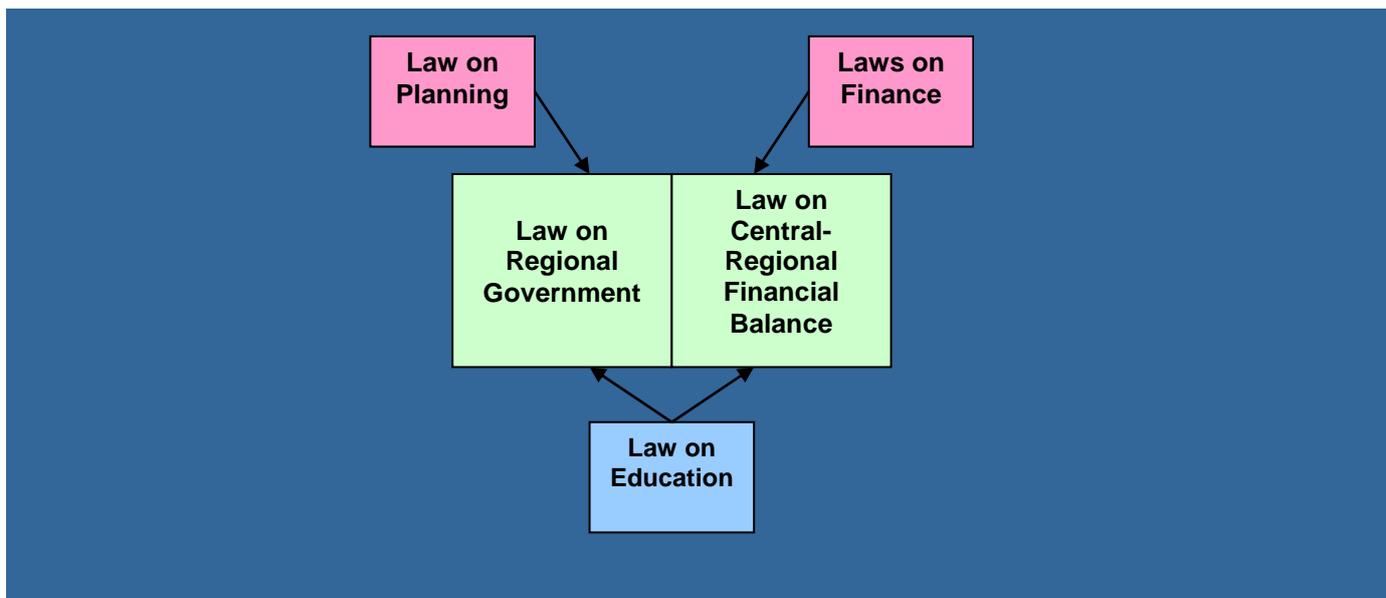




## Decentralized Basic Education 1: Management and Governance

# Study of the Legal Framework for the Indonesian Basic Education Sector



## **DBE 1** Special Report

**Second Edition**

**September 2009**

This report is one of a series of special reports produced by RTI International, implementing partner for the USAID-funded Improved Quality of Decentralized Basic Education (IQDBE) program in Indonesia, for review by the U.S. Agency for International Development.



# **More Effective Decentralized Education Management and Governance (DBE1)**

Study of Legal Framework for the Indonesian Basic  
Education Sector: Second Edition

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<sup>1</sup> RTI International is a trade name for Research Triangle Institute.



# Study of the Legal Framework for the Indonesian Basic Education Sector: Second Edition

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# Study of the Legal Framework for the Indonesian Basic Education Sector

*Edition 2 September 2009*

## Preface TO THE SECOND EDITION

The first edition of the study of the legal framework for the Indonesian Basic Education sector was published in 2007 (see Preface to First Edition just below). Since that time, there have been a number of changes and new laws and regulations that significantly affect decentralized basic education. Among these are the following:

- new regulations governing financial flows and funding mechanisms that bring the actual practice of central and regional government budgets into closer conformity with the principles and practices envisioned by Law 17/2003 concerning state finance (i.e., government budgets);
- issuance of the national education standards as required by Law 20/2003 concerning the national education system; and
- Law 9/2009 concerning legal bodies for education which, when read together with Government Regulation 48/2008 concerning education finance, provides a completely new legal foundation for schools and other education providers.

This second edition of the study reviews these changes and their effects on providing decentralized basic education. This current study also updates or revises some analyses made in the 2007 edition.

## Preface TO THE FIRST EDITION

This description of the legal framework for the Indonesian basic education sector is complicated for two reasons:

- the Indonesian education sector is, itself, complicated, and is embedded in a complicated legal framework;
- the Indonesian legal framework based in large part on the “Continental System” is very different from the legal framework based on Anglo-Saxon tradition such as the USA, in both principle and practice.

The first point is dealt with in the paper. This preface will try to address the second point briefly. In Indonesia, the central government was established by representatives of civil society organizations (CSOs)—primarily youth groups—from various geographical regions of Indonesia. The Constitution they wrote states that Indonesia is a unitary country that is “divided into” (not “composed of”) large and small regions.<sup>1</sup> Thus, decentralization consists essentially of the central government delegating some of its authority to provinces and districts that have no inherent authority of their own. The Explanation<sup>2</sup> to the 1945 Constitution states that regions can be “autonomous or only administrative [divisions]” based on the laws and regulations.<sup>3</sup>

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<sup>1</sup> The idea of a “federal” state carries huge negative emotional baggage. In 1949, the Dutch colonial government agreed to “recognize” Indonesian sovereignty, but only under the condition that Indonesia be reorganized as a federal state. In 1950, the various federal regions requested that the Dutch-imposed federal constitution be abrogated and that Indonesia return to a unitary state.

<sup>2</sup> The Explanation was attached “as an integral and indivisible” part of the Constitution and was legally binding until the most recent amendments in 2003–2004 that removed the Explanation.

<sup>3</sup> Explanation to paragraph 18 of the Constitution.

People following the 18th century “liberal” political tradition tend to think of a country as a group of people who are in “pursuit of happiness” as long as it does not interfere with the pursuit of happiness by others. Government is a “contract” among the citizens to provide certain services that enable them to fulfill their pursuit of happiness. Indonesians, coming from the 19th century “Rousseauian” political tradition, tend to think of a country as a family with citizens as the members and the government as the head. The original statement of the national ideology (Five Principles: *Pancasila*) included “family-ness” (*kekeluargaan*) as one of the principles. In the final formulation, the Fifth Principle became “social justice for all the people.” The Constitution re-established this link in paragraph 33, entitled social welfare. Clause 1 states: the [national] economy will be organized based on the fundamental principle of family-ness and the Explanation to that paragraph states that this is the “basis for democracy.”

The individualist view of society tends to see laws as telling people what they must do (as few as possible) and what they must not do. In this view, laws should be very precise, and implementing regulations are used to prescribe detailed implementation procedures, such as reporting formats, etc. The Indonesian family view of society tends to see laws as setting the goals and defining the framework within which each member of society decides how to make his/her contribution to achieving those common goals. Implementing regulations have two purposes:

- they are used to provide detailed explanations of what is required by the law, i.e., they serve the function of laws in the Anglo-Saxon tradition;
- they clarify the original intent of the law if implementation seems to be getting “off track” and bring the implementation back in line.

In this latter function, implementing regulations may contain inconsistencies, especially when they are issued by different agencies that have different responsibilities for implementation of the original law.

Another idea that is foreign to the Indonesian political tradition is “a government of laws not (wo)men.” The Explanation to the Constitution is very specific on the point that laws are inseparable from the people charged with implementing them and that good people can overcome the negative effects even of bad laws:

What is very important in government and national life is the spirit, the spirit of government actors, the spirit of government leaders. Even though the constitution explicitly states a family-ness<sup>1</sup> character, if the spirit of government actors and government leaders is individualistic, then obviously the constitution is useless in practice.

On the contrary, even though a constitution is imperfect, but if the spirit of government actors is good, then the [imperfect] constitution will not hinder the national journey.

So the most important thing is spirit.  
General Explanation, Point IV

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<sup>1</sup> Note, again, the emphasis on “family-ness.”

This Preface is not intended to defend these traditions, only to describe them. Understanding of these traditions may assist Indonesian and international stakeholders in developing strategies to better collaborate with the Government of Indonesia (GOI) in improving the quality of basic education.

It should be noted that this document is a revision and update of the original (2007) study. New regulations have been added, and some older regulations, which were previously excluded, have been added if they are necessary for understanding the new regulations. The information in this document is complete and accurate up to the date of printing. As new regulations are being issued continuously, it should not be considered final after that date.

## **A. Introduction**

1. This document contains a description and analysis of relevant laws and regulations related to the Indonesian basic education sector, focusing on the decentralized provision of basic education, including funding for basic education. The study concludes that the currently existing laws and regulations provide a workable framework to support increasing democratic interaction in education governance, rationalizing and increasing local funding for basic education, and increasing transparency and accountability in the education sector. However, the success of the legal framework will be dependent upon proper implementation.

2. The following two issues are often cited as hampering decentralized basic education in Indonesia:

- relevant laws and regulations are in some cases unclearly written/defined; and
- relevant laws and regulations are mandated without provision for resources to properly implement the regulations.

Deeper analysis of the current regulatory framework related to basic education concludes that although the first issue above is still relevant, government has made substantial progress in improving earlier versions, and so these issues seem to apply more to the earlier (1999) versions of the regional autonomy laws and the old (pre-2004) budget system and are being largely resolved in the current laws and regulations. Resources for education have been increasing steadily over the past few years, as a result of implementation of the constitutional requirement that 20% of government budgets be allocated for education. The issue of unfunded mandates is being addressed by allowing implementation in stages and explicitly tying implementation to the availability of resources. In other words, Indonesia is making substantial progress in implementing and institutionalizing decentralization.

3. This document describes and analyzes the legal and regulatory framework in decentralized Indonesia as a contextual background for strengthening basic education management, finance, and governance. Analysis is limited to the relevance to the basic education sector in the context of decentralization and democratization.

4. This revised version of the document, dated September 2009, is an update to the original version of the analysis, dated September 2007. There are three major areas of change that have emerged in the past two years:

- new regulations governing financial flows and funding mechanisms that bring the actual practice of central and regional government budgets into closer conformity with the principles and practices envisioned by Law 17/2003 concerning state finance (i.e. government budgets);
- issuance of the national education standards as required by Law 20/2003 concerning the national education system; and
- Law 9/2009 concerning legal bodies for education which, when read together with Government Regulation 48/2008 concerning education finance, provides a completely new legal foundation for schools and other education providers.

**Section B** provides a short introduction to the Indonesian educational system, and **Section C** describes the framework and process in which laws and regulations are

made and implemented. The description of the legislation process provides a background to better understand the analyses that follow. **Section D** describes four sets of laws and regulations that relate to decentralized education: laws related to decentralization or regional autonomy, finance, national and regional development planning, and education. An understanding of how these various laws and regulations affect the education sector is critical for education decision makers and managers. Analysis in **Section E** identifies key issues and draws the conclusion that the legal and regulatory framework does support the basis for improving education through decentralization, and also identifies key issues that must be addressed to implement policies intended by the relevant laws.

**Appendix 1** presents a summary of sections of the law on national planning (Law 17/2007) that relate to the place of education in the national Long Term Development Plan (2005–2025). This plan is still relevant because, although the newly elected President and Vice President (July 2009) will formulate their own Medium Term (5 years) Development Plan, the medium term is conceptually a time slice of the long term. The appendix also contains a summary of the Ministry of National Education (MONE) Long Term (2005–2025) Education Development Plan.<sup>1</sup> **Appendix 2** reviews the School Operational Fund (BOS) program that provides substantial increases in school funding, and hence is having a dramatic impact on increasing access to and improving the quality of basic education. **Appendix 3** contains some background to the current debate about “free” education. **Appendix 4** contains a translation of the Education Sector Appendix to Law 38/2007. **Appendix 5** describes the method for calculating annual transfers to regional government budgets, and **Appendix 6** is a glossary of terms and abbreviations.

