and efficiency of the HEIs' organizational management and systems.

Ministry of Education Decree 042/U/2000 outlines the process to be used to evaluate the readiness of HEIs to become autonomous legal entities as follows:

1. The HEI must submit its proposal to the Minister after internal review by the Senate;
2. The Minister commissions the Director-General to assess the feasibility of the proposal;
3. The Director-General, upon the recommendation of the Board of Higher Education appoints a peer group to carry out the assessment process;
4. The Minister of Education and Culture and the Minister of Finance establish a joint team that is assigned to conduct an inventory of assets that will be separated from the state;
5. The Minister submits a draft Regulation concerning the establishment of the BHMN after receiving the report on the HEI's feasibility from the Director-General; and
6. The Minister submits the draft Regulation to the President.

Overall, the requirements as outlined in the government regulations correspond to the six criteria, though they include little information on the specific HEI competencies that the government is looking for in its assessment of HEI financial capacity.

Requirements in Indonesia for Increased HEI Financial Responsibility as a Public Service Board (BLU)

Again using the framework provided by these six criteria, this section looks at the financial and administrative requirements in Indonesia for increased HEI financial responsibility as a public service board (BLU). When applying for BLU status, a HEI must submit a set of documents that indicate institutional, financial, and administrative readiness as outlined in Government Regulation 23 of 2005 and further described in MOF Regulation 119 of 2007. These documents include:

- A statement by the HEI leadership (and approved by Minister of Education) on its ability to improve service and financial performance and increase benefits to the community;
- Information on its patterns of governance, including its organization and administration its financial and performance accountability policies and procedures and information on its transparency as indicated by the ease with which institutional information is available;
- The institution's strategic business plan;
- Basic financial statements comprised of the budget report and the balance sheet;
- Minimum service standards (in the case of HEIs, these must correspond to the National Standards for Higher Education set by the MOEC) and the extent to which they are met by the HEI; and
- The most recent external audit report or a statement expressing willing to be independently audited.

Table 3 outlines the criteria touched on by the government regulations, Ministry of Finance regulations and the National Standards for Higher Education set by the Ministry of Education and Culture (to which Higher Education BLUs must adhere). In terms of the first criteria - for independent financial management planning and reporting systems - the administrative requirements in Indonesia deal with all six of the sub-areas to different degrees.

The references to adequate staff are quite general. MOF Regulation 119/2007 requires that applicants supply information on the HEI's organizational structure and the availability and development of human resources. The references to accounting and financial reporting systems are more detailed as MOF Regulation 119/2007 requires that the applicant HEI provide basic financial statements including:

- A budget report with an overview of sources, the allocation and use of economic resources, and a comparison between budget and realization in the reporting period;
- A balance sheet describing the institution's financial position (assets, liabilities, and equity at a certain date); and
- Notes to the financial statements that provides information on accounting policies and that explain the itemized financial report through narrative, graphs and charts.

TABLE 3. Administrative and Financial Criteria to Become a BLU

1. Independent financial management, planning & reporting system	
1a. Staff sufficient in training & number to maintain financial accountability	MOF Regulation 119/2007
1b. Accounting & Financial Reporting	MOF Regulation 119/2007 (expands upon PP 23/2005)
1c. Financial Planning and Budgeting	PP19/2005 MOF Regulation 119/2007 (expands upon PP 23/2005)
1d. Purchasing & Disbursement	MOF Regulation 119/2007 (expands upon PP 23/2005)
1e. Audit	MOF Regulation 119/2007 (expands upon PP 23/2005)
1f. Cash Management	MOF Regulation 119/2007
2. Independent human resource management system	PP19/2005 MOF Reg 119/2007
3. Independent infrastructure & facilities management system	===
4. Independent decision making	PP19/2005 MOF Regulation 119/2007 (expands upon PP 23/2005)
5. Sufficient cost recovery	MOF Regulation 119/2007
6. Institutional efficiency & productivity	PP19/2005 MOF Regulation 119/2007

The references to financial planning and budgeting systems are also fairly detailed as the MOF Regulation requires the submission of a strategic business plan that includes:

- Institutional goals and mission;
- The institutional strategic program that incorporates indicative activities, outputs, and the financial, human resource and administrative measures to be implemented over a period of 1 to 5 years;

- Indicators that demonstrate the results/outputs of the program achieved in the current year from a financial performance, service, administrative, and human resource perspective; and
- An analysis of the factors affecting internal and external performance.

In terms of purchasing, disbursement, and cash management systems, MOF Regulation 119/2007 requires that applying HEIs provide information on working procedures that would presumably include purchasing, disbursement, and cash management though these are not explicitly mentioned. In terms of an audit system, MOF Regulation 119 requires that applicants provide a copy of their last independent audit report. HEIs that have not been audited must provide a signed statement that indicates their willingness to be independently audited.

In terms of the second criteria - human resource management systems - the Ministry of Education and Culture's Minimum Service Standards states that HEIs much have a staff recruitment system and a staff development plan. MOF Regulation 119/2007 requires information on the HEIs' development of human resources as well as information (as part of the strategic business plan) on the human resource measures to be achieved over 1 to 5 years, but there are no human resource system requirements per say.

As to the third criteria - an independent infrastructure and facilities management system - the National Standards for Higher Education have some requirements (minimum service standard for classroom provision), but there is nothing in the MOF Regulation that would indicate the need for information about the HEI's infrastructure and facilities management system.

In terms of the fourth criteria - independent decision making - the Ministry of Education's Minimum Service Standards include the development of a five year strategic plan and the MOF Regulation 119/2007 requires that the HEI submit an institutional strategic business plan as outlined above.

As to the fifth criteria - sufficient cost recovery - MOF Regulation 119/2007 requires submission of the HEI budget report that provides an overview of sources, allocation and use of economic resources.

In terms of the sixth criteria - institutional efficiency - the National Standards on Higher Education state that at least 50 percent of students must complete their study on time, the retention ratio is expected to be at least 90 percent and the average student to staff ratio should be 20-30: with class sizes ranging between 40 and 50, except in the case of polytechnics. Regulation 119/2007 requires the submission of a strategic business plan with indicators that demonstrate the results/outputs of the program in the current year from a financial performance, service, administrative, and human resource perspective.

The specific requirements for a HEI to become a *Badan Hakum* are not spelled out in the new Higher Education Law and will be addressed in future government regulations.

Correspondence of the GOI Requirements to the Six Criteria

Overall, the requirements for increased HEI financial responsibility as spelled out in the various government regulations, while generally corresponding to the six criteria, are quite general. Moreover, what is missing is information on how the Ministry of Finance evaluates the information collected in the HEI's application. Clearer and more detailed criteria, with a list of indicators for each category, would offer HEIs a better idea of the specific institutional capabilities that must be developed for increased financial autonomy and a way of identifying those areas in which additional training and/or technical assistance is needed in order to meet government expectations.

The FPM Advisor, the HELM technical staff, and the consultant for deliverable 1(a) discussed how the criteria and indicators could be further developed by the GOI and used to define which financial capacity criteria must be demonstrated in order to assume areas of the 10 specific financial responsibilities A possible matrix is shown in Table 4. Sufficient trained staff and an accounting and financial reporting system would be requirements, for example, for block grant funding and for a private audit. To gain authority to retain surplus government funds from one year to the next, a HEI may be required to show that it monitors its efficiency and productivity. Individual indicators could be developed for each criterion to measure the extent to which an applicant HEI meets it or not.

The development of a capacity responsibility matrix would allow the government to further define the specific competencies that it seeks from HEIs before devolving additional authority to them, and it would provide HEIs with a clear understanding of which competencies are needed to gain which responsibilities.

TABLE 4. HEI Financial Capacity Criteria and Financial Responsibilities

		Criteria									
		Independent financial mgt, planning & reporting system					HR syst	Infrastr & facilities mgt system	Strategic decision making capacity	Sufficient cost recovery	Monitoring of efficiency & prod
		Adequate staff & skills	Accounting & financial reporting system	Planning & budgeting system	Purchasing & disburs system	Internal audit system					
Financial Responsibilities	Block grant funding	✓	✓								
	Authority to manage audit	✓	✓								
	Authority to retain surplus government funds					✓					✓
	Authority to set tuition fee levels										
	Authority to retain tuition fees										
	Authority to retain private income										
	Authority to set enrollment levels										
	Authority to hire/fire and set staff employment terms										
	Authority to borrow										
	Authority to own and sell assets										

HEI Financial Capacity on the Ground

The assessment team's visits to nine public HEIs (Table 5) and the HEI self-evaluations offered the opportunity to observe the degree to which HEIs perceive themselves to be demonstrating the capacity required for additional financial autonomy, and for them to identify the areas in which they need further capacity building. Because two private HEIs were included in the assessments and given their critical importance in accommodating demand for higher education, their results are also included below, despite the fact that their level of autonomy is not dependent upon an assessment of their financial capacity.