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<sup>1</sup> It is important to note that this document is produced by the Ministry of National Education (MONE). It cannot be considered as the Education Sector Long Term Development Plan because it does not include the Ministry of Religious Affairs (MORA) schools. The *Grand Design for Achieving Universal Compulsory 9-Year Basic Education 2006–2009* (2006) is a comprehensive education sector plan because, although it was produced and published by MONE, it takes explicit account of the MORA education sector.

## **B. Introduction to the Indonesian Educational System**

5. This section of the paper describes some characteristics of the Indonesian education system to set the background for the analysis of the legal framework related to decentralized basic education.

6. The Indonesian education system carries a heavy burden of social and political expectations. The Preamble to the Constitution<sup>1</sup> states that one of the four reasons for establishing Indonesia as an independent nation is to “make national life smarter,”<sup>2</sup> which has always been interpreted as the basic mandate for a national commitment to education.<sup>3</sup> The Guidelines for National Direction<sup>4</sup> 1999–2004 blamed the educational system for the “intolerance of diversity” that was seen as being behind the violence of 1998 and the subsequent communal violence.<sup>5</sup> The current national Long Term Development Plan (2005–2025) contains eight national missions, including moving towards a society that is: of good character, moral, ethical, cultured, and civilized; globally competitive; and democratic<sup>6</sup>—all of which are to be achieved via education.

7. The National Education System Law (Law 20/2003), after quoting the Preamble to the Constitution, defines the goal of the national education system as: developing the full potential of students to become religious and pious,<sup>7</sup> of good character, healthy, having academic knowledge, skilled, creative, self-sufficient, while becoming democratic and responsible citizens.<sup>8</sup> The Ministry of National Education Strategic Plan 2005–2009 commits the educational system to supporting the national long term (2005–2025) goal of improving Indonesian human resources to a level where they are competitive with those of other nations in order to prepare Indonesia to face the challenges and benefit from the opportunities offered by globalization.<sup>9</sup>

### **Structure of the system**

8. The educational system that is responsible for achieving these ideals is a complex network of interlocking subsystems. There are two central ministries that have responsibility for supervising education provision: the Ministry of National Education (MONE) and the Ministry of Religious Affairs (MORA). The National Education

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<sup>1</sup> Which is considered so fundamental to the identity of the nation that a consensus emerged in the People’s Consultative Assembly (MPR) that no changes were to be made to it during the process of amending the body of the Constitution itself.

<sup>2</sup> Menerdaskan kehidupan bangsa.

<sup>3</sup> Note, also, that Law 9/2009 on legal bodies for education states explicitly that education providers and stakeholders are participating in fulfilling the government’s responsibility to provide education to “make national life smarter” (paragraph 4).

<sup>4</sup> *Garis-garis Besar Haluan Negara*. During the period before the third set of Constitutional Amendments in 2001, this document, issued every five years, was the highest legal authority after the Constitution.

<sup>5</sup> Chapter 2 General Conditions, page 4.

<sup>6</sup> Chapter 3, page 39.

<sup>7</sup> *Beriman dan bertakwa*, literally: believing and fulfilling all religious obligations.

<sup>8</sup> Paragraph 3.

<sup>9</sup> Chapter 1 Introduction, page 3.

System Law (Law 20/2003)<sup>1</sup> required the integration of all schools<sup>2</sup> into a single national system. MONE was named as the implementing ministry for the National Education System Law, but administrative authority and funding channels remained separate. Regulatory authority was, theoretically, united by moving it out of both ministries into autonomous bodies responsible directly to the president cf. paragraph 11, page 9 below. Although there is a good deal of cooperation between the two ministries, especially at the central level in the form of joint committees and teams, in practice the two systems are managed separately.

9. The law recognizes both formal education, defined as education that is structured and divided into levels consisting of basic, secondary, and tertiary education; nonformal education;<sup>3</sup> and informal education. Formal basic and secondary education are the responsibility of the Director General for Management of Basic and Secondary Education within MONE. Although the nonformal program developed by the government as equivalency for formal basic and secondary education (called *Paket A* at the primary level; *Paket B* at the junior secondary level, and *Paket C* at the senior secondary level) is considered to be a strategic policy for achievement of the universal compulsory 9-year basic education goal. Informal education, managed together with nonformal education, is defined as self-education from the family and environment. Although the law states that informal education can be recognized after the participant passes an examination based on the national education standards, there are no implementing regulations, nor are there government programs (budget lines for activities) for this type of education. The nonformal and informal programs are managed by a separate Directorate General within MONE (Directorate General Nonformal and Informal Education) and is not dealt with further herein.<sup>4</sup>

10. Responsibility for education in MORA lies at the level of a directorate general. In 2005 MORA<sup>5</sup> reorganized this directorate general to provide better support and supervision of education. The directorate general is now called “Directorate General for Islamic Education” (formerly “Directorate General for Islamic Institutions”) and contains four directorates:

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<sup>1</sup> Full information on the title, law number, and year of passage is given the first time a law is mentioned. Subsequently, only the title is used.

<sup>2</sup> Literally: *satuan pendidikan*, “education units.” (Continued on following page.)

Indonesian legal language and daily usage have several terms to refer to institutions providing education. “General schools” is a translation of the Indonesian language term *sekolah umum*, used by MORA to refer to MONE schools. MONE uses the term “school” (*sekolah*) without an adjective. MORA schools are not referred to using the word “school,” instead they are called *madrasah* (Arabic for “school.”). As a compromise position, throughout this document, the term “school,” without adjectives, refers to both general schools and *madrasah*. Where specific reference is required, either the sectoral ministry (MONE or MORA) is used as a qualifier, or the adjective “general” is attached to school for MONE schools and “madrasah” as an adjective is attached to school for MORA schools.

<sup>3</sup> Which is defined as “education outside formal education that can be implemented in a structured manner with levels.” Law 20/2003 concerning the National Education System, paragraph 1, points 11 and 12.

In fact, formal education is education that is offered by schools and results in government-issued certificates of graduation; nonformal education is offered by agencies that are not schools, and the graduation certificates are issued by the agency offering the training/course. Specifically for nonformal equivalency education (Paket A, B, and C), the participants may sit for a national nonformal exit examination and receive a government certificate of nonformal graduation.

<sup>4</sup> Nonformal education is also specifically excluded from the provisions of Law 9/2009 concerning education legal bodies.

<sup>5</sup> Government Regulation 63/2005.

- Directorate for Madrasah Education;
- Directorate for Traditional Islamic Schools<sup>1</sup> (*madrasah diniyah* and *pondok pesantren*);
- Directorate for Islamic Tertiary Institutions; and
- Directorate for Islamic Education in General Schools.

The subdirectorates within the Directorate for Madrasah Education are organized along functional lines:<sup>2</sup> curriculum, student affairs, teachers, facilities, organization and institutions, supervision, and evaluation, which roughly parallel the functional divisions within MONE.

11. The National Education System Law established two nondepartmental agencies, directly under the authority of the President, to implement provisions of the law that apply to both general schools and madrasah:<sup>3</sup> the National Education Standards Agency and the National School Accreditation Agency. The agencies were established by MONE ministerial regulations<sup>4</sup> and members are selected by a team composed of MONE senior officials. Agency directives and decisions are issued as MONE ministerial regulations. Technical guidelines to implement the decisions of the agencies are issued by MONE.<sup>5</sup>

12. The formal education system consists of three levels:<sup>6</sup>

- basic (elementary [6 years, ages 7 to 12] and junior secondary [3 years, ages 13 to 15])<sup>7</sup>

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<sup>1</sup> Originally, these two types of schools differed in the arrangement of the curriculum (but not the content): *madrasah diniyah* were divided into levels or “grades” with set (Islamic) subjects for each grade, while *pondok pesantren* offered a variety of (Islamic) subjects where the students could choose among them at their own pace and order. Nowadays, many *pondok pesantren* are divided into levels with a set curriculum for each grade.

All *madrasah diniyah* and *pondok pesantren* are private. Both *madrasah diniyah* and *pondok pesantren* are now encouraged to offer a minimum program of secular basic education subjects (30% of the total national curriculum) in addition to the traditional Islamic curriculum, and to have their students sit for the primary and junior secondary exit examinations to achieve primary and junior secondary graduation certificates. This program is called the Compulsory Universal 9-Year Basic Education Program (*Wajar dikdas*) in *Pesantrens* and is funded through MORA.

<sup>2</sup> Previously, the organization was based on levels of education: primary, junior secondary (JSE), senior secondary (SSE), tertiary, traditional Islamic schools (*madrasah diniyah* and *pondok pesantren*).

<sup>3</sup> *Madrasah* are defined as “[general] schools with special Islamic characteristics” (*sekolah yang berciri khas Islam*). They offer virtually the same curriculum as MONE schools (70% required to be identical), using their optional subject quotas for additional Islamic subjects. “Additional” because religion is a required subject in all schools at all levels of education, including tertiary.

Under current practice, *madrasah diniyah* and *pondok pesantren* are not bound by the provisions of the education law.

<sup>4</sup> MONE Ministerial Regulation 29/2005 for the National School/Madrasah Accreditation Agency and MONE Ministerial Regulation 40/2005 for the National Education Standards Agency. The previous version of this paper incorrectly stated that the agencies were established by Presidential order.

<sup>5</sup> Cf. the tasks assigned to the Subdirectorates of Curriculum (one of the National Education Standards [NES]) and Evaluation and Accreditation (another NES) in the Directorates of Guidance for Kindergartens and Primary Schools and the Directorate of Guidance for Junior Secondary Schools, MONE Ministerial Regulation 14/2005 and MONE Ministerial Regulation 25/2006.

<sup>6</sup> Law 20/2003 concerning the National Education System, paragraph 1, point 11. The education law defines kindergarten/preschool education as nonformal.

<sup>7</sup> Although the structure and organization of the central MONE and the provincial and district education offices (*dinas*) still reflect the pre-national education system law division into primary (6 years), junior secondary (3 years), and senior secondary (3 years). Tertiary education was not included

- secondary (3 years, ages 16 to 18)
- tertiary (3- and 4-year programs at the undergraduate level; post graduate programs at the masters and doctorate levels).

Hereinafter, analysis will focus on basic education, with reference to secondary as is relevant. The problems and issues of tertiary education are so different from those of pre-tertiary that they are not addressed further.

13. Both MONE and MORA schools have large numbers of students being served by private sector education providers who are more (MONE) or less (MORA) closely regulated by the sectoral ministry. **Figure 1** on the following page shows the structure of the educational system and enrollment<sup>1</sup> in each part of the system. As students move to higher levels of education, MORA schools become less important, while MONE private schools become more important. At the primary level, MONE schools account for 90% of total students, with 92% of these in government schools. MONE government primary schools account for almost 50% of the total system enrollment.

14. At the junior secondary (JSE) level, MONE schools take 78% of students, with 74% of these in government schools. Although the size of the MORA subsector is smaller at the JSE level than at the primary level (2.1 million JSE students versus 3.1 million primary students), MORA's contribution to total enrollment is larger: 22% of JSE enrollment versus 11% of primary enrollment. MORA JSE schools are extremely important to achieving universal compulsory basic education at the JSE level because many parents choose to have their adolescent children studying in an Islamic social environment: 72% of Class 1 enrollment in MORA JSE schools are graduates from MONE primary schools.

15. MORA schools are overwhelmingly private at all levels: 87% at primary; 75% at JSE, and 66% at senior secondary (SSE) level. Private schools also account for 67% of enrollment in MONE SSE schools.

16. Private schools—both MONE and MORA—are owned and operated by legal bodies called “foundations”<sup>2</sup> (*yayasan*), which may be responsible for single or multiple schools and may operate in limited geographical areas or nationally.<sup>3</sup> Private schools teach the same curriculum as government schools, and their students sit for the same exit examinations to graduate. Religious organizations may establish foundations to operate private schools: e.g., there are many private schools under MONE jurisdiction that are operated by Moslem foundations,<sup>4</sup> as well as foundations established by Christian, Hindu, and Buddhist religious organizations.

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in decentralization, because tertiary institutions have (varying levels of) autonomy directly from the central ministry (MONE and MORA) offices.

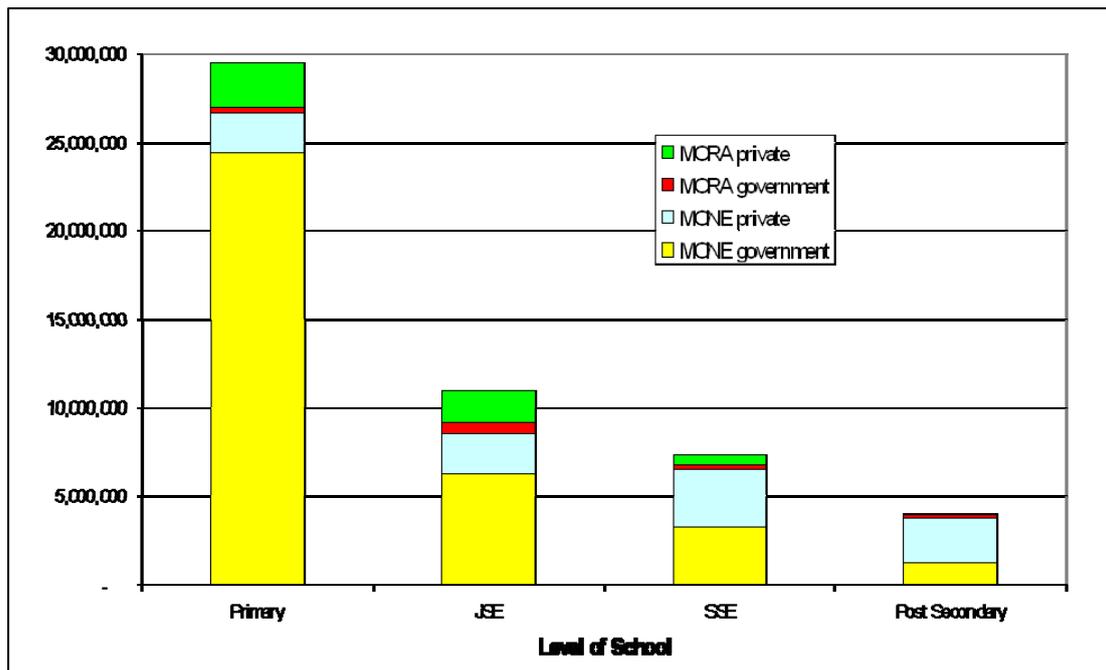
<sup>1</sup> MORA analysis of the structure of the system tends to use numbers of schools rather than enrollment. Because MORA schools are much smaller than MONE schools (ranging in average size from 75% at the primary level to 50% at the JSE and SSE levels), this tends to inflate the percentage contribution of MORA schools to the total system.

<sup>2</sup> The term *yayasan* in Indonesian covers the same range of institutions as the term “foundation” in English. Education is only one of many possible political, social, and/or charitable activities in which *yayasan* engage.

<sup>3</sup> This will change when Law 9/2009 is implemented. Cf. the discussion in paragraph 141, page 54 below.

<sup>4</sup> This is why “Moslem” or “Islamic” schools are not appropriate translations for the term *madrasah*.

**Figure 1. Structure of the Indonesian Education System**



Source: Summary of Indonesian School Statistics; Statistics of Religious Education, 2007/2008.

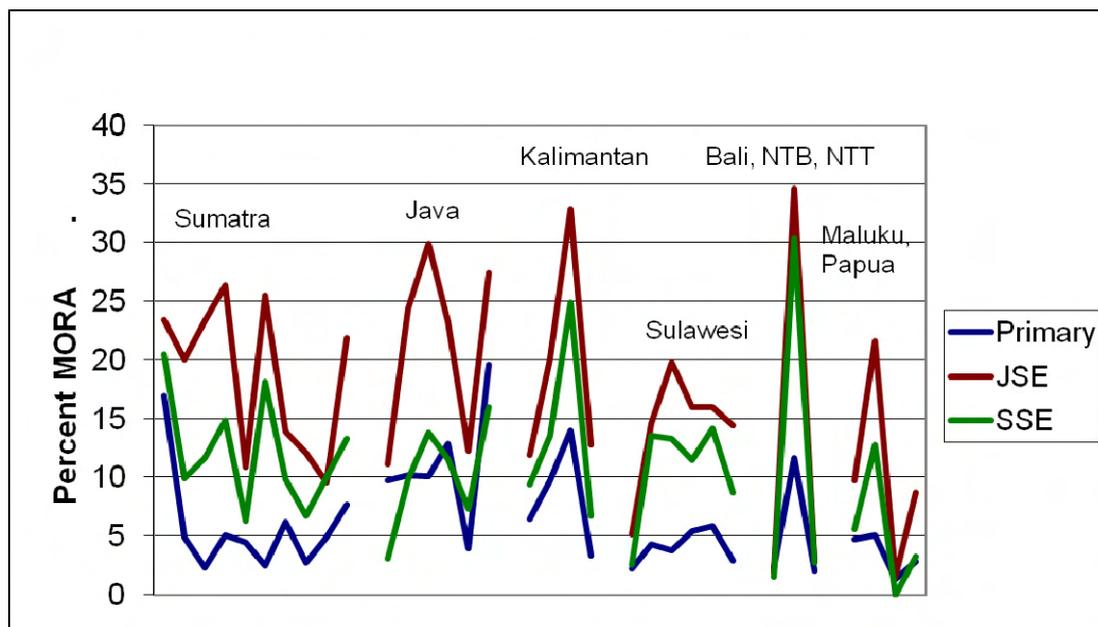
### Variability

17. The numbers presented above represent national totals; however, the situation at the local level is extremely variable.

18. **Figure 2**, below, shows the percentage contribution of MORA schools to total enrollment at the provincial level. The provinces are arranged in approximate west-to-east order. The lines show the contribution of MORA schools to enrollment at each level of education (blue line for primary level; red line for JSE level; green line for SSE level). The dominant role of MORA at the JSE level shows clearly (the red line tends to be much higher than the other lines).

19. The most prominent features of the figure, however, are the differences among provinces. For example, in Jambi (fifth from the left in Sumatra), MORA primary schools account for 27% of enrollment, larger than the 24% for JSE, and in W. Sulawesi (fifth from the left in Sulawesi), MORA SSE schools account for 17% of enrollment, larger than the 16% for JSE. Furthermore, neighboring provinces can have very different conditions: for example, Jakarta and Yogyakarta have much lower contributions from the *madrasah* sector and are, therefore, very different from their neighbors Banten and W. Java (for Jakarta), C and E. Java (for Yogyakarta); W. Nusatenggara has a much higher contribution from the *madrasah* sector and, therefore, is very different from Bali and E. Nusatenggara; in the same way, S. Kalimantan is very different from the remaining provinces in Kalimantan; and N. Maluku is very different from Maluku and the two provinces Papua and W. Irian.

**Figure 2. Contribution of MORA Schools to Enrollment, by Province**



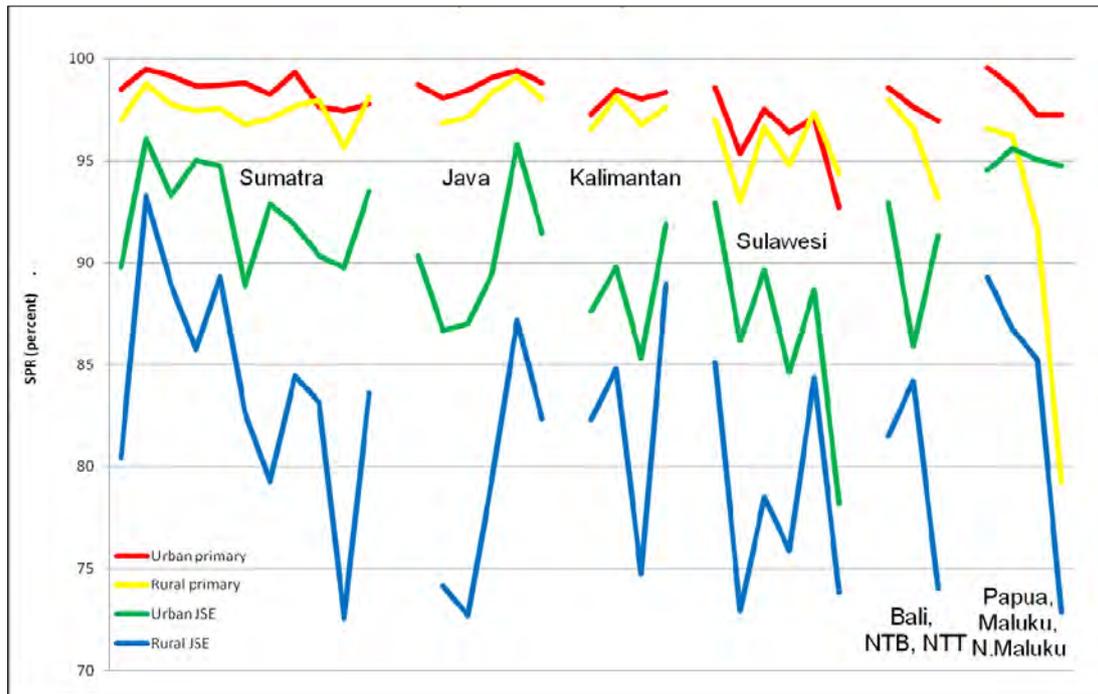
Source: Summary of Indonesian School Statistics; Statistics of Religious Education, 2007/2008.

20. Another source of local variation is illustrated in **Figure 3**, below, which shows provincial average school participation rates<sup>1</sup> for primary age (7–12 years) and junior secondary JSE age (13–15 years) in urban and rural areas. Again, provinces are arranged in approximate west-to-east order. Note that for some provinces, such as Lampung, Riau Archipelago, Yogyakarta, C. Kalimantan, and SE Sulawesi, there is almost no difference between urban and rural participation rates at the primary level, while all provinces have marked differences between urban and rural participation rates at the JSE level. The urban–rural differences are so large for W. Irian Jaya and Papua that the urban JSE participation rate is actually higher than the rural primary participation rate.

21. **Figure 4**, on the following page, shows school participation rates for children of primary and JSE age by district for the 2007/2008 academic year. As in the previous figures, the districts are arranged in approximate west-to-east order within provinces, and provinces are arranged in west-to-east order. Not only is the absolute difference between individual districts very large, ranging from less than 50% participation to almost 100%, but the difference among the districts within the same province is almost as large.