TABLE 5. Public HEIs to whom the self-evaluation survey was administered

Conventional HEI	**BLU**	**BHMN**	**Private HEIs**
Universitas Negeri Makassar (UNM)	Universitas Negeri Hasanuddin (UNHAS)	Universitas Sumatera Utara (USU)*	Universitas Muhammadiyah Malang (UMM)
Politeknik Negeri Samarinda (POLNES)	Universitas Negeri Jakarta (UNJ)	Universitas Gadjah Mada (UGM) – did not respond	Universitas Bina Nusantara (BINUS)
Politeknik Negeri Medan (POLMED)	Universitas Negeri Mulawarman (UNMUL)	Universitas Indonesia (UI) – did not respond	

*Did not respond to the financial management self-evaluation

Self-evaluation survey

The self-evaluation survey asked institutions to assess their current capacities in four core areas: governance and leadership, financial management, quality assurance and external stakeholder collaboration. The survey offered a 5-option scale for responses on 79 items, with 1 meaning "Do not agree," 2 meaning "Below average," 3 meaning "Average," 4 meaning "Above average," and 5 meaning "Strongly agree." The survey was distributed on paper and electronically to the 11 HEIs prior to their assessment site visits. The financial management portion of the survey contained 15 questions that corresponded to the six criteria. The responses for the six public and two private HEIs that returned the survey are summarized in Table 4. It is not known why UI and UGM did not respond to the survey or why USU did not respond to the financial management portion, but it can be hypothesized that the uncertainty surrounding the status of BHMNs may have contributed to their reluctance.

As shown in Table 6, none of the eight HEIs indicated a 1 (do not agree). Only UNM rated itself "below average" on any of the criteria (*capacity for sufficient cost recovery through collaboration with external stakeholders*). Two HEIs (UNM and UNMUL) rated themselves as "average" in terms of *sufficient trained staff* and *a university-wide financial management and accounting system*. Three HEIs (UNJ, UNM, UNMUL) rated themselves as "average" *on infrastructure and facilities management plan* criteria. Four HEIs (UNHAS, UNM, UNMUL, and POLNES) rated themselves as average *on institutional collaboration*, one HEI (UNJ) rated itself as average on *financial control over externally funded programs* and one HEI (POLMED) rated itself as average on *effective and efficient use of resources*.

While there does not appear to be any correlation between self-evaluation on the criteria and the legal type of institution with the exception of the private HEIs who rated themselves highly on all criteria, there may be a relationship between institutional mission and ratings. Of those that rated themselves average, UNM and UNMUL did so four times and POLNES did so three times, while none of the other HEIs did so more than once. The fact that both UNM and UNMUL are institutions that predominantly serve large numbers of local students could play a role in their weaker perceived capacity on a number of criteria.

TABLE 6. Self-Assessment Survey Results on Financial Management & Income Generation

	2	3	4	5
1. An independent financial management, planning and reporting system as indicated by:				
1a. Sufficient qualified staff to carry out financial management, planning and reporting activities				
The institution has a designated chief financial officer and staff sufficient in training and in number to maintain financial accountability and integrity.		UNM UNMUL	UNHAS UNJ	POLNES POLMED UMM BINUS
1b. An accounting & financial reporting system				
The institution has a university-wide financial management and accounting system.		UNM UNMUL	UNJ POLMED	UNHAS POLNES UMM BINUS
1c. A financial planning and budgeting system				
The governing authority and the institution's administration execute responsible resource planning for the future.			UNJ UNM POLMED UMM	BINUS
Allocation of resources is aligned with institutional mission, multi-year strategic plan, and annual work plans.			UNHAS UNM UNJ UMM POLNES POLMED	BINUS
The institution has clear mechanisms for making strategic financial allocations of its resources.			UNM UNMUL	UNJ BINUS
1d. A purchasing & disbursement system				
Institution has a university-wide procurement and disbursement system.			UNM UNMUL POLNES POLMED	UNHAS UNJ UMM BINUS
2. An Independent human resource management system:				
The institution has an independent human resource management system that is aligned to the institutional strategic plan.		POLNES	UNJ UNM UNMUL POLMED	UNHAS UMM BINUS
3. An independent infrastructure and facilities management system:				
The institution has an infrastructure and facilities management plan.		UNJ UNM UNMUL	UNHAS POLNES POLMED	UMM BINUS

TABLE 6. Self-Assessment Survey Results on Financial Management & Income Generation (cont.)	2	3	4	5
4. Independent strategic decision making:				
The institution has a published strategic plan, aligned with the DIKTI strategic plan.			UNJ UNM UNMUL	UNHAS POLNES POLMED UMM BINUS
5. Sufficient cost recovery:				
HEI collaborates with external stakeholders (local governments, businesses, industry, etc.) to raise income, advance its research objectives, and/or enhance access to higher education for students	UNM		UNJ POLMED	
The institution has established methods for generating its own revenue, sufficient to sustain the quality of the current academic programs.	POLNES		UNM UNMUL POLMED	UNHAS UNJ UMM BINUS
Institutional collaboration with national and international constituencies is an area of priority within the institution's Strategic Plan.		UNHAS UNM UNMUL POLNES	UNJ POLMED	UMM USU BINUS
The institution maintains financial control over externally funded or sponsored research and programs.		POLNES	UNJ UNM UNMUL	UNHAS POLMED UMM BINUS
6. Institutional efficiency and productivity monitoring:				
The institution exhibits integrity in its financial operations, as demonstrated by the implementation of appropriate policies, sound business practices, and regular evaluation of its performance in these areas.			UNJ UNM UNMUL POLNES POLMED	UNHAS UMM BINUS
The resources available to the institution are effectively and efficiently used.		POLMED	UNJ UNM UNMUL UMM	BINUS

OBSERVATIONS FROM COLLABORATIVE ASSESSMENT VISITS TO NINE PUBLIC HEIS

The assessment visits did not allow the opportunity for any formal evaluation of HEI financial capacity, nor were they meant to. The interviews with HEI staff and administrators did, however, provide some information that, together with the self-evaluations, indicated those areas in which particular HEIs were strong and others weak. Table 7 shows the extent to which the HEIs demonstrated the six criteria. Given the wide range of information that was collected during the visits and the fact that the HEI officials were given freedom to discuss those areas that they found most important, not all areas were touched on with each institution.

During the assessment visits it quickly became clear that the HEIs that had been recipients of DIKTI's Indonesia: Managing Higher Education for Relevance and Efficiency (I-MHERE) project[7] grants had benefitted enormously from them and been able to use the opportunities offered by the grants to make significant improvements in their financial management capacity. The successful technical assistance and training activities that were conducted under the IMHERE project are good examples of the types of activities that should be considered under the HELM project.

[7] The IMHERE project, supported by the World Bank, has the development objective of enhancing managerial capacities and financing mechanisms within the Ministry of Education and Culture and higher education institutions to improve the efficiency, relevance, quality, and equity of Indonesian higher education. One of the project components provided competitive grants for building institutional management capacity in non-autonomous public HEIs and proposal-based grants for building institutional management capacity at autonomous HEIs.

TABLE 7. HEI Demonstration of the Six Criteria

	Conventional			BLU			BHMN			Private HEIs	
	UNM	POLNES	POLMED	UNHAS	UNJ	UNMUL	USU	UGM	UI	UMM	Binas
1. Independent financial management, planning & reporting system											
1a. Staff sufficient in training & number to maintain financial accountability	✓–	✓–	✓	✓	✓	✓–	✓	✓	✓	✓	✓
1b. Accounting & Financial Reporting System	✓	✓–	✓	✓+	✓	✓–	✓+	✓	✓+	✓	✓
1c. Financial Planning and Budgeting System	✓	✓–	✓	✓–	✓-	✓–	✓	✓+	✓	✓	✓
1d. Purchasing & Disbursement System	Purchasing/disbursement follow GOI Reg n. 54 2010			✓+	✓	✓	✓+	✓+	✓	✓	✓
1e. Audit System	✓	---	✓	✓		✓	✓	✓	✓	✓	✓
1f. Cash Management System	No information collected.										
2. Independent human resource management system	Staff positions must be in line-item budget approved by DIKTI			✓+	✓	✓–	✓+	✓+	✓+	✓	✓
3. Independent infrastructure & facilities management system	✓	✓–	✓	✓+	✓	✓	✓+	✓+	✓	✓	✓
4. Independent decision making	Strategic plan based on DIKTI guidelines.			✓	✓	✓	✓	✓	✓	✓	✓
5. Sufficient cost recovery	✓	✓–	✓+	✓	✓–	✓	✓	✓	✓	✓	✓
6. Institutional efficiency & productivity	✓	✓	✓	✓+	✓	✓	✓+	✓	✓	✓	✓

1. Independent Financial Management, Planning and Reporting Systems

1a. Sufficient qualified staff to carry out financial management, planning and reporting activities

Of the conventional HEIs, POLNES and UNM have check minuses in Table 7 on this sub-criterion. POLNES has a check minus because it has no financial staff integrated into the faculties and programs. UNM has one because although it has assistant treasures in each faculty who report to the university's Treasurer and additional finance officers in the individual faculties, who report to the Dean, not all of the latter are certified.