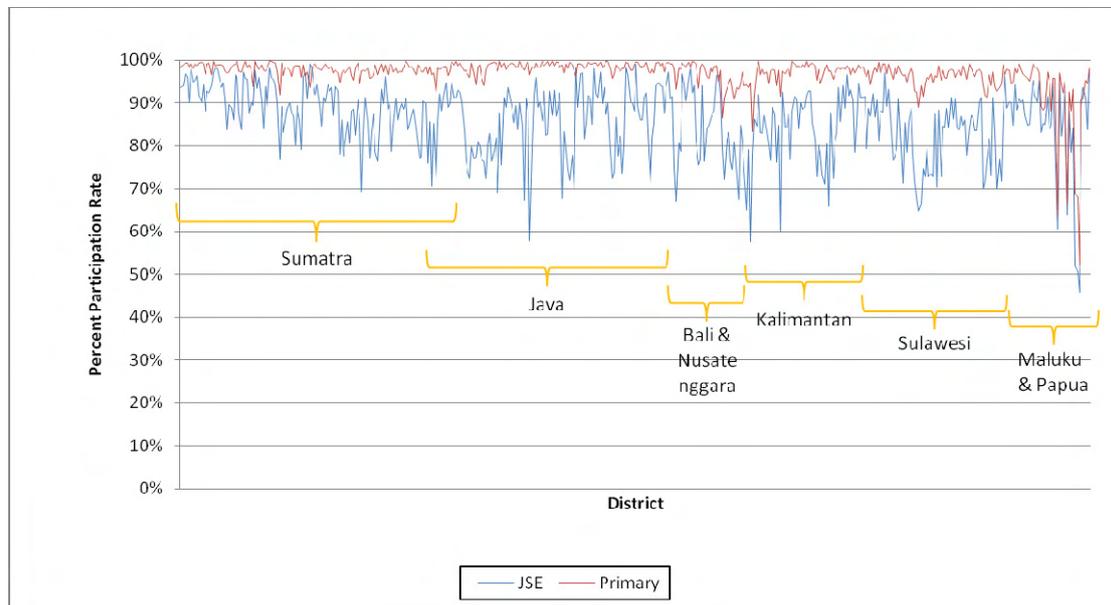
<sup>1</sup> Percentage of children of a certain age cohort who are enrolled in any level of school. Maximum value is 100%. Various definitions of enrollment ratios are explained in the glossary, **Appendix 6**.

**Figure 3. School Participation Rate by Province, 2007**



Source: Susenas Survey by Central Statistical Agency (BPS), 2007.

**Figure 4. School Participation Rate for JSE-Aged Children, by District**



Source: Susenas Survey by Central Statistical Agency (BPS), 2005, latest available data.

22. This same level of variation is also found in other social variables, such as adult literacy and health, and in economic variables such as employment and incomes. Statistical analysis<sup>1</sup> shows that only about 17% of total national variability occurs between provinces, while variation among districts within a single province accounts for the remaining 83% of variability. Thus, analysis based on national or provincial level data is unlikely to produce a good indication of local conditions as a basis for planning or policy development.

23. The variability of local conditions also operates against the use of uniform national policy initiatives. In the past, this problem was overcome by an approach of uniform national policy with local implementation; however, the local implementation became bogged down in uniform national implementing regulations and technical rules. Regional autonomy at the district level provides an opportunity for districts to set their own priorities. Central initiatives, such as the annual Ministry of Home Affairs (MOHA) “guidance” on sectoral priorities for district budgets,<sup>2</sup> undermine the potential of district government to accommodate district needs and characteristics. For example, poverty alleviation is the top priority in the 2007 guidelines,<sup>3</sup> which is relevant at the national level, but hardly the top priority for municipalities such as Denpasar (Bali), Banjarmasin (S. Kalimantan), and Bukittinggi (W. Sumatra), which have only 3% of the population with incomes below the poverty line compared to the national average of 16%.<sup>4</sup> Again, improved access to and quality of education and health is the third priority in the MOHA instruction, although access to education is not a top priority for Toba Samosir district (N. Sumatra), which has 99% enrollment for primary and junior secondary-aged children and 93% enrollment for senior secondary-aged students (compared to the national averages of 97%, 83%, and 53%, respectively).<sup>5</sup>

### **Allocation of responsibility**

24. Responsibility for various aspects of educational services is distributed throughout this complex system:

- **provision** of formal educational services is the responsibility of the school and the community (school-based management, mandated by the National Education System law);
- **management of the provision** of educational services in MONE schools is the responsibility of the district government, directly for MONE government schools, and indirectly through licensing and regulation,<sup>6</sup> for MONE private schools; this

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<sup>1</sup> Analysis of variance/ANOVA.

<sup>2</sup> The priorities are based on the National Medium Term Development Plan, 2004–2009.

<sup>3</sup> MOHA Ministerial Regulation 26/2006.

<sup>4</sup> 2004, Susenas data.

<sup>5</sup> 2004, Susenas data.

<sup>6</sup> In the past, the main regulatory tool for private schools was accreditation. Private schools achieved higher accreditation levels (on a 4-level scale) by fulfilling more criteria. Schools with higher accreditation status were permitted to carry out more tasks for themselves, e.g., to design and administer their own final examinations. For schools with lower accreditation status, these tasks were carried out by a designated government school.

The National Education System Law mandates one accreditation system for all types of schools (government and private; MONE and MORA).

responsibility is exercised through the District Education Service (*Dinas Pendidikan Kabupaten* or *Dinas Pendidikan Kota*)<sup>1</sup>;

- **management of the provision** of educational services in MORA schools is the responsibility of the vertical hierarchy of MORA in the regions (MORA Provincial offices/*Kanwil* and MORA District offices/*Kandep*), directly for MORA government schools and indirectly for MORA private schools<sup>2</sup>; and
- **establishing education policy and standards** is the responsibility of the central government; in addition to the national agencies noted above in paragraph 10, page 8, both MONE and MORA have offices to carry out this responsibility.<sup>3</sup>

25. Teachers in government schools (both MONE and MORA) are central government civil servants, although some government schools also hire non-civil servant teachers and pay their salaries out of the school's budget. MONE and MORA receive annual hiring quotas for new civil servant teachers, based on discussions among the national (central) Civil Service Commission, Ministry of Finance (MOF), and Parliament about budget availability. For MONE teachers, these quotas are then distributed to districts that actually carry out the recruitment in accordance with national requirements and guidelines. MORA recruits centrally; however, submission of application forms and test administration is implemented at the district level. The new recruits are legally hired by the central ministries and carry civil service identification numbers from the central ministry (ID number prefix 13 for MONE and 15 for MORA). MONE teacher recruits are automatically assigned to the districts that recruited them, and MORA teacher recruits tend to be assigned to the districts where their applications were submitted and processed. MONE civil servant teacher salaries are paid by the central government through the general block grant from the central budget to district budgets (*dana alokasi umum/DAU*).<sup>4</sup> MORA civil servant teachers are paid directly through the central MORA budget, with the funds flowing through the MORA vertical hierarchy. The central ministerial budgets also cover certain salary supplements required by Law 14/2005 concerning teachers and university lecturers, cf. paragraph 134, page 53 below.

26. Districts have the authority to hire district government civil servants, including teachers. They carry district civil service identification numbers (ID number prefix 51), and their salaries are paid through the district budget, but are not covered by the general block grant.

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<sup>1</sup> The *dinas* may have different names in different districts. In some cases, it is still called by the former name of the ministry, i.e., Education and Culture (*Dinas Pendidikan dan Kebudayaan/Dikbud*).

Government Regulation 38/2007 provided a more detailed allocation of responsibility among the central, provincial, and district governments; however, the provisions of this regulation do not change the responsibility of the district *dinas* for management of provision of basic education, as stated in the text.

<sup>2</sup> It must be emphasized that the legal and bureaucratic status of the *dinas* and *kandep* are in no way analogous or similar. The *dinas* is part of the autonomous district government and has no hierarchical relationship with central MONE; the *kandep* is part of the central MORA and has no legal relationship with the *dinas*, although there may be cooperation between the two agencies. *Dinas* are funded through (decentralized) district budgets; *kandep* are funded through the central MORA budget.

<sup>3</sup> PP 38/2007 gives provincial and district *dinas* responsibility for setting "operational" policy "in accordance with national" policy.

<sup>4</sup> For details on calculation of DAU, refer to **Appendix 5**.

27. Civil service teachers are also “provided” to private schools, and their salaries are paid out of the government budget via the general block grant (for MONE teachers) or personnel budget (for MORA teachers). However, what in fact normally happens is that private schools nominate existing teachers, who fulfill the civil service requirements, to be recruited as civil servants through the regular recruitment process. The teachers’ salaries are paid into the school’s budget, and the teachers’ actual take home pay is set by agreement between the teacher and the school. In most cases, the civil service teachers are paid the same salaries as equivalent non-civil service teachers in the school, so the “provision” of civil service teachers is actually a budget subsidy to the private school. **Table 1**, below, shows the distribution of civil servant and non-civil servant teachers in MONE and MORA schools. The MORA data is not disaggregated by government and private schools; however, the percentages seem to suggest that these numbers represent totals of government plus private schools.

28. Private schools have two other categories of teachers: permanent and nonpermanent. Permanent teachers are permanent employees of the foundation, with all the legal rights of permanent employees.<sup>1</sup> They are paid a base salary with supplements plus incentive pay, based on actual number of teaching hours. These permanent teachers are eligible for salary supplements under Law 14/2005, and those supplements are covered through the central MONE and MORA budgets. All civil servant teachers are permanent employees of the foundation. Nonpermanent teachers are hired on annual or multiyear contracts.<sup>2</sup> They are usually paid a (low) base salary, with no supplements, and earn most of their income from the teaching-hour based incentive pay. Many of the nonpermanent teachers carry a full teaching load. About 63% of teachers in MONE private primary schools and 37% of teachers in MONE private JSE schools are nonpermanent (2006/2007, latest available data). Civil servant teachers from MONE government schools frequently also serve as nonpermanent teachers in MONE private schools.

**Table 1. Distribution of Civil Servant and Non-Civil Servant Teachers, 2008**

| Type of School | Civil Servant             | Non-Civil Servant         |
|----------------|---------------------------|---------------------------|
| <b>MONE</b>    |                           |                           |
| Government     |                           |                           |
| Primary        | 985,913 teachers<br>74.9% | 330,196 teachers<br>25.1% |
| JSE            | 290,327 teachers<br>71.5% | 115,845<br>28.5%          |
| Private        |                           |                           |
| Primary        | 16,691 teachers<br>12.9%  | 112,332 teachers<br>87.1% |
| JSE            | 15,166 teachers<br>8.0%   | 174,403 teachers<br>92.0% |
| <b>MORA</b>    |                           |                           |
| Primary        | 41,896 teachers<br>17.3%  | 242,175 teachers<br>82.7% |
| JSE            | 16,974 teachers<br>15.1%  | 95,436 teachers<br>84.9%  |

Source: Summary of Indonesian School Statistics; Statistics of Religious Education, 2007/2008.

<sup>1</sup> These are the teachers referred to in English translation as “full time” in MONE and MORA statistics. The Indonesian term is more accurate: *guru tetap* (permanent teachers).

<sup>2</sup> These are the teachers referred to in English translation as “part time” in MONE and MORA statistics. Again, the Indonesian term is more accurate: *guru tidak tetap* (nonpermanent teachers).

29. There is another group of teachers who are referred to as “contract teachers.” These are teachers hired by and funded through the district education budget, but who are not district government civil servants. District governments attempt, with varying degrees of success, to have these teachers included as successful recruits in the annual MONE civil service quota. Government Regulation 43/2007, which revised Government Regulation 48/2005 concerning recruitment of contract personnel as civil servants, lists teachers as the first priority for such recruitment, followed by health service personnel, agricultural extension workers, and “other” personnel (Paragraph 3).