Of the BLUs, only UNMUL has a check minus as senior administrators stated that its most significant challenge in managing its BLU status has been in regard to human resource capacity. UNHAS on the other hand has demonstrated significant commitment to its internal administrative capacity and hosted 50 people from another university to train staff to use the new accounting system. Similarly, UNJ has placed a contracted accountant in each faculty to help train staff to use its new web-based financial management system.

None of the BHMNs mentioned significant issues with staff quality or number, though several mentioned that additional training for senior staff in the area of financial management is needed.

1b. Accounting and financial reporting systems

All of the conventional HEIs use the MOEC Institutional Accounting System. Of the conventional HEIs, officials at UNM and POLMED reported that they have a centralized computerized financial system, to which every faculty has access. POLNES does not have one and, in fact, up to 80 percent of its data management is done manually, though the VR mentioned that the institution is working with a consultant from BINUS to put one in place.

The three BLU HEIs had to create independent accounting systems when they became BLUs to use alongside the Ministry system. All of them stated that this was a challenge both financially and in terms of human resources and suggested that this is an area in which future training and technical assistance would be welcome. It appeared uncertain whether UNMUL had an integrated information system as different officials responded in different ways (hence the check minus). As part of its IMHERE grant, UNHAS developed internal regulations and procedures for financial management as part of its new management information system (SIM). While the IMHERE project has formally ended, UNHAS has used internal funds to continue SIM training for administrative staff and to disseminate information about SIM throughout the institution.

All of the BHMNs have accounting and financial reporting systems. Until recently, UI had a highly decentralized system of financial/human resource management and accountability. Accounts were maintained at the level of faculties, where there was neither the financial expertise nor controls to ensure the integrity of fiscal operation. Constrained by these decentralized financial systems, the University could not produce comprehensive and accurate financial statements. Several years ago, the Rector announced the implementation of a consolidated computer management system using Oracle software. All business operations across faculties were integrated into a centralized system and, at present, the University has a fully integrated and centralized financial management and accounting system. UGM starting working on a centralized financial system in 2004. While it is not yet fully integrated with all other systems, departments can monitor their finances and a consolidated financial report can be produced. As part of its IMHERE grant, UGM improved its financial management system including its ability to accurately calculate student unit cost, individual staff teaching load and its ability to produce a consolidated financial report incorporating all revenue. In tandem with the activities carried out as part of its IMHERE grant, USU used its own budget to develop a new financial management system as part of its new management information system (developed under the IMHERE project).

Binus started using SAP software in 2009 and is in the process of rolling the HR and procurement systems into it. UMM is in the process of identifying a new administrative software system that will help centralize financial management.

1c. Financial planning and budgeting systems

Of the three conventional HEIs, only POLNES received a check minus on this criterion because a large part of its data management is done manually. This creates challenges for the use of academic and administrative data in the budgeting and planning processes.

All of the BLUs appear to have appropriate planning and budgeting systems though they have been given check minuses because none of them prepare multi-year budgets. They have, however, been working to involve all levels of the institution in the budgeting and planning processes. Although all of them have had internal orientations about the budgeting model and procedures and have sent staff for training at the Ministry of Finance, in all cases the need for additional staff training was raised repeatedly.

There was an administrative anomaly noted at UNMUL. The Planning Bureau reports to Vice Rector 4 who is in charge of external collaboration and information technology, rather than to Vice Rector 2 for Finance and Administration due to the large workload of Vice Rector 2. While the administrators said that this did not create any problems as communication was good, it is an unusual arrangement. UNHAS offers an example of best practice in financial planning and budgeting as they have moved to disseminate information about the institution's strategic plan among its teaching and administrative staff and have been successful in involving all levels in the planning process.

The BHMNs appear to have appropriate financial planning and budgeting systems and did not raise this as a concern during the assessment visits. UGM currently prepares two year budgets which are tied to the strategic plan. They would like to do longer-term multi-year budgets in the future. They also started calculating per student cost in 2009 and are using this as a starting point for budget allocation. As part of its IMHERE grant, UGM improved the integration of all institutional units into the financial system software.

Administrators at BINUS mentioned that they do multi-year planning that includes planning for new units and additional faculty, but that the budget must be approved each year.

1d. Purchasing and disbursement systems

Procurement and disbursement for the conventional HEIs are centralized under DIKTI guidelines and follow GOI Regulation no. 54 of 2010. All purchases must accord with the budget. A committee is required for all procurement and all members must be certified by the Central Procurement Board (LKPP). Administrators at one institution mentioned that the rigidity of the procedures has, at times, precluded their getting equipment donations from external partners.

As a result of becoming BLUs, the three BLU HEIs have developed standard operating procedures for procurement and disbursement and are currently testing these. UNHAS implemented an e-procurement system in 2011 and has provided training in its use to staff. Each faculty in all three HEIs has a staff member who has undergone extensive training and is responsible for ensuring that the lecturers and staff follow the standard operating procedures.

Purchasing and disbursement systems were not mentioned by the BHMNs during the visits and the interviewers did not pursue additional information as all of them had indicated that their systems were above average on the questionnaire. USU, as part of its IMHERE grant, recently developed and disseminated internal standard operation procedures for procurement, restructured its procurement unit, and improved staff capacity. It also placed certified procurement officers in each faculty. As part of its IMHERE grant, UGM increased the efficiency, transparency and accountability of its procurement process and provided additional training to procurement staff.

BINUS has standard operating procedures for procurement, which is centralized across all university bodies. This year it is being integrated into the financial management system. UMM has a separate team of administrators who deal with only procurement and disbursement using government funds given the additional restrictions that these funds have.

1e. Audit systems

For the conventional HEIs, annual external audits are done by the inspector general, the supreme auditing agency (the BPKP and BBK) and MOEC. At POLMED, an internal audit office has been created and is being improved. UNM has an internal audit unit with a staff of five people. The internal audit unit will need to change when UNM becomes a BLU to adapt to the new financial management system.

All of the BLU HEIs have created internal audit units to meet the government's reporting requirements. UNMUL has conducted training for audit staff and sent them to do training at another institution.

The BHMNs must be reviewed by an external auditor annually. All three also have internal audit offices.

Both BINUS and UMM have internal audit systems.

1f. Cash management systems

All of the HEIs have been centralizing cash management and institutional bank accounts and are moving away from department level accounts.

2. Independent Human Resource Management Systems

For the conventional HEIs to appoint staff, the position must be in the line-item budget approved by DIKTI. Appointment procedures involve requesting permission from the Ministry of State Apparatus and Bureaucratic Reformation (MEN PAN) – a very long process. UNM received a check minus in the table as officials mentioned that neither vice rectors nor deans have clear job descriptions.

With the change to BLU status, significant changes in human resources are needed and the three BLU institutions have developed standard operating procedures (SOP) for human resources. Assistant Treasurers must be hired for each faculty and trained by the Training Center of the Ministry of Finance. UNMUL got a check minus in the table, because administrators said that they do not have clear and implementable job descriptions. UNHAS has invested considerable effort in training and developing its administrative staff with workshops as well as orientations and refresher courses. It has brought in colleagues from other institutions and sent staff to other institutions for training. Nevertheless, they stressed the need to improve administrative capacity. As part of its IMHERE grant, UNHAS developed a human resource management system with standard operating procedures outlined in a handbook and manual. It also integrated its HR system into its computerized information management system and trained both academic and administrative staff to use the system.

Because civil service promotions are based on seniority and HEIs have little latitude to affect this, several have created a secondary pool of resources that they use to top up salaries according to specific criteria. UNHAS, for example, has recently implemented a new merit-based pay system (tied to performance) using money generated at the institutional level. Each employee has performance measures delineated and this secondary pool is tied to achievement of the measures.

The BHMNs have Civil Service employees and non-Civil Service employees and have set up human resource systems. Five years ago, UI created an integrated financial and human resource system. USU, as part of its IMHERE grant, developed a general HR management system policy and standard operating procedures, restructured the human resource development unit and developed a human resources development plan. UGM, as part of its IMHERE grant, produced a time bound human resources development plan, a draft employee handbook, and implemented regulations for the employee performance appraisal system.

BINUS set up a human capacity division in 2005 and has used it to implement a number of best practices, including performance management and the balanced scorecard model for leadership and academic positions. The model is aligned with DIKTI’s standards, but they have some additional institutional ones as well. UMM also has a centralized HR system with academic staff compensated on the basis of rank and seniority.

3. Independent Infrastructure and Facilities Management Systems

Most of the HEIs have infrastructure and facilities management plans, but all mentioned the need to improve planning and find additional sources of funding. As part of its IMHERE grant, UNHAS developed an asset management system and standard operating procedures. USU, as part of its IMHERE grant, restructured its physical infrastructure management office, finalized standard operating procedures for physical infrastructure, and developed a physical infrastructure planning system (based on a survey of existing infrastructure). UGM, as part of its IMHERE project, collected baseline data on all physical infrastructure including buildings and land and their condition.

4. Independent Strategic Decision Making

All of the HEIs have multi-year strategic plans and use a strategic planning process that is developed using DIKTI guidelines. Progress reports must be submitted to DIKTI. As the strategic plans contain institutional goals and targets and outline strategies, policies and activities that the HEIs will undertake to reach the targets, they are used by the HEIs to drive internal resource allocation decisions. At POLMED, the most recent strategic plan was developed in consultation with academic staff and the community, and is subject to review every two years. Data is gathered monthly to report on progress toward goals and to monitor the annual implementation plan. The Director must report in full to the Senate on progress with the strategic plan at the end of his term of office and the Senate may ask for earlier periodic or specific reports. At UNHAS, in order to make its Strategic Plan more than "window dressing," it requires that all funding within the institution be allocated in line with the Strategic Plan.

BINUS developed its BINUS 2020 vision and mission about five years ago.

5. Sufficient Cost Recovery

The main sources of non-governmental cost recovery in HEIs are students' tuition fees and external collaboration. The BLU and conventional HEIs generate about 39 percent of their total income from tuition fees and other income generating activities. Of the three conventional HEIs, it appears that POLMED has been most successful in setting up collaborations with other HEIs (in Malaysia, Australia and the U.S.) and businesses (Microsoft); this has resulted in returns in the form of experience, knowledge, technology, and institutional equipment. Collaborations have also increased institutional revenue, generating income including tuition and other fees that accounts for more than half (56%) of its total budget. Every four years, POLMED reviews its collaboration activities and assesses their benefits. UNM has been able to raise a limited amount of revenue by renting facilities and through its business incubator. POLNES got a check minus in Table 7, because its administrators emphasized that in order to establish meaningful and financially remunerative activities it needs additional investment in its infrastructure.

BLUs have more latitude to generate income from different activities and investment in short-term financial instruments is permitted. UNJ generates some revenue from the admission of non-regular students and the training that it provides for provinces and regions, but the relative amounts are low. While the institution has a mission to be entrepreneurial and interest in raising income in terms of implementation, it has not been able to do much. In the future, it plans to expand its revenue base. UNMUL's income generation consists of student tuition/fees and third-party collaborations. An example of a third-party collaboration would be the local government hiring a department to provide training.

UNHAS has recently increased its attention to fostering and standardizing collaborations with external organizations. Prior to 2006, UNHAS did not systematically track its collaborations or the funding coming from collaborations. Since then, the institution has implemented several improvements including evaluating and tracking collaborations, centralizing all collaboration-based bank accounts into one University collaboration bank account (all faculties closed their collaboration bank accounts), and developing and implementing a set of standard operating procedures including the requirement that all collaborations must be covered by a Memorandum of Understanding with the Rector's signature or a Memorandum of Agreement with the unit/faculty head's signature (no individual agreements allowed). The university charges 5 to 10 percent in overhead to all projects. Currently, around 25 percent of the University's income is generated through external collaborations.

The BHMNs raise significant revenue compared to other types of HEIs through grants, collaborations, and philanthropic sources (gifts/grants) in addition to tuition fees. UGM generates from one-half to 70 percent, USU about one-half and UI from 60 to 80 percent of its total income from non-governmental sources (World Bank 2010). USU carried out three activities to improve its revenue generating capacity as part of its IMHERE grant. These included the drafting of two Rector decrees (SK Rector) dealing with the creation of academic and non-academic ventures, assessing the current condition of existing ventures, developing a system, procedure, and policy for future ventures, and training staff. As part of its grant, UGM developed general policies and procedures for university enterprises and for using university assets and trained lecturers and staff in each faculty and unit to foster better revenue generating activities.

BINUS receives about 99 percent of its income from tuition fees, but is starting to implement additional revenue generating activities. UMM receives a significant portion of its revenue (20 percent) from non-tuition fee sources such as their bookstore, hotel, teaching hospital and their agricultural research. At present, about 146 of UMM's lecturers are classified as civil servants and have their salaries covered by DIKTI. DIKTI stopped providing further support for new academic staff positions with the exception of medicine about three years ago, which means that UMM must fund any new academic positions from its own resources, which is challenging.

Tuition fees in Indonesia

While there have recently been calls in Indonesia for a unified tuition fee, the question is less about having HEIs set single tuition fees or publishing a schedule of different fees such as has been done by some HEIs than about developing a) a common terminology and b) guidelines for establishing less complex fee schedules.

At present, there are a number of different names for fees charged by HEIs, some of which refer to the same thing. These include:

- SPMA: *Sumbangan Peningkatan Mutu Akademick* (Academic Quality Improvement Calculation);
- BOP: *Biaya Operasional Pendidikan* (Operational Costs of Education);
- DPP: *Dana Pelengkap Pendidikan* (Supplementary Funding of Education);
- SPP: *Sumbangan Pembinaan Pendidikan* (Contribution to Educational Development);
- DPFA/DPSP: *Dana Pengembargan Fasilitas Akademic* (Academic Facility Development Fund);
- DKFM: *Dana Kesejahteraan Fasilitas Mahasiswa* (Welfare and Student Facility per Semester); and
- Other fees: basic study skills fee; *kuliah kerja nyata* (field work fee); *pembinaan kemahasiswaan* (student guidance fee); *pendaftaran* (application fee); *registrasi* (registration fee); *matrikulasi* (matriculation fee); *layanit* (ID card fee); *legalisir* (diploma, transcript etc.); POM (parent/student association fee; *praktikum* (practicum fee); and *wisuda* (graduation fee).

The tuition fee index in Annex C shows how different fees are charged at different HEIs using different methodologies. At UI, for example, significant one-time upfront fees are charged the first semester and then tuition fees (that differ by program), called *biaya operasional pendidikan* (BOP), are charged each semester, while at several other institutions, the semester tuition charges are called SPP and the BOP is charged only to some students. At UGM, semester tuition fees are called BOP like at UI, but they are charged on a per credit basis (that differs by program). In some HEIs, DPPs are charged as one-time up-front fees, while in others they are charged each semester. The lack of a uniform lexicon makes it difficult to calculate the costs that need to be covered by students in different HEIs in the different semesters and the income that the HEI can expect to generate from them. One BLU mentioned that there are so many different fees in different faculties, that even the central administration has trouble staying on top of them.

Table 8 summarizes tuition and other fees into costs for the first year and subsequent years showing how difficult it is to assess the total four year cost of education looking only at the first year. While UGM is the most expensive of the public universities in the first year, for example, when looking at total cost for four years it is less expensive overall than UI.

One option would be to develop a common terminology for tuition fees and other fees. As much of the rest of the world uses the term *tuition fees* to indicate the portion of instructional costs covered by students and the term *fees* to indicate what is paid by students for particular goods or services such as student activities and medical insurance, these terms could be adapted to Indonesia. A second complementary option would be to develop Ministerial guidelines for setting tuition fees as some portion of the government’s standard unit operating cost (see below). The percentage could vary depending on demand (in which case a higher percentage could be set for courses with more demand), national priority (in which case a lower proportion could be set) or some other selected criteria. At UGM, for example, agriculture is expensive to teach because the enrollment is so low. Given its national importance and the desire to attract students, it may be desirable to minimize the percentage of instructional cost passed on to the student and have a higher government subsidy. Business, on the other hand, has very high enrollment demand, and therefore a higher proportion of instructional cost could be charged requiring less government subsidy.

Table 8. Cost of first year of tuition and other fees, cost of subsequent years and total cost of four years

Institution	Type of Institution	Cost of first year tuition and other fees (million Rp)	Annual cost of subsequent years (tuition and other fees) (million Rp)	Total cost of four years of tuition and other fees (million Rp)
UNM	Conventional HEI	4.2	1.3	8
UNHAS	BLU	1.4 to 6.2	1.2 to 10.6	5 to 38
UNJ	BLU	5.3 to 5.85	2.8 to 3.8	14 to 17
GMU	BHMN	14 to 64.3	3 to 3.6	23 to 75
UI	BHMN	10.7 to 33.2	Rp 10.2 to 15.2	41 to 79
USU	BHMN	9	5	25
Politeknik Samarinda POLNES	Conventional polytechnic	3.1 to 7.1	2.4 to 6.4	10 to 26
BINUS (for comparison)	Private university	37.8 to 61.8	40 to 80	158 to 302

The new higher education law states that the government will periodically establish a standard unit operating cost that will be used as the basis for government funding levels to HEIs and as a basis for fee setting by HEIs. The law states that the standard operating cost will be established considering: 1) achievement of the national standards for higher education; 2) type of study program and 3) geographic area, but it is not clear if the government is planning to establish one per student standard operating cost that is an average of these or to establish a set of operating costs that differ by study program and region. It is also not clear how the government will determine the portion of the per student standard unit operating cost that it will cover in its allocations to HEIs. More information (that will be forthcoming in subsequent Ministerial Regulations) is needed in order to more accurately evaluate this policy.