30. **Table 2.** Types of Teachers and Funding Sources, below, summarizes the types of teachers and funding sources for each type.<sup>1</sup>

31. Nonpermanent teachers who work on a contract basis, in both government and private schools, as well as district contract teachers, should be differentiated from the “contract teacher program” teachers. The contract teacher program began as an activity in donor-assisted projects, where substantial numbers of teachers were taken out of schools for lengthy in-service training or university degree programs.<sup>2</sup> The projects then funded replacement teachers, who were hired through the central ministry project budget. All contracts were annual, but contracts tended to be extended over a period of years, either because the original teacher was enrolled in a multiyear university degree program or because the replacement was transferred from one short-term replacement position to another instead of hiring new contract teachers to replace subsequent trainee releases. When the donor funding finished at the end of the project, it was politically very difficult to dismiss these teachers,<sup>3</sup> some of whom had worked in the schools for several years. As a result, the central MONE budget continued to fund them.<sup>4</sup> Beginning in 2005, the central government made a commitment to give civil servant status to all existing contract teachers who had served as contract teachers for 10 years or more.

**Table 2. Types of Teachers and Funding Sources**

| School     | MONE   | MORA   |
|------------|--|--|
| Government | Central civil service (ID 13)<br>salaries from DAU via district budget | Central civil service (ID 15)<br>salaries from MORA budget |
|            | District civil service (ID 51)<br>salaries from district budget        |  |
|            | Central contract teachers<br>salaries from central budget              | Central contract teachers<br>salaries from central budget  |
|            | District contract teachers<br>salaries from district budget            |  |

<sup>1</sup> This will change when Law 9/2009 is implemented. Cf. paragraph 141 and pages 54 and 18.

<sup>2</sup> In early projects (1970s), where the “contract teacher program” was initiated, the teacher trainees were all civil servant teachers who were assigned to their schools via a central MONE “letter of assignment,” which was legally binding on both the teacher and the school. In subsequent projects that offered training to non-civil servant teachers from private schools, the trainees were all permanent teachers, who were legally bound to their schools by their “permanent” employee status.

<sup>3</sup> In 2004 on National Education Day, 250,000 contract teachers formed the Communication Forum of Indonesian Contract Teachers to lobby for civil servant status.

<sup>4</sup> Through activities in the “development” budget (under the old budget format). Most of these teachers had been hired for projects funded through MONE rather than MORA. MORA-based project funding is relatively new, beginning with ADBs Basic Education Project, 1996–2002.

| School  | MONE  | MORA  |
|---------|---|---|
|         | Non-civil service salaries from school budget<br>government provides some supplements   | Non-civil service salaries from school budget<br>government provides some supplements                             |
| Private | Central civil service (ID 13) salaries from DAU via district budget into school budget but teacher incomes from school budget | Central civil service (ID 15) salaries from MORA budget into school budget but teacher incomes from school budget |
|         | Non-civil service: permanent salaries from school budget government provides some supplements                                 | Non-civil service: permanent salaries from school budget government provides some supplements                     |
|         | Non-civil service: nonpermanent salaries from school budget   | Non-civil service: nonpermanent salaries from school budget   |

### Academic context

32. The foundation for the academic context of Indonesian education is the national education standards (NES), mandated by the National Education System Law. (NES should not be confused with the education function minimum service standards (MSS) required by the Regional Autonomy Law, cf. paragraph 56, page 28 below.) Government regulation 19/2005 identified eight (sets of) standards which were required by the law:

- content
- process
- graduate competencies
- educators and education personnel
- infrastructure and facilities
- management
- funding
- education evaluation.

These standards have now been issued in the form of MONE ministerial regulations (*Permen*) as shown in **Table 3** below. Note that the standard for education funding was issued as a government regulation, which has a much higher legal authority than a ministerial regulation.

**Table 3. National Education Standards**

| Legal Product  | Subject Matter  | Comments  |
|--|---|---|
| <b>Content</b>   |   |   |
| Permen 22/2006   | Content for basic and secondary                       | <ul style="list-style-type: none"> <li>• Implementation instructions in Permen 24/2006</li> <li>• Revised by Permen 6/2007</li> </ul>   |
| Permen 13/2007   | Content for equivalency                               |   |
| <b>Process</b>   |   |   |
| Permen 41/2007   | Process for basic and secondary                       |   |
| Permen 3/2008  | Process for equivalency                               |   |
| <b>Competencies for Graduates</b>  |   |   |
| <ul style="list-style-type: none"> <li>• Permen 23/2006</li> <li>• Revised by Permen 6/2007</li> </ul> | Competencies for basic and secondary                  | Implementation instructions in Permen 24/2006   |
| <b>Personnel</b>   |   |   |
| Permen 12/2007   | Supervisors   |   |
| Permen 13/2007   | Principals  |   |
| Permen 16/2007   | Teachers  |   |
| Permen 24/2008   | Administrative personnel                              |   |
| Permen 24/2008   | Administrative personnel                              |   |
| Permen 25/2008   | School laboratory technicians                         |   |
| <b>Facilities and Infrastructure</b>   |   |   |
| Permen 24/2007   | Facilities and infrastructure for basic and secondary |   |
| <b>Management</b>  |   |   |
| Permen 19/2007   | Management for basic and secondary schools            | This regulation does not contain the words “school-based management” but the activities required by the regulation constitute school-based management. Refer to paragraph 130, page 52 below. |
| Permen 49/2007   | Management for equivalency                            |   |
| Permen 50/2007   | Management by district government                     |   |
| <b>Funding</b>   |   |   |
| Government Regulation 48/2008  |   |   |
| <b>Evaluation</b>  |   |   |
| Permen 20/2007   |   |   |

33. The standards for content and graduate competencies form the basis of the curriculum. All MONE and MORA, government and private, schools use the same basic curriculum (although *madrassah* schools add extra religious subjects). MONE has issued detailed technical guidelines and “models” for this curriculum. Responsibility for developing syllabi and lesson plans is now in the hands of teachers, under the supervision of their principals and supervisors, although MONE’s guidelines include concrete examples of what and how to teach.<sup>1</sup>

<sup>1</sup> This “rigidity” is frequently criticized by academics and education professionals; however, it is an extremely important support vehicle for the many unqualified teachers who are unable to develop their own syllabi and lesson plans. It provides a minimum level of quality in these cases.

34. The government<sup>1</sup> issues graduation certificates to students from all four types of schools. Graduation is based on passing an exit examination at the end of each level.<sup>2</sup> Exit examinations for primary level are the responsibility of the district education office, which establishes a team consisting of principals, teachers, and supervisors, and university lecturers (in some districts) and may or may not include representatives from *madrasah* schools.<sup>3</sup> Each district team designs, administers, and grades its own test, using examination questions/problems from the MONE national examination database. National exit examinations for JSE and SSE levels are developed and implemented by central MONE's Center for Evaluation and Assessment.

35. Students in *pondok pesantren* and *madrasah diniyah*, which do not have MONE or MORA schools on campus but do offer the minimum basic education program, cf. footnote 1, page 9 above, are permitted to sit for the primary and JSE level exit examinations and qualify for government graduation certificates.

36. Provision of textbooks is governed by MONE Ministerial Regulation 2/2008. In principle, textbooks are produced by the private sector and teachers are permitted to choose from a list of textbooks that have been vetted by the National Education Standards Agency.<sup>4</sup> The regulation also permits MONE, MORA, and regional governments to purchase copyrights from textbook authors (paragraph 3) and print the books for sale to schools (paragraph 8), either directly or through a private sector publisher. The regulation cites Law 5/1999, which forbids monopolies as one of its references and requires that the books used in a single school be sourced from at least two different publishers (paragraph 6).

37. Schools are required to provide sufficient textbooks in the school library for all students,<sup>5</sup> although teachers are also permitted to "recommend" (*menganjurkan*) that students with sufficient financial capability purchase textbooks. In the latter case, the regulations require that the books be purchased directly from a retail vendor. This is intended to eliminate the practice of schools' requiring students to purchase textbooks from the school (frequently at a substantial markup from the retail market price).

38. Teaching-learning equipment and media are produced by the private sector. Donor-funded projects purchase these from the market and provide them to schools,

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<sup>1</sup> District government (MORA District Office for *madrasah*) for kindergarten, primary, JSE, and SSE. At the tertiary level, the individual institution issues the graduation certificate; however, its right to issue certificates is contingent upon permission from the central technical ministry (MONE or MORA).

<sup>2</sup> The examination consists of a number of subjects. The final pass/fail decision is made based on the total score (sum of all subjects) that allows a high score in one subject to compensate for a low score in other subject(s).

In the past, student test scores during the semester/school year were also considered in deciding whether or not the student was eligible to graduate. This gave rise to the term "original" test scores (*nilai asli* or *nilai murni*), i.e., the graduates' scores on the exit examination itself before the report card test scores were considered.

The use of the single test score has been challenged in court (Jakarta Court of First Instance, May 2007) as a violation of the students' human rights because it does not reflect the students' total performance. The court upheld the plaintiffs' petition and ordered MONE to change the system. At the time of this writing, MONE was deciding whether or not to appeal the verdict.

<sup>3</sup> Representatives appointed by the MORA district office are responsible for producing the section of the test covering religion, for all religions, not just Islam.

<sup>4</sup> The list is published periodically in the form of a MONE ministerial regulation.

<sup>5</sup> Some district education offices provide funds to schools for textbooks.

which can also purchase from the market with their own school budgets. MONE, district education offices, and MORA procure from the market under government procurement guidelines.

## C. Introduction to the Development and Structure of Indonesian Laws and Regulations

39. Indonesian legal products are arranged in an hierarchy of authority as follows:<sup>1</sup>

- The 1945 Constitution, including amendments passed by the People's Consultative Assembly (*Majelis Permusyawaratan Rakyat/MPR*)<sup>2</sup>
- Laws passed by Parliament (*Undang-undang/UU*)<sup>3</sup>
- Government Regulations issued by the President (*Peraturan Pemerintah/ PP*)<sup>4</sup>
- Executive Orders issued by the President
  - Presidential Regulations (*Peraturan Presiden/Perpres*)
  - Presidential Instructions (*Instruksi Presiden/Inpres*)<sup>5</sup>
  - Presidential Decisions (*Surat Keputusan Presiden/SK Presiden*)

The law also recognizes Government Regulations in Lieu of Laws (*Peraturan Pemerintah Pengganti Undang-Undang/Perppu*). These are government regulations issued by the President with the legal standing of laws passed by Parliament. They are limited to cases of (legal) emergencies which are not covered in the existing laws. *Perppu* must be submitted to the next session of Parliament where they are either accepted—becoming laws—or rejected, in which case Parliament must pass a law eliminating the *Perppu*. At the time of this updating there are no *Perppu* directly relevant to the education sector, therefore they are not discussed further herein.

40. Law 10/2004 also provided the legal foundations for Ministerial Regulations in paragraph 7, which allows “other” types of legal products if they are required by the legal products specifically mentioned in the law. The ministerial regulations mentioned in this review fulfill this criterion.

41. Legal products are identified by the type, followed by a number, then the year of issue, e.g. law 20/2003, Government Regulation 58/2006, etc. Ministerial Executive Orders also include the name of the issuing Minister, e.g. Ministry of Home Affairs Regulation 16/2006. The formal names of laws and Government Regulations<sup>6</sup> also

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<sup>1</sup> Law 10/2004 on Creation of Legal Products. This law did not mention executive instruments such as ministerial/agency regulations, instructions, circulars and letters which continue to be issued and, in general, obeyed. The fact that they are not mentioned in the law has encouraged some stakeholders to conclude that they are not legally binding and therefore selectively ignored.

<sup>2</sup> This assembly consists of all members of Parliament plus additional appointed members representing various “functional groups” (stakeholder groups). It has the power to impeach the President and Vice President and issue MPR Decrees.

<sup>3</sup> An annotated glossary of terms and abbreviations is attached as Appendix 6. The glossary was too long to fit comfortably at the head of the paper. Hereinafter when a technical term is used for the first time, the full names in both English and Indonesian and abbreviations are given. Subsequent references use only the common name or abbreviation.

<sup>4</sup> Government Regulations with the legal status of laws, called Government Regulations as Substitute for Laws (*Peraturan Pemerintah Pengganti Undang-undang*) can be issued by the President in situations requiring an immediate legal solution. These regulations must be passed as laws by Parliament during the next session or the Government Regulation becomes void. Presidential Regulations can also be issued as a substitute for laws with the same stipulation.

<sup>5</sup> Presidential Instructions and Decisions are not explicitly mentioned in Law 10/2004 but continue to be issued and obeyed.

<sup>6</sup> In the following discussion, legal products will be referred to by their English names. The terms can be cross referenced in the glossary, Appendix 6. Ministerial Regulations are referred to by the name (or abbreviation) of the issuing Minister followed by the words “Ministerial Regulation” and the number.

include the phrase “concerning ...,” e.g., Law 20/2003, concerning the National Education System. More informally, legal products are referred to by the abbreviated type, number and year, e.g. PP58/2006, *Permendagri* 16/2006 (“*permen*” is the abbreviation for ministerial regulation and “*dagri*” is the abbreviation for Ministry of Home Affairs/MOHA; MONE Ministerial Regulations are *Permendiknas*).

42. Each of the lower order products must refer to a higher order product for its legitimacy, e.g. laws must refer to some paragraph in the Constitution; government regulations must refer to laws; presidential orders must refer to laws or government regulations; etc.

43. Each law specifies a ministry to be responsible for implementation.

44. Regions<sup>1</sup> also have their own legal products:<sup>2</sup>

- Regional Regulations passed by the Regional Legislature (*Peraturan Daerah/Perda*)
- Executive Orders (executive regulations or executive decisions) issued by the Head of Region<sup>3</sup> (*Peraturan Walikota/Peraturan Bupati* OR *Keputusan Walikota/Keputusan Bupati* OR *Instruksi Walikota/Instruksi Bupati*)

Regional regulations are different from central laws in that they must refer to a central law, i.e. they must be implementing regulations at the regional level for a central law. *Permendagri* 16/2006 limits regional regulations to two functions: regulating something and establishing something new. Many districts have passed regional regulations on education. Furthermore regional regulations must be submitted to MOHA for a “no objection” review. The list of regulations submitted and MOHA’s decision on each are available on the MOHA website.

45. The most important regional regulations are regional budget regulations, which include the annual budget, the annual budget revision and the final budget realization. The “no objection” for budget regulations is given by the governor for districts in the province and by MOHA for provinces.

46. Indonesia has two parallel “legal” systems:<sup>4</sup> the general courts and the government (executive branch). Criminal and civil law operate through the general court system, including public prosecutors who, together with judges, are civil

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<sup>1</sup> In Indonesian legal and political discussion, the opposite of the “center” (central government, *pemerintah pusat*) is “region” (*daerah*), which includes both Provinces and Districts, of which there are two types: Chartered Municipalities (*Kota*, formerly *Kotamadya*) and Regency (*Kabupaten*).

In legal products the term government (*pemerintah*) without an adjective always means the central government (*pemerintah pusat*).

In this discussion, when the term “region” is used, it includes both provinces and districts. When the term “district” is used, it includes both Chartered Municipalities and Regencies.

<sup>2</sup> Defined and specified in MOHA Ministerial Regulation 15/2006.

<sup>3</sup> The Head of a Province is a Governor; the Head of a Chartered Municipality is a Mayor (*Walikota*) and the Head of a Regency is a Regent (*Bupati*). Similar to executive orders issued by the head of a central agency (minister), regional executive orders are also not specifically mentioned in Law 10/2004 but continued to be issued and obeyed.

<sup>4</sup> Actually, three if the Moslem religious courts are included. But these courts deal only with domestic matters (marriage, divorce, inheritance, etc.) and so do not have any direct effect on the education system except when private madrasah schools are build on land which has legal title in Moslem religious courts but not in the secular land registration system, and therefore in secular court jurisdiction.

servants in the Ministry of Justice. The government system comprises administrative law, that is, government regulations and executive orders which are neither criminal nor civil. The administrative law system has its own courts where cases involving implementation of regulations and orders are brought against government executive agencies by citizens (represented by lawyers). Administrative law is binding on civil society organizations which fall within the scope of jurisdiction of the law, e.g. private schools, but sanctions are administrative rather than criminal, e.g. demotion in rank or delay of scheduled salary increases for personnel; reduction in central budget transfers to the district budget; loss of license or closure of a school; etc.<sup>1</sup>

47. Indonesian laws are formulated as general statements of principle, followed by the instruction: detailed implementation of this principle will be established by government regulation. The Stocktaking Report prepared by the DRSP noted:

There is also a tendency to prepare laws that are heavily reliant on subsequent government regulations, without sufficient thought to the content of the regulations; conceptual and practical problems in the law are only noted once the law has been passed, constraining the preparation of useful follow-up regulations.

Stocktaking, 2006, page 8

As explained below, there are reasons rooted in the legal system as well as practical implementation reasons for this state of affairs. Indonesian laws are not intended to be directly enforceable: it is precisely through the implementing regulations that the political and social principles enunciated by Parliament are translated into concrete actions or prohibitions. The constitution, as the model for all laws and regulations, is very specific about what a law should say and what it should not:

...only the basic principles (*aturan pokok*) should be legislated...while matters which are necessary for implementation of the basic principles should be relegated to [lower level legal instruments]...

General Explanation, Point IV

The philosophy behind this approach to lawmaking is explained:

A country's constitution is only part of the country's basic law. The constitution is the written law while, in addition to the constitution, there is also unwritten<sup>2</sup> basic law, that is basic rules which emerge during the implementation of practice and are deliberately maintained although not written down.

General Explanation, Point IV

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<sup>1</sup> The "Grand Design" (or "Strategy") for decentralization (2005) presented by MOHA, the "National Action Plan for Fiscal Decentralization" (2005), the "Grand Design" for education (2006) presented by MONE and MORA and the annual "Handbook for Implementing Regional Government" issued by Bappenas do not have any legal standing.

<sup>2</sup> It should be noted that this unwritten law is not "precedent" in the sense that the term is used in the Anglo-Saxon judicial system. It is implementation procedures which are seen as binding because they are obeyed.

The explanation then draws a conclusion from the existence of parallel written and unwritten law:

Thus it is sufficient for [legal products]...to contain only the basic principles as instructions to the government....

It is true that written law is binding. Precisely for that reason, the more *elastic* [English term in original text] the law, the better.

General Explanation, Point IV

48. Furthermore, neither Parliament nor the sectoral ministries see Parliament as having the technical capability to prescribe details of implementation. That is why there are sectoral departments in government.<sup>1</sup> Implementing regulations also provide flexibility because it is easier to change the regulations than to pass a new law.<sup>2</sup>

49. The characteristic of Indonesian laws as statements of general principle also explains the “overlapping” of subject matter among laws themselves, which is frequently criticized as inconsistent. A clear case in point is the group of laws passed in 2003 and 2004 (in chronological order): the law on national finance (government budgets); the law on planning; the law on regional government (decentralization); and the law on central-regional financial balance (regional finance). The law on finance prescribed the structure and mechanism of government budgets at all levels (center and regions) and required budgets to be based on plans, which were dealt with (also at all levels) in the planning law. The law on regional government specified the sources of funding for regional government responsibilities—central and regional budgets, which are governed by the finance law—as well as the planning system to produce the budgets. The law on regional finance also dealt with both plans and budgets. The basic principles enunciated in all these laws are identical, but the context within which they are embedded is different.

50. The critical factor in such cases is the specific law to which subsequent implementing regulations refer. As noted above, responsibility for implementation of each law is assigned to a specific minister: the finance laws are under the Ministry of Finance (MOF); the planning law is under the Chair of the National Development Planning Agency (*Bappenas*); both regional laws are under the Ministry of Home Affairs (MOHA)<sup>3</sup> even though one deals with finance. The specific law to which implementing regulations refer determines which ministry is responsible for coordination, supervision, enforcement, monitoring, reporting, etc. of that aspect of the general principles contained in all the laws. For example, the laws on finance, planning and regional government all require annual “work plans” as the basis of the annual budget. Supervision of implementation is governed by two different regulations: Government regulation 20/2004 refers to the finance law, and thus

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<sup>1</sup> This is historically conditioned in two ways. First, the system of administrative law is different from common law-based systems of civil and criminal law in which government regulations contain criminal sanctions. Second, the New Order Regime (1966 – 1998) defined laws as “policy” which enunciated the “aspirations of the society” and Ministries as “implementation actors”. Most of the people serving in senior/middle positions in both the executive and legislature are products of the New Order period.

<sup>2</sup> Amending existing laws is only recently becoming a part of Indonesian political culture.

<sup>3</sup> Which created a new Directorate-General for Regional Finance in response to the central-regional fiscal balance law.

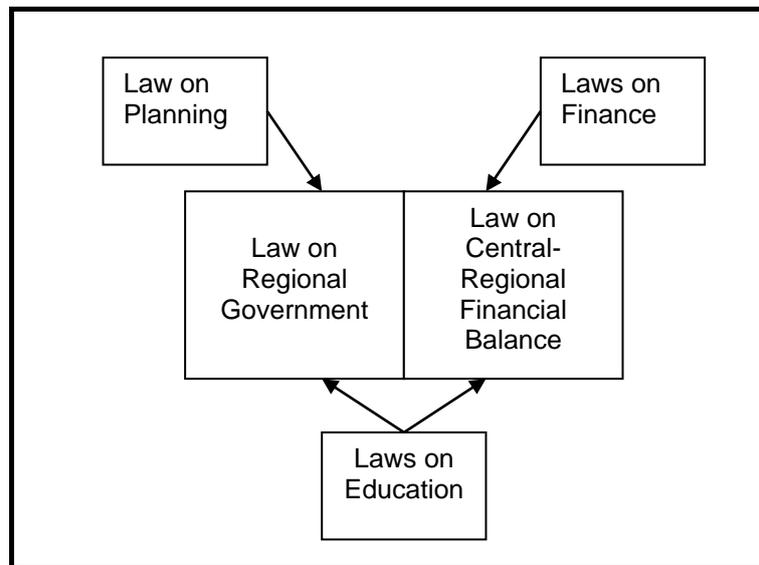
reporting to and supervision by MOF; while Government regulation 39/2006 refers to the planning law, and thus reporting and supervision to Bappenas—with copies to MOF and MOHA.

51. There are many other factors contributing to inconsistency and overlapping in regulations but one of the most important is lack of mid-level professional support for legal drafting. Most implementing regulations are initially drafted by a team of technical personnel from the implementing ministry, thus reflecting technical issues and needs. The drafts are then circulated to other offices within the ministry, where they are reviewed, again by technical personnel. The legal office of the ministry has very little input into the process. Service in the legal office itself is not a highly desirable career path. There are few computerized data bases of regulations and the databases which do exist are not searchable by lay people; it requires the services of professional programmers. A drafting team from one ministry rarely has easy access to the legal archives of its own ministry—because the legal office is part of the Secretariat General and drafting teams come from Directorates General—and never have access to the legal archives of other ministries. Viewed from the outside, the work of the drafting teams appears incompetent and illogical but the problem is systemic—lack of competent and professional support staff and lack of access to legal archives—not individual.

## D. Laws and Regulations Relevant to Decentralized Basic Education

52. **Figure 5** shows the core relationships of the national laws relevant to education governance and finance.