6. Institutional Efficiency and Productivity Monitoring

As part of the strategic planning process, all of the HEIs assess performance on key indicators included in their strategic plan. In UI's strategic plan for 2007-2012, it was found, for example, that students graduate on time 75 percent of the time. The BLUs also have to include performance targets in their annual Business Plan and Budget (RBA) and to submit monthly financial statements and performance reports to the Ministry of Finance.

HEI training and technical assistance needs to take on and successfully manage additional financial responsibilities

The HEIs visited mentioned a number of training and technical assistance needs as outlined in Table 9 as well as other changes in policy and the regulatory environment that would contribute to improving their financial capacity. In terms of the latter, it was mentioned that DIKTI's fiscal year is the calendar, rather than academic, year. Therefore, HEIs have to submit spending plans for the following year in the spring of the current year, which means that data needed to develop the plan is not yet available.

Second, the HEIs underlined the instability caused by ever changing government regulations. One of the BLUs stated that the regulations change so often within the Ministry of Finance, Ministry of Education, and DIKTI that their implementation is difficult. HEIs have many units that need to make changes to be in compliance with new regulations and stakeholders to whom they need to communicate changes. They stated that clear, consistent, and more permanent regulations would be helpful.

One of the main issues identified by HEIs is the need, once awarded BLU status, for assistance in developing an in-house accounting system for the revenue raised by the institution. At the moment, each HEI is developing its own homegrown system, which requires not only external consultants, but significant training for end users. Suggestions included training facilitators who would travel to HEIs to assist with the training and/or a standardized training program for Vice Deans and Deans that complements that given to Assistant Treasurers. Because it is cumbersome to maintain and use multiple accounting systems (one for government funds and another for institutionally generated funds), there were also suggestions for DITKI to create a standardized accounting and reporting system that integrates the two systems. Similar technical assistance could be provided to HEIs that have recently been awarded BLU status to assist them in developing standard operating procedures for human resource management and procurement and in training staff in these areas.

A second need that was echoed by almost all institutions was the need for entrepreneurship training. HEIs need assistance in identifying opportunities for income generation that that are consistent with the core values of the university and in making the infrastructural investments that are necessary for increased collaboration. For example, key informants at one BLU mentioned that they have many PhD candidates with experience working at research labs overseas, but when they return to Indonesia, they do not have the facilities they need to do research that could interest outside partners. Additional training and technical assistance needs are identified in Table 9.

TABLE 9. HEI Needs to Increase Capacity to Take on and Successfully Manage Additional Financial Responsibilities[8]

	Training and Technical Assistance Needs
Financial Management, Planning and Reporting	
Accounting and financial reporting	✓ *Assistance developing in-house accounting systems for the revenue raised by BLUs (they retain the government standard reporting for state funds)* ✓ *TA to improve IT capacity (in some HEIs, the majority of data management is done manually due to financial constraints)* ✓ *Training for deans and vice-deans at faculty level in financial reporting*
Financial planning and budgeting	✓ *More focused training in planning, budgeting and decision making* ✓ *Formal training and mentoring for new deans and vice-deans with regard to planning and budgeting (to assist more integrated planning and budgeting from the faculty level)* ✓ *Assistance in provision of reliable, consistent data for use in planning and development of budget plans.* ✓ *Assistance in preparation of multi-year budgets*
Purchasing and disbursement	✓ *Possible reform of regulatory environment (for example, procurement regulations for conventional HEIs), which can limit collaboration*
Auditing	*Not mentioned by HEIs*
Cash Management	*Not mentioned by HEIs*
Independent Human Resource Management System	✓ *Assistance developing HR policies: recruitment, placement, continuing career development, promotion, and retirement*
Independent Infrastructure and Facilities Management System	✓ *Assistance in management of resources for physical plant facilities, particularly classrooms, libraries and laboratories*
Independent Decision Making	✓ *Assistance understanding the role and function of funds as a mechanism for the implementation of internal bureaucratic reform and corruption prevention*
Sufficient Revenue Generation	✓ *Assistance in identifying and implementing revenue diversification opportunities* ✓ *Assistance developing external collaborations that combine social responsibility and income generation (marketing of HEI attributes)* ✓ *Assistance in developing standard operating procedures for external collaboration* ✓ *Assistance in identifying external research funding opportunities*
Efficiency and Productivity Monitoring	*Not mentioned by HEIs*

ACTIVITY TWO

As part of the second activity, various stakeholders (HEIs, MoEC and MoF officials, students, etc.) were consulted to get their perspectives on the adequacy of GOI funding to meet the government's reform objectives including access for low income students and improved quality.

[8] Based on the Institutional Self-Assessment Surveys (financial management and external collaboration) and the assessment visit interviews.

The ways in which existing funding can be more efficiently allocated under conditions of increased autonomy were also explored.

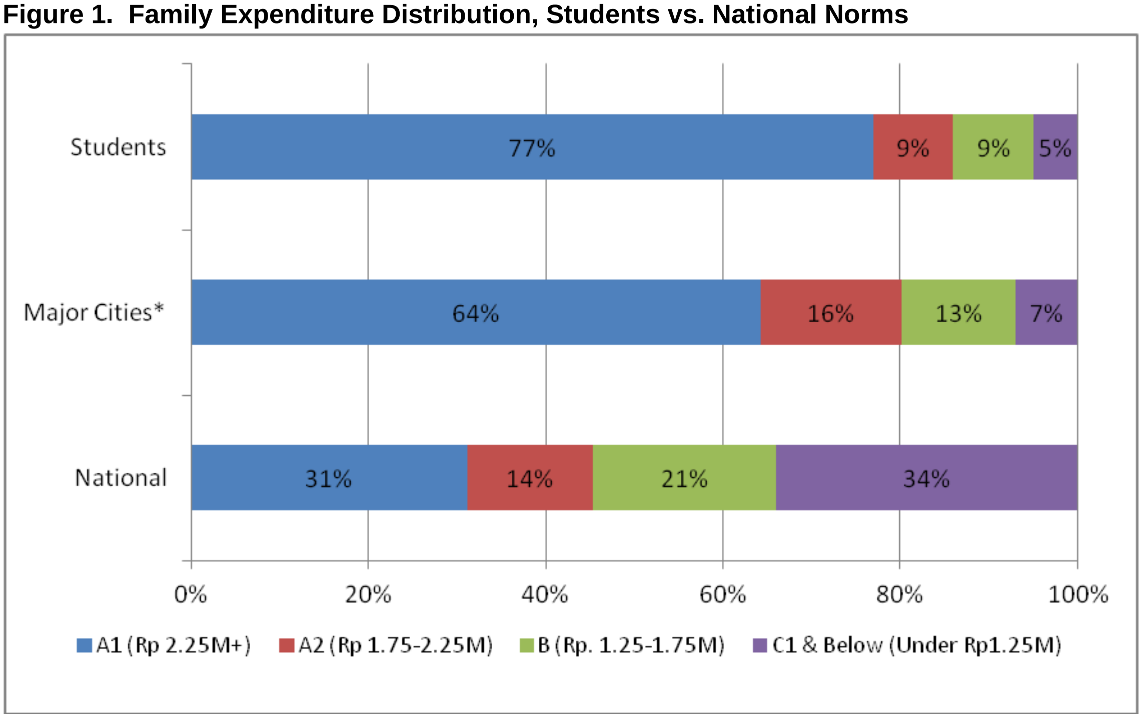
TABLE 10. GOI Spending for Higher Education in 2010-2011 (in thousand Rp.)

Year	Consumptions Spending		Investment Spending	Social Spending	Total Spending
	Public Servant Salary	Goods			
2010	6,435,587,619	10,243,548,644	6,683,237,421	1,371,889,512	24,734,263,196
2011	6,676,948,165	12,959,264,514	7,294,028,228	1,704,381,762	28,634,622,669

Source: National Budget 2010 and 2011 (APBN 2010-2011) supplied by Mohamed Fahmi

The adequacy of existing levels of GOI funding is largely a function of who is consulted. Government officials tend to point to recent increases in government spending, which increased by 15 percent between 2010 and 2011 as shown in Table 10, and to call on HEIs to become more efficient in their use of resources,[9] while HEIs tend to assert that they are under-funded. Government funding for higher education in Indonesia is objectively low as a proportion of GDP both regionally and internationally. Public spending on tertiary education is only 0.3 percent of GDP compared to 2.1 percent in Malaysia, 0.9 percent in Thailand and 1 percent on average in OECD countries. Many key respondents perceived that this low level of public funding negatively impacts the government's access goals as it limits capacity making entrance more competitive, which disadvantages students from low-income families and less developed regions. Moreover, the relatively low level of public investment in higher education means that HEIs require more private spending in the form of higher tuition fees, which, especially in the absence of widely available needs-based financial assistance, impacts the ability of lower income students to continue on to higher education.

Figure 1. Family Expenditure Distribution, Students vs. National Norms



[9] Less than half the students graduate on time.