**Figure 5. Core Relationships of the National Laws Governing Decentralized Education**



53. There are five laws (or packages of laws) which impinge directly on decentralized education.<sup>1</sup> The Regional Government law 32/2004 assigned responsibility for “management of provision of education” to district governments.<sup>2</sup> In the law reference is also made to responsibilities of provincial governments for functions at the provincial “scale”. These responsibilities were defined further in Government Regulation 38/2007 (cf. paragraph 59–60, page 29 below and **Appendix 4**). The Central-Regional Financial Balance law 33/2004 provided financing arrangements to enable district governments to fulfill their obligations under the Regional Government law. The laws on planning and finance establish planning and budgeting systems for both central and regional education sector agencies. The three laws on education deal directly with the sector itself.

<sup>1</sup> The discussion henceforth is limited to basic education (primary and junior secondary). It focuses primarily on schools under the jurisdiction of the Ministry of National Education (MONE) touching only tangentially on schools under the jurisdiction of the Ministry of Religious Affairs (MORA), the *madrasah* schools.

<sup>2</sup> Schools (literally “education provider units” in the Education law) are responsible for providing education.

**54. The Regional Government law 32/2004<sup>1</sup> and The Central-Regional Financial Balance law 33/2004.** These two laws, and the subsequent regulations to operationalize them, are extremely important in determining the decentralization of functions for implementing and managing basic education and the mechanisms by which decentralized education is funded. Paragraphs 55 through 84 below focus on the functions of various levels of government as well as principles of distribution of funds among various levels of government under the decentralization laws and regulations, and paragraphs 85 through 97 explain the regulations governing decentralized funding mechanisms.

55. The regional government law divided governmental “functions”<sup>2</sup> into 3 types:

- retained functions, which consist of six sectors (e.g. foreign affairs, defense, monetary and fiscal policy) for which responsibility was retained in the central government—religion was one of these and this is the reason why *madrrasah* schools are not decentralized;
- “obligatory functions”, which consist of 15<sup>3</sup> sectors for which responsibility was transferred unequivocally to districts—education was one of these;
- voluntary functions, which districts may choose to accept or leave with the center, based on the district’s own interests and capabilities.

56. All obligatory function sectors are governed by minimum service standards (MSS) under the authority of MOHA but set by the central sectoral ministry with responsibility for that sector after consultation with MOHA and the Advisory Agency for Regional Autonomy (*Dewan Pertimbangan Otonomi Daerah/DPOD*). In the case of education, the sectoral ministry with responsibility for the sector is the Ministry of National Education/MONE. Government Regulation 65/2005, which refers to the law on regional government, contains instructions for developing and issuing MSS. Existing MSS are given two years in which to conform to the new requirements. MOHA Ministerial Regulation 6/2007 provides technical instructions on developing MSS.

57. MONE issued a preliminary list of MSS in 2004<sup>4</sup> before Government Regulation 65/2005 was promulgated. This preliminary list included, for example, school participation rates, dropout rates, and satisfactory test scores. The preliminary list was not officially promulgated by MOHA. Currently the Asian Development Bank is

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<sup>1</sup> This law has been amended twice. The first amendment was law 8/2005 which established procedures for cases where election of governors, regents and mayors was delayed. The second amendment was law 12/2008 which specified the responsibilities of the vice governors, regents, mayors and regional legislative assemblies as well as additional specifications for elections of regional heads. Neither of these amendments affect the issues discussed in this paper.

<sup>2</sup> This is an English language term introduced by the donor community during preliminary discussions of the 1999 laws. The actual Indonesian term used in the laws and regulations translates literally as “business areas” (*urusan*) not in the sense of “economic production activities” but in the sense of “area/sector of concern”, as in the phrase “none of your business”. The most appropriate English term for the context is actually “sector” but since “function” is now in general use, the term will be retained hereunder.

<sup>3</sup> Originally 15, now 26, cf. MOHA Ministerial Regulation 13/2006.

<sup>4</sup> Keputusan Menteri Pendidikan Nasional 129a/U/2004.

funding a team to develop education MSS which conform to the new requirements and a discussion draft is circulating within the Ministry.<sup>1</sup>

58. Enforcing MSS is the responsibility of decentralized sectoral units (*dinas*) and this may include, for example, ensuring that target school participation rates are achieved (including both MONE and MORA government and private schools).<sup>2</sup>

59. Government regulation 38/2007 was intended to provide a more detailed division of labor and responsibility among the central, provincial and district governments. There are now 26 obligatory functions and 8 voluntary functions.<sup>3</sup> A series of appendices provides a detailed list of activities which are the responsibility of central, provincial and district government. The appendix in the regulation dealing with the division of responsibility for the education sector is translated as **Appendix 4** in this study. Before the regulation, the provincial governments were unclear about their rights and responsibilities for decentralized sectors. This regulation was intended to help to clarify the situation, especially with reference to how education activities are funded from provincial budgets (cf. paragraph 64 below).

60. The appendix to regulation 38/2007 describes functions to be carried out by central, provincial and district governments. However, in the two years since the regulation was promulgated, there has not been a significant increase in provincial support for basic education service delivery in the provinces and districts surveyed for this study (i.e., the approximately 50 districts included in the USAID-supported Decentralized Basic Education project [DBE])<sup>4</sup>. There are 23 functions that apply to both provinces and districts. Of these, six functions are exactly the same (e.g., supervising and facilitating international standard schools in quality assurance for fulfilling international standards.) Eight functions are very similar except that the province focuses on senior secondary education (e.g., coordinating and supervising curriculum development for senior secondary education (province) and basic education (districts.) Nine functions are the same except for the “scale” of the function (e.g., socializing and implementing national education standards at the provincial level (provinces) and at district level (districts.) In terms of implementing and funding basic education, the responsibility falls heavily on districts whereas as provinces have a more ambiguous role in terms of coordination and supervision; there is a more explicit role for provinces in carrying international standard education. Some of the major differences in managing and implementing basic education by districts and provinces are as follows:

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<sup>1</sup> Law 25/2009 concerning public services specifically includes education and teaching (*pendidikan, pengajaran*) in the list of public services covered by the law, paragraph 5. The Minister responsible for implementation of this law is the State Minister for Empowering of Government Apparatus (*Pemberdayaan Aparatur Negara/PAN*). Paragraph 15 of the law requires service providers to draw up “service standards” for services.

<sup>2</sup> Both MONE and MORA schools are subject to national education standards, cf. paragraph 24, p.14.

<sup>3</sup> *Ibid.*, Paragraph 7.

<sup>4</sup> The 2009 edition of the “Stock taking on Indonesia’s Recent Decentralization reforms Update 2009” states in part: “In terms of GR 38/2007 list/regulation itself, it suffers from the following: Concurrency is evident (sometimes a function is assigned to all three levels) but it is not clear if this concurrency is intended and how it should be played out. The distinction between obligatory (*wajib*) and discretionary (*pilihan*) is not clear or workable. . . The formulation of the functions contains many faulty, unhelpful, vague, circular, or procrastinating constructions (e.g., ‘. . .of national scale’ . . .” (p.36)

- Districts are responsible for management and delivery of services for early childhood education, basic and senior secondary education and nonformal education; provinces are responsible for coordination of management and service delivery of education, development of education staff personnel and provision of facilities for basic and senior secondary education service delivery between districts.
- Districts are responsible for issuing and revoking permits for establishing basic and senior schools and nonformal education centers/providers; no role for the province is mentioned for this function.
- Districts are responsible for providing funding support/assistance for service delivery for early childhood education, basic and senior secondary education, and nonformal education in areas of their responsibility; provinces are responsible for providing funding support/assistance for service delivery for international standard education in areas of their responsibility.
- Districts are responsible for planning education manpower needs for early childhood education, basic and senior secondary education, and nonformal education in areas of their responsibility; provinces are responsible for planning education manpower needs for international standard education in areas of their responsibility.
- Districts are responsible for appointment and placement of education civil servants for early childhood education, basic and senior secondary education, and nonformal education in areas of their responsibility; provinces are responsible for appointment and placement of education civil servants for international standard education in areas of their responsibility.
- Districts are responsible for supervising and facilitating early childhood schools, basic and senior secondary schools, and nonformal education centers in quality assurance to fulfill national education standards; no roles for provinces are stated for this function.

61. Provinces can use their budgets (provincial APBD) to fund their own offices and personnel as well as providing financial support to activities in districts, for example direct to schools, teachers, scholarships to students, etc. In addition to managing its own budget, the provincial education office (*dinas*) also manages deconcentration funding in the name of the governor, as explained below.

62. The most important change introduced by Government Regulation 38/2007 is contained in the allocation of responsibility for planning. The central government develops a national “strategic” plan for education.<sup>1</sup> The provincial government develops a provincial “strategic” plan for education in the province and the district government develops an “operational program” for education in the district. This terminology in the regulation is inconsistent with the planning law, which requires both provincial and district education offices (*dinas*) to produce “strategic” plans for education in the province and district, respectively. The terminology of the Government Regulation 38/2007 appendix specifically places the district operational plan at a lower level than the provincial strategic plan, requiring that the district plan be “in conformity with” (*sesuai*) the central and provincial strategic plans. The new

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<sup>1</sup> Which is in conformity with Law 25/2004 on the National Planning System.

terminology is very much in conformity with the current thinking in both Bappenas and MOHA,<sup>1</sup> (cf. paragraph 111, page 47 below).

63. Because this regulation was promulgated only in July 2007 and because strategic plans are developed by newly-elected governors and heads of districts, i.e. every 5 years on a staggered schedule depending upon when the election is held;<sup>2</sup> it remains to be seen to what degree districts are ready to submit to this restriction and to what degree provinces are willing and able to enforce it. If the past is any guide, districts will quote liberally from the national and provincial plans and then produce plans based on their local needs and priorities. For example some districts continue to produce what they call strategic plans in accordance with the older law rather than produce an “operational program” as per the newer regulation.

64. When considering this regulation, it is important to remember that the primary purpose of the regulation was budgetary, not logical comprehensiveness or consistency of the regional government law. The division of tasks in this regulation forms the basis for approval of budget proposals by the different levels of regional government, as MOHA Ministerial Regulation 59/2007 requires each sectoral unit of regional government to list the tasks for which it is requesting funds, based on the tasks assigned by Government Regulation 38/2007

65. Early experiences with implementation of regional autonomy under the original 1999 package of laws convinced the central government that regional governments needed supervision in implementation of regional autonomy. Government Regulation 79/2005 concerning guidelines for Guidance and Supervision of Regional Government defined the role of MOHA as supervisor of regional government activities. MOHA Ministerial regulation 23/2007 provides guidelines for supervision of regional government, which outlines the process and provides report formats for supervisors to use.<sup>3</sup> MOHA Ministerial regulation 44/2008 concerning policy for supervision of regional government in 2009 provides a three-step supervision: general policy for supervision of regional government, specific policy for supervision in 2009, and operational policy for 2009 supervision. The guidelines are very general and add little new information to the 2007 regulation.

66. The decentralization laws also allow the central government to delegate some of its reserved authority and responsibilities to the province, district and even Village<sup>4</sup> levels and required that the central government provide funding for implementation of

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<sup>1</sup> The law for which Government Regulation 38/2007 is an implementing regulation is cited as the regional government law (Law 32/2003), which suggests that MOHA was the initiating agency in producing the regulation.

<sup>2</sup> At present, elections are held when the current term of office ends which is based on past history for each district and province.

<sup>3</sup> These instructions and formats were modified by MOHA Ministerial Regulation 8/2009.

<sup>4</sup> The term “Village” (capitalized) is used in this document to translate *desa* or *kelurahan*, the lowest level of government.