Findings from the qualitative and quantitative research with higher education and secondary school students indicate that the level of private funding required to go on to higher education constitutes an significant barrier for economically disadvantaged students. The 80 senior secondary students interviewed were unanimous in saying that finances were essentially the only obstacle that might prevent them from pursuing their educational goals. Similarly, the survey of 2,000 students in 73 public and private higher education institutions in eight locations shows a student body that is significantly more stratified than the national population – only 5 percent of students come from families with monthly expenditures of less than Rp 1,250,000, compared to 34 percent of families nationally which fall into that category (figure 1), which would indicate the that the private spending required to go on to higher education is a barrier for many.

It is virtually impossible to know the degree to which the HEIs are using the funding that they get efficiently without a calculation of their per student cost (based on actual expenditure data) that can be compared with other institutions (which are using the same methodology for their calculations). The calculation of average institutional unit costs, or better yet, institutional unit cost by program would be useful for the GOI as it could be used to set the weights on the government's normative per student unit cost. It could also be used to see where the largest discrepancies are between actual costs and normative unit costs so that the reasons (inefficient use of resources versus higher costs faced by HEIs in certain geographic regions or in certain fields) for the discrepancy can be explored. The per student unit cost by program would help the HEI allocate government funds internally more fairly and efficiently as well as answer calls for transparency and complaints that tuition fees are set too high.

An institution's ability to be efficient is also determined by its freedom to make financial decisions and its ability to move money from less productive activities or staff to more productive activities or staff. Even the seven BHMN institutions only have the authority to hire or fire the limited numbers of staff that they have taken on as institutional employees. The vast majority of lecturers and staff are civil servants that are paid according to grade and seniority. Therefore, the internal allocation of some 50, 47 and 30 percent of the budgets of conventional HEIs, BLUs and BHMNs respectively is not determined by the HEIs (Bappenas 2010).

According to the HEI self-evaluations, UNM and POLNES scored themselves below average in having resources sufficient to sustain their current programs, while UNJ, UNMUL and POLMED rated themselves as average and UNHAS rated itself above average. During the assessment visit, POLNES reiterated that in some years, government funds do not meet the costs of their activities and that increasing its ability to generate income would be valuable in covering shortfalls.

An issue as important as the level of funding is how it is distributed. One of the arguments for a move towards more financial autonomy for HEIs is that giving institutions more control over their resource allocation will allow them to make strategic decisions that increase institutional productivity. Such autonomy, however, needs to be accompanied by incentives which encourage institutions to pursue public policy goals such as increased HEI efficiency in terms of time to graduation and expanded participation for economically disadvantaged students. The GOI should continue to move from line item to block grant funding and to explore and experiment with different funding mechanisms to perpetuate broader national goals as well as institutional goals.

About six percent of the total government higher education budget is allocated to private HEIs for use as partial salary for teaching staff, laboratory equipment, fellowships for teaching staff and competitive grants (World Bank 2010). UMM, for example, receives a salary subsidy from DIKTI for 30 percent of its lecturers and has obtained some government sponsored grants for research, community service education, physical development, and a new 180-bed dormitory (information gained during assessment visit May 2012). Most government scholarships could be used by students to attend private institutions, but in fact, most go to students in public institutions. Given the large number of private HEIs and the magnitude of the students they serve, there have been compelling calls for increased government support to private HEIs as well.

ACTIVITY THREE

Public higher education in Indonesia is funded by the government and by the HEIs themselves using income they raise from tuition and other fees, contributions given by businesses or philanthropic organizations, and from their own income generating activities (consulting, training, research, commercial partnerships and overhead on research projects). The aim of the third activity of the higher education finance assessment in Indonesia is to identify existing examples of successful fund-raising and income generation in Indonesia that could be scaled up and/or replicated to provide additional, alternative sources of funding for public higher education. First, however, some attention will be given to tuition fee revenue as it constitutes the largest part of HEI generated income especially for the BHMN institutions. UGM raises 51 percent of its total revenue from tuition fees, USU raises 52 percent and UI raises 59 percent. The other public institutions raise about 38 percent of their total revenue from tuition fees. One of the reasons that the HEIs are able to raise such a significant amount from tuition fees, despite having published prices that are fairly low, is because they are allowed to admit non-regular students, often called Mandiri students, who have to pay significantly higher fees and, if there is space, Mahasiswa Jalur Susulun students, who pay even more. At UNJ and UNM, for example, Mandiri students pay about double what regular students pay and Mahasiswa Jalur Susulum students pay from 33 to 150 percent more than that.

While the non-regular students provide a significant portion of HEI income, there is also a limit to how many may be admitted due to capacity constraints. Therefore, it is critical for HEIs to develop alternative sources of income through collaboration with external stakeholders. Such collaboration can be divided into academic collaboration, which refers to joint programs, joint research, and student exchanges and non-academic collaboration, which refers to fund-raising and income generation activities. The academic partnerships that Indonesian HEIs have with international universities, though numerous and far-ranging, will not be reviewed in detail as they present few opportunities for income-generation beyond scholarships. These partnerships generally involve capacity building activities and lecturer and student exchanges. Universitas Negeri Jakarta (UNJ), for example, is part of the US Indonesian Teachers' Consortium with the Universities of Ohio, Illinois, and Indiana, which studies how to improve higher education quality and provide capacity building for teacher education. As part of the program, UNJ conducts workshops, and exchanges lecturers for study and research. Similarly, there are a number of collaboration activities between Indonesian HEIs in which stronger, more developed institutions mentor weaker ones as part of their community service mission.

In order to review the existing involvement of the private sector (corporations and foundations) and local government and the community, information was collected via a desk review about:

- Existing laws and derivatives such as government regulations, presidential decrees, and finance minister decrees, etc. that encourage corporate social responsibility and philanthropy by foundations, corporations and individuals;
- The impact of current philanthropic initiatives carried out by foundations and corporations (including scholarships);
- Existing public private partnerships involving higher education;
- The magnitude of alumni donations and initiatives to involve alumni more in the future;
- HEI consulting opportunities with local governments and others;
- Non-government revenue sources for HEIs; and
- Revenue raised by *zakat* and other individual contributors.

Meetings with key informants were also held in DIKTI, local (provincial) government offices, foundations, businesses, and higher education institutions including those selected for the assessment visits to collect their impressions of those initiatives that have expansion potential, new initiatives for revenue mobilization that could be explored, and the constraints that impede increased community involvement. The main avenues identified for income-generation open to HEIs include donations and contributions from industry, alumni, and donors; income-generation from consultancies, training, and research; the creation of commercial enterprises; business partnerships; and international students.

Donations and Contributions

Corporate programs that are set up to contribute to society are known as “Corporate Social Responsibility (CSR) programs. CSR in Indonesia is regulated by two laws, UU Nos. 25 and 40 of 2007. The former law states that every private company must carry out CSR activities and include their cost in its annual budget, while the latter, targeted specifically at energy and mining companies states that companies which deal with non-renewable natural resources must periodically allocate funds to site recovery and other environmental programs. Corporations and small business entities that do not comply with the law incur a penalty. The government also provides (Law No. 36 of 2008 on Income Tax) financial incentives in the form of tax deductions to businesses that contribute to government-registered charities or scholarship programs.

Businesses fulfill their CSR obligations in the area of higher education by providing philanthropic donations (CSR) for scholarships, operations and infrastructure such as labs and by providing students with internship and early employment recruitment opportunities. The contribution of the private sector to student financial assistance via scholarships and student loans will be addressed at greater length in HELM Deliverable 3.[10] A number of banks and corporations provide scholarships to students or to particular cohorts of students. BNI provides

[10] The Sampoerna loan model has elicited a lot of interest and, along with other student loan programs offered by commercial banks including BNI, will be fully described in the report on student financial assistance in Indonesia.

scholarships worth a total of Rp500 million for graduate student research at UNHAS. Both Bank Negara Indonesia (BNI) and Coca-Cola give scholarships to disadvantaged students at POLMED.

Pertamina Oil Company provides educational equipment such as computers to Universitas Negeri Makassar (UNM) as part of its Program Kemitraan and Bina Lingkungan (PKBL), a partnership program in the sectors of health, education, religious infrastructure and society. BNI has contributed cars, computers, printers, motor bikes, and maintenance to UNMUL and various other equipment to UNM.

A number of banks and corporations run early recruitment programs with one or more HEIs. BNI has early recruitment programs in a number of HEIs. Students are selected for the early recruitment program in their seventh semester and have their final year of their tuition fees paid for by BNI. Following graduation, they participate in a one-year training program. Good candidates are then offered employment. When students are selected for participation in the program, they must sign a contract agreeing to work for BNI for three years following the training. If they decide not to, they have to pay back the money invested by BNI. This model was first developed in Jakarta and has been expanded to HEIs in other regions including Makassar in Sulawesi and Samarinda in Kalimantan. Both UNHAS and UNMUL mentioned the BNI program as an important collaboration activity. PT Trakindo has an early recruitment program with a number of different polytechnics in which students do six months of on the job training split between their third and fifth semesters. Once they graduate, they can go to work at Trakindo with no additional screening or training.

Alumni remain largely an untapped resource in Indonesia. Several HEIs including the Institute Pertanian Bogor (IPB) have alumni associations that sometimes provide scholarships and contributions, but not on a regular basis.

HEIs as Providers of Training, Consulting and Research

HEIs generate additional institutional revenue by providing training, consulting and research to businesses, local government and other HEIs. There are multiple examples of local governments hiring HEIs to provide both short term and degree training for their staff. The Badan Kepegawaian Daerah (Local Human Resources Board) of Jakarta Province has hired several HEIs to provide short term training ranging from three days to three months in the areas of leadership, information technology, training of trainers, and training management and has signed MOUs with nine public HEI to fund bachelor's and master's degrees. The Province, which sent 80 staff members to public HEIs in 2012, covers tuition fees, living costs and education materials though sometimes employees apply to line ministries (such as Health and Engineering) for specialized funding. Universitas Sumatera Utara (USU) has organized a variety of training programs in the areas of leadership, medicine, engineering, public administration, and accounting for local and central government officials and staff. IPB provides degree programs to government employees on local government scholarships from Papua whose fields of study are determined.

Businesses and local governments also hire HEIs to carry out consultancies. In an area called Kabupaten Jeneponto, Pertamina hired UNM to map community needs that can be met by

Pertamina and to help develop and eventually implement the community service program. USU has been hired by local governments to draft government regulations, by the Japanese government to implement a pilot project on waste management, by Malaysian private industry to develop herbal medicine, and by a Hong Kong based mining company to conduct baseline research on the social and economic impact of the gold mining industry. IPB consulted on adding value to fisheries (fish balls, fish nuggets, on a large scale) and involved students as assistants. POLMED has been hired by the local government to conduct research about natural resources.

Local governments also fund HEIs to carry out social projects. USU carries out such projects in the areas of agriculture and animal husbandry as well as mangrove development and deforestation prevention. IPB worked with the district (*kabupaten*) government in West Halmahera with funding from partners in the Netherlands and the U.K. to found a community college owned by the local government. IPB trained faculty and staff and prepared the competency based curriculum.

Commercial Enterprises and Partnerships

HEIs in Indonesia are starting to develop commercial enterprises and business partnerships. IPB has several small businesses including Serambi Botani which markets products from small businesses in its five shops and the Sampoerna Entrepreneurship Center in Pasuruan, East Java that provides training and capacity building services. It also has several commercial partnerships with private and government owned companies including:

- A Japanese joint venture company, Sigata Inc. IPB develops flu vaccines and Sigata markets them to governments. It has been going on for five years and is now being scaled up;
- A majority government owned company: BioPharma. IPB provides materials for polio vaccines, using IPB labs. BioPharma produces and distributes the vaccines worldwide through the World Health Organization;
- An Indonesian private company: Sampoerna Agro, a sago plantation in Riau; and
- Government owned estate company: PTPN V Palm oil nursery and processing in Siak, Riau.

IBP has also patented some techniques that have emerged from its various partnerships. Like many HEIs, however, while IPB has the capacity to consult as a technology provider, it lacks the necessary capital to do so on a larger scale.

International Students

While international students could be a good source of revenue for HEIs, so far there are not a lot of students from abroad who want to study in Indonesia. UNJ has some Korean students whose parents own businesses in Indonesia. The expectation is that these students will remain here to work in their parents' businesses when they graduate.

Overhead on Research Projects

HEIs are just beginning to collect overhead from research projects though some remain reluctant to do so, fearing that it will scare away the little research activity that there is. Moreover, many of the research grants are from government and no overhead may be charged despite the fact that these activities require use of facilities and administrative time that is not included in the direct costs of those activities. Therefore, activities that in other contexts would be viewed as cost recovery activities are actually incuring losses for the institutions.

Impact on HEI Funding

Despite the impressive breadth and number of HEI income-generating activities, income from such collaborative activities ranges from less than one percent to about 25 percent of the budgets of the HEIs visited by the HELM team. UI and UGM have the most developed diversification of revenues, with significant income from agreements with private industry, grants, philanthropic donations, and extensive international collaboration in addition to GOI sources (including fee for service activities beyond what other universities can offer currently). USU and UNHAS are moving in that direction as well, but they do not have the name brand recognition that UI and UGM do, so they are not able to draw similar potential cooperators and donors.

DIKTI sets revenue targets for the public institutions, but there appears to be no support for how they might achieve them. One of the issues facing HEIs is how to scale up income generating activities. Several HEIs mentioned that they needed help identifying business opportunities and marketing themselves to businesses. Others mentioned that they while they would prefer cost recovery activities that were aligned with their primary missions, the only ones they have been able to identify were in other areas such as facility rental, which is not particularly aligned with their teaching missions. Moreover, many of the institutions were founded to serve the needs of their local or regional communities, so although they feel pressure to be entrepreneurial, the staff does not feel prepared to be effective in cost recovery activities.

CONCLUSIONS AND RECOMMENDATIONS

The main conclusions and recommendations from this assessment include the following:

1. The criteria required to demonstrate institutional readiness for increased HEI financial responsibility in Indonesia as outlined in government and ministerial regulations, decrees and decisions generally correspond to the six criteria developed from international best practice. The criteria for BHMN and BLU HEI status (and for *Badan Hakum* status as outlined in the new higher education law) are, however, very general and could benefit from the addition of detailed indicators that specify the particular competencies that the government is looking for in awarding increased financial autonomy to HEIs. The addition of such indicators would improve the government’s ability to identify those HEIs that are ready for increased autonomy in a transparent manner and would increase the ability of HEIs to identify the areas in which they require additional strengthening.

   Recommendation: Given that financial autonomy is not a zero sum game in which HEIs are given complete financial freedom or given no freedom at all and is, in fact, comprised of the ten responsibilities identified in Deliverable 1a[11], it is recommended that criteria and accompanying indicators be further developed by the GOI and used to delineate which financial capacity criteria must be demonstrated in order to assume certain of the ten specific financial responsibilities.

2. The HEIs selected for the collaborative assessment demonstrated many of the six criteria, but need additional capacity building in several areas including financial management and accounting, planning and budgeting, and income generation. While the assessment visits identified a number of common training needs, they were quite general and more details are required on the specific competencies that the HEIs need in order to design appropriate training and technical assistance interventions.

   Recommendation: It is recommended that a thorough needs assessment survey be administered to high level administrators in all public HEIs to identify their individual and common training and technical assistance needs in the areas of finance and administration.

3. The HEIs stated that their ability to fulfill the criteria required for increased financial responsibility would be strengthened by a more stable and detailed regulatory environment. It was noted that laws, such as the recently passed Higher Education Law, are kept purposefully vague to avoid political opposition and details and clarifications are taken up in subsequent Ministerial regulations, often in a piecemeal manner.

   Recommendation: It is recommended that fewer pieces of more detailed legislation be passed that, while politically challenging, would allow HEIs to have a better understanding of the regulatory environment.

4. In the new higher education law, the GOI states that it will periodically establish a higher education standard unit operating cost that takes into consideration the National Standards for Higher Education, the different types of study programs and regional prices differences. That cost will be used by the government as the basis for allocating resources to HEIs and by HEIs as the basis for setting fees. Without data on per student cost in different types of institutions and in different fields of study and at different levels of study, the establishment of a standard unit operating cost is inherently political and, depending on how it is derived, can be used to justify the call for additional government resources or increased institutional efficiency. In order to set the higher education standard unit operating cost fairly and transparently and to apply the appropriate program weights to it, expenditure data on per student unit cost in a representative sample of HEIs is needed. Such data could also be used to inform the current debate over HEI tuition fees and other charges and over the levels of government funding for higher education.

   Recommendation: It is recommended that a survey on student unit cost be carried out in a representative sample of Indonesian public and private HEIs disaggregated by program cluster and student level (graduate and undergraduate).

[11]The financial responsibilities include: type of government funding and authority to: manage audit, retain surplus government funds, set tuition fee levels, retain tuition fees, retain private income, set enrollment levels, hire and fire and set staff employment terms, borrow, and own and sell assets.

5. There is little standardization of terminology for tuition and other fees leading to confusion at all levels (students, government and the HEIs themselves) at what is actually being charged and to difficulty in comparing actual costs of different HEIs.

   Recommendation: It is recommended that there be some standardization of terminology for tuition and other fees in public HEIs and guidelines developed for setting tuition and other fee levels.

6. Compared to other countries in the region and world, the level of GOI investment in higher education is low. Just as important as the level, however, are the ways in which government funding is allocated to the HEIs.

   Recommendation: It is recommended that the government in Indonesia increase its investment in higher education to 1 percent of GDP, continue to move from line item to block grant funding, and to explore and experiment with different performance-based funding mechanisms that provide incentives to HEIs to pursue public policy goals including access for economically disadvantaged students.