It should be noted that the sub district (*kecamatan*) is not a level of government, cf. PP 19/2008. The sub district is defined as the “area” within which the sub district head (*camat*) is assigned. The regulation also states explicitly that the sub district head is part of the district government apparatus with responsibility to coordinate district government activities inside the sub district area.

the delegated activities. Activities delegated to the governor<sup>1</sup> are known as deconcentrated activities and are funded by deconcentration (“decon”) funds while activities delegated to the provincial, district or Village government levels are known as assistance tasks and are funded by assistance task budgets (cf. paragraph 67 following). “Decon” funds include central government funds to provinces for activities such as distribution of teaching aids to kindergartens, building school libraries, lab instruments for junior secondary and rehabilitating school buildings<sup>2</sup> (see paragraph 68 below about MOF prohibition to use “decon” funds for creating permanent assets.) Examples of assistance activities include central government disbursement of funds to provinces for reconstruction after a natural disaster, funds to district government to disburse scholarships for needy students; in the education sector, an example of an assistance task is the requirement for provinces and districts to assist (*membantu*) the central government to carry out national exams.

67. Government regulation 7/2008 provides more detailed explanation of the principles for deconcentration and assistance task funding.<sup>3</sup> This regulation gives the sectoral ministries the authority to set “norms, standards, procedures and implementation criteria” (paragraph 2) for deconcentration and assistance tasks. MOF Ministerial regulation 156/PMK 07/2008 provides more details on implementation of deconcentration and assistance tasks, with their associated funding. The regulation specifies that deconcentration activities are non physical (do not create new permanent assets, e.g. synchronization and coordination of planning, facilitation, technical guidance, training, socialization (*penyuluhan*), research and surveys, supervision and control) while assistance tasks are physical (do create new permanent assets, e.g. purchases of land, construction of buildings, equipment and machinery, purchases of consumables).<sup>4</sup>

68. However this distinction has not always been maintained in practice (for example, as described in paragraph 66, in some cases “decon” funds have been used for construction of what may be considered a permanent asset). Before the detailed definitions of the funding mechanisms were issued in implementing regulations, MONE used “decon” funding as a means of implementing central priorities at the school level. The term “decon” does not appear as a budget item; instead MONE assigns activities (budget items) to districts within provinces. This has given rise to the use of the term “decon” as an umbrella category for central MONE expenditures in the regions. Beginning in 2009, MONE held discussions with Bappenas and MOF to bring the structure of the MONE budget into closer alignment with the most recent definitions and regulations. This may also explain why MONE was selected as one of the pilot ministries for the budget re structuring program, as explained below.

69. Government regulation 7/2008 also requires that the delegating Minister specify exactly which tasks and activities are being delegated<sup>5</sup> and issue a ministerial decision letter making the delegation. MOF’s Director General for Financial Balance is tasked with “coordination” to assure that overall balance among provinces and districts is

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<sup>1</sup> For a more complete explanation of the need to differentiate between the “governor” (rather than provincial government) and “district government”, refer to paragraph 93, page 40 below.

<sup>2</sup> Data obtained from Central Java education office official for the year 2008.

<sup>3</sup> MOF Ministerial Regulation 156/2008 provided technical implementation details.

<sup>4</sup> Paragraphs 2 and 3.

<sup>5</sup> Cf. paragraph 66 above.

maintained in the allocation of deconcentration and assistance task funds. MOF must issue a recommendation letter agreeing to suggested deconcentration and assistance task activities. This recommendation then becomes the basis on which the sectoral delegating Ministry will select the location of delegated activities and amount of funding provided.

70. A special section at the end of the MOF Ministerial Regulation 156/PMK 07/2008 covers cases of donor projects whose funds flow through the central ministry budget to the districts as deconcentration or assistance tasks, e.g. decentralized education projects. The regulation specifically forbids delegating ministries to require counterpart funding from district budgets but the donor projects require such counterpart funding to symbolize local ownership. The regulation states that such activities are exempt from the requirements of the regulation and to be governed by Government Regulation 2/2006 concerning grants from central ministries to regional government.<sup>1</sup>

71. Some early World Bank analyses of central regional financial balance, which have circulated widely within the donor and consultant community, have been interpreted as concluding that deconcentration funding is contrary to decentralization. However a closer reading of the papers shows that the analysis is targeted at the actual uses to which the education sector deconcentration funding was put, not to the general principle of deconcentration.

To a large degree, these difficulties are caused by the fact that the central-regional financial balance law and the national financial system laws (cf. paragraph 85, page 37) were not green field laws but were introduced into an existing budgetary system where government agencies had to provide funding for on-going activities within the new framework established by the new laws, before the implementing regulations could be issued. At the time this update is being produced, MONE and MOF are engaged in intensive consultations to develop mechanisms through which funding for MONE's ongoing activities and programs can be more precisely aligned with MOF budget categories (cf. paragraph 67, page 32). The "re structuring" exercise planned by MOF and Bappenas (discussed below in paragraph 108, page 46) will automatically accommodate any remaining issues.

72. Government regulation 3/2007 specified the procedures (and provided formats) for reporting on achievement of decentralized responsibilities<sup>2</sup> by heads of regions to the regional legislature and to MOHA. Districts submit their reports to provinces, which then send them on to MOHA. Provinces submit their reports to MOHA, which then sends them on to the President. The regulation requires that these reports be presented to the public (via the mass media) simultaneously with presentation to legislature. Government regulation 6/2008 establishes guidelines for evaluation of these reports by a Presidential Team, chaired by MOHA.<sup>3</sup>

73. Both the regional government law and the central regional fiscal balance law require that funding for obligatory functions and voluntary functions accepted by the

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<sup>1</sup> Cf. paragraph 81, page 36 below.

<sup>2</sup> Obligatory functions + voluntary functions that the district has accepted.

<sup>3</sup> To the best of the author's knowledge, this team has not been formed.

district be provided from the district's own budget.<sup>1</sup> The laws specify the components of district budget revenues:

- revenues from the district's own economic base,<sup>2</sup>
- balancing funds from the central budget, and
- other.<sup>3</sup>

The provinces (not districts) of Aceh and Papua have an additional revenue source called "special autonomy revenues" (*penerimaan otonomi khusus*) (which are discussed in paragraph 83, page 36 below).

74. Balancing funds consist of three types of transfers from the central budget to regional (province and district) budgets (see more about funds flow in paragraphs 86-97 below):

- shared revenues: region's share of revenues generated from a district (primarily income and land taxes and natural resources royalties) and shared with central government which then distributes to provinces and districts throughout the country
- general block grant (*dana alokasi umum/DAU*): a lump sum transfer to districts and provinces to help them cover general activities
- sector- and activity-specific block grants (*dana alokasi khusus/DAK*). Since the education sector DAK is earmarked for activities in schools, it is received only by districts<sup>4</sup>.

75. The central-regional financial balance law explains that the purpose of "balancing" funds is "to reduce the fiscal gap between Central Government and Regional Governments and among the Regional Governments". The term fiscal gap is a technical term defined in the law as the difference between fiscal needs and fiscal capacity.

76. Fiscal needs are calculated by MOF using a formula which includes indicators to proxy the quantity of basic needs and the cost of providing the services (see **Appendix 5** about the method for calculating DAU). District fiscal capacity is also calculated by MOF as the sum of:

- district's own revenue base capacity, which is MOF's estimate of the district's potential for generating own revenues
- shared revenues.

77. The expenditure side of the district budget funds the programs and activities for the decentralized sectors. Government regulation 58/2005 provides guidelines, procedures and formats for drawing up the regional work plan and budget, including

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<sup>1</sup> Some analyses by donor agencies have concluded that this provision forbids the central government from providing any funding for the decentralized sectors.

<sup>2</sup> Excesses occurred during the early days of decentralization. These revenue sources are now tightly regulated by implementing regulations and the requirement of "no objection" from MOHA. Law 28/2009 allows district government to impose fees for providing services (*retribusi*) in the education sector but basic and secondary education is explicitly excepted (paragraph 123). As revenues from the district's own economic base are not directly related to basic education finance, they are not dealt with further here.

<sup>3</sup> The "other" category permits funds from the central and provincial government budgets, as well as other district budgets, to provide subsidies which are entered as revenue in the receiving district budget. Up to the present this funding mechanism has seldom been used.

<sup>4</sup> For the education sector, DAK does not flow to provinces, but other sectors do have provincial DAK.

the sectoral office (*dinas*) work plans and budgets. MOHA Ministerial regulation 13/2006 gives details of the process with examples of budget formats attached.<sup>1</sup> MOHA also issues annual Ministerial regulations containing guidelines<sup>2</sup> for drawing up regional budgets. The guidelines contain a section on “synchronization of central and regional policies” which is essentially a list of (central) government priorities, and “suggested” programs and activities to be addressed in regional budgets. The priorities in MOHA Ministerial Regulation 25/2009 containing guidelines for the 2010 budgets are similar to the priorities for previous years, in order: poverty alleviation, access to and quality of basic education and improvements in the quality of health.

78. District budget regulations must receive a “no objection” from the governor and provincial budget regulations must receive a “no objection” from MOHA. Details of procedures to submit the regulations are given in Government Regulation 79/2005<sup>3</sup> and technical instructions to Governors on how to evaluate the draft budget laws are contained in the MOHA Ministerial Regulation 16/2007. Implementation of the regional budgets is subject to supervision from MOHA,<sup>4</sup> via the governor in the case of districts, but also subject to control from the provincial offices of MOF’s Directorate-General of Treasury. Regional budgets are audited by regional inspectorates (*Badan Pengawasan Daerah/Bawasda*) as internal auditors and the State Audit Agency (*Badan Pemeriksaan Keuangan/BPK*) as external auditors.

79. Government Regulation 56/2005 mandates a national regional financial information system (*Sistem Informasi Keuangan Daerah/SIKD*) within MOF and in each region. The regulation states that the SIKD is a tool “for the central government to collect, analyze, report and publish information in order to support better governance through transparency and accountability. MOF Ministerial Regulation PMK 46/2006 on procedures for reporting regional financial information requires regions to submit financial statements, including budget and realization, balance sheet, cash flow and any comments by auditors. The statements are to be submitted to MOF for integration into the SIKD and to MOHA for evaluation of provision of regional government services.

80. The central regional financial balance law also has implications for official development assistance (ODA) projects in decentralized sectors—including education—which are implemented at the district level.<sup>5</sup> The law allows provincial

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<sup>1</sup> MOHA Ministerial Regulation 59/2007 makes some changes in technical details to reflect the provisions of Government Regulation 38/2007, cf. paragraph 59, p. 29 above. The regulation comes into effect for the 2009 budget.

<sup>2</sup> The guidelines for the 2009 budget were issued as MOHA Ministerial Regulation 32/2008.

<sup>3</sup> Incidentally, this Government Regulation also specifically gives MOHA the authority to provide “guidance and supervision” to regional legislatures in addition to the regional executive branch.

<sup>4</sup> MOHA Ministerial Regulation 4/2008 provides instructions on the process of reviewing and evaluating regional financial reports. It specifically limits the review to issues of adequacy of regional financial control systems and compliance with the government accounting system as established by Government Regulation 24/2005.

<sup>5</sup> The law and implementing regulations apply only to projects in which funds are supplied to district governments and/or government schools. Projects in which donors purchase goods and services and then transfer ownership of the goods to districts or schools – including, e.g. construction of new schools or rehabilitation of existing schools – are not subject to this law and its implementing regulations.

DBE does not provide funds to districts or schools.

and district governments to borrow in their own names<sup>1</sup>, but neither the government (MOF) nor the donors are especially keen to take advantage of these provisions in practice. Instead, the (central) government borrows from the donor and then channels the funds to the provincial and/or district level government through the MONE central budget. The project funds are carried as “grants” from the center to the region in the MONE budget. Government Regulation 57/2005 established the procedures for central grants to regional government; however, a close reading shows