7. Indonesian higher education institutions are making progress in identifying additional revenues sources beyond the government allocations and student tuition fees and in centralizing income generating initiatives within the institution. Many of them, however, need assistance in identifying revenue opportunities

   Recommendation: It is recommended that technical assistance in income generating activities be provided to those HEIs in greatest need (as determined from the needs assessment survey above) with case studies from Indonesian and regional HEIs that have been successful and innovative.

Applicability to Other Deliverables

The three components and the associated sets of activities described above will prove useful in completing other assessments and accomplishing some of the other HELM program goals of increased capacity at the HEI level. For example, it is planned that the roundtable described above would be the first in a series of such discussions which would serve as data collection efforts, assessment finding dissemination events, opportunities for discussions over time to allow key issues to be examined and to faciltiate a greater degree of trust among stakeholders. Future Round Table forums, to be held in Fall 2012, are anticipated to focus around issues and opportunities related to Collaboration with External Stakeholders and Quality Assurances, as well as other leadership issues.

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ANNEX A: LIST OF MEETINGS IN ADDITION TO THE ASSESSMENT VISITS TO HEIS

AusAid:	Diastika Rahwidiati and Rivandra Royono
BAN-PT:	Adil Basuki Ahza Secretary
Banks:	Bank Mandiri, BCA, BNI
Ministry of Education and Culture:	Dr. Augus Sartono, Deputy Minister
	DIKTI: Dr. Dadang, Mr. Ahmad Mahmudin (DIKTI Program and Budgeting), Mr. Edi Siswanto and Mrs. Reny Herawati at DIKTI Learning and Students Unit
	Statistical Office: Mrs. Ida Kintamani, Researcher
Paramadina University:	Bima Priya Santosa, Deputy Rector for Operations and Finance and Tedy J. Sitepu, Director of Executive Office
Perbanas:	Tri Joko Prihanto, Member of Assessment and Development Committee, Indonesian Banks Association (and Director of Finance and Planning, Bank Bukopin)
Pertamina:	Mr. Laode S. Mursali, Ass. SME & SR PP Region Sulawesi
Provincial Education and Training Board, Province of Jakarta:	Mrs. Lokasari and Siti
PT Prudential Life Assurance:	M. Ruddy Prasojo Syaifulah, Agency Manager
Sampoerna School of Education:	Mr. Syeron Syahril, Head of External Relations
Swiss Contact:	Martin Stottele, Head of Operations, SC Regional Office SE Asia, Swiss Contact (Swiss Foundation for Technical Cooperation);
Universitas Indonesia:	Dr. Anis, Dr. Lauder, Dr. Iskandar, Dr. Multamia Lauder, Director of Education and Registrar, and Junaidi, Head of the International Office
Universitas Negeri Jakarta:	Vice Rectors
World Bank:	Ratna Kesuma, Chris Smith

ANNEX B: HIGHER EDUCATION REGULATIONS CONSULTED

- Law No. 2 on Higher Education Autonomy of 1989
- Law No. 20 of 1997
- Civil Service Law 43/1999
- Government RegulationNumber 60 of 1999
- Government Regulation Number 61 of 1999 about Determination of Higher Education as a Legal State Entity
- Indonesian Government Regulation No. 152 of 2000 establishing the University of Indonesia (UI) as a State Owned Legal Entity (BHMN),
- Republic of Indonesia Regulation No.153 2000 establishing the University of Gajah Mada (UGM)) as a State Owned Legal Entity (BHMN),
- Republic of Indonesia No.154 of 2000 establishing the Bogor Agricultural Institute (IPB) as a State Owned Legal Entity (BHMN),
- Republic of Indonesia No. 155 of 2000 establishing the Institute of Technology Bandung (ITB) as a State Owned Legal Entity,
- Government of Indonesia Regulation No.153 of 2003 established North Sumatra University (USU) as a State Owned Legal Entity and
- Republic of Indonesia Regulation No. 6 of 2004 established the University of Education Indonesia (UPI) as a State Owned Legal Entity.
- Republic of Indonesia Regulation No. 30 established Universitas Airlangga as a State Owned Legal Entity.
- Regulation of the Minister No.115/kmk.06/2001 decree.
- Directorate General of Higher Education No. 28/DIKTI/Kep/2002 regarding the implementation of regular and non-regular programs in public universities.
- State Finance Law 17/2003
- Law 20 of 2003 about the National Education System
- Law no. 1/2004 on the State Treasury
- Regulation of the Government of Indonesia No. 23/05 Regulation of the Government of the Republic of Indonesia Concerning Financial Management of General Service Agencies
- Government Regulation no. 19 of 2005. National Standards for Higher Education.
- Minister of National Education No. 2 of 2005 on cross-subsidizing the operating cost of college
- Minister of National Education No. 44 YEAR 2006 about aid to private educational institutions
- Government Regulation no. 48 of 2008.
- Education Legal Entity Decree (UU BHP No. 9 2008 – passed in 2009)
- Circular Letter Number 170/D/T/2010 February 17, 2010
- Government Regulation No. 66 of 2010) to finalize their status as BLUs or state universities.
- Presidential Decree 43 of 2012
- Presidential Decree 44 of 2012

ANNEX C: TUITION FEE INDEX

Tuition Fee Index: 2011/12 (in Rp)

		Entrance Fee & Other One-Time Fees	SPMA/ one time (GMU only)	BOP/ semester	SPP/semester (except at UI where paid only once)	DPP/ semester	DFPA/DPSP / semester	DKFM/ semester	Lab or materials fee/ semester
					Conventional (non-BLU; non-BHMN)				
Universitas Negeri Makassar	High Cost Program (regular students)	3,000,000 (DPP)	NA	NA	615,000/ semester	NA	NA	NA	some programs have
Universitas Negeri Makassar	High Cost Program Mandiri students)	3,000,000 (DPP)	NA	2,500,000	615,000/ semester	NA	NA	NA	NA
Universitas Negeri Makassar	Low Cost Program (regular students)	3000000 (DPP)	NA	NA	615,000/ semester	NA	NA	NA	some programs have
Universitas Negeri Makassar	Low Cost Program (Mandiri students)	3000000 (DPP)	NA	2,500,000	615,000/ semester	NA	NA	NA	NA
					BLU				
Universitas Hasanuddin	High Cost Program (regular students)	825,000 plus fees for diploma; transcripts, etc.	NA	2,250,000 but only for 2 programs	750,000 to 10m (PPDS)	NA	NA	NA	NA
Universitas Hasanuddin	High Cost Program (Madiri Students)	825,000 plus fees for diploma; transcripts, etc.	NA	NA	1,500,000*	NA	NA	NA	NA
Universitas Hasanuddin	Low Cost Program (regular students)	825,000 plus fees for diploma; transcripts, etc.	NA	500,000 (only for 1 program)	600,000	NA	NA	NA	NA
Universitas Hasanuddin	Lower Cost Program (Mandiri Students)	825,000 plus fees for diploma; transcripts, etc.	NA	NA	1,200,000*	NA	NA	NA	NA
UNJ (2011/12)	High Cost Program (regular students)	2,000,000; 1,500,000 UK&K; 450,000 other			400,000	1,500,000			NA
UNJ (2011/12)	High Cost Program (Mandiri students)	2,000,000; 1,500,000 UK&K; 630,000 other			600,000	2,750,000	2,670,000		NA
UNJ (2011/12)	Low Cost Program (regular students)	2,000,000; 1,500,000 UK&K; 450,000 other			400,000	1,000,000			NA
UNJ (2011/12)	Low Cost Program (Mandiri students)	2,000,000; 1,500,000 UK&K; 630,000 other			600,000	2,000,000	2,000,000		NA
					BHMN				
GMU (2012)	High Cost Programs (regular students)	25,000,000	60,000,000 to 15,000,000**	75,000 * 18 credits	500,000				NA
GMU (2012)	High Cost Program mandiri students)				Closed as of Jan 2012				

	Low cost Program regular students)	5,000,000	10,000,000 to 5,000,000**	60,000 * 18 credits	500,000				NA
	Low Cost Programs (Mandiri students)	Closed as of Jan 2012							
UI	High Cost Program (regular students)	25,000,000		7,500,000**	600,000 paid only once			100,000	NA
UI	High Cost Program (mandiri students)	does not seem to have this; does have what are called bachelor's extension & parallel programs							NA
UI	Low Cost Programs (regular students)	5,000,000		5,000,000**	600,000 paid only once			100,000	NA
UI	Low Cost Programs (Mandiri students)	does not seem to have this; does have what are called extension & parallel programs							NA
Private Universities									
Binus University	High Cost Program	5m (BP3 fee 1st semester); 3m one-time misc		5m	26 - 39.8m***				2000000
Binus University	Low Cost Program	1m (BP3 fee 1st semester); 3m one time misc		2m	11.5-20.1 m***				2000000

[1] Average used when there is a range.

*There is also a third category of students that are admitted if there are available spots after filling quotas for regular and mandiri students. These are called mahasiswa jalur susulan and they pay Rp 2m for low cost programs and Rp3m for high cost programs.

**Based on parental ability to pay.

***Depends on test results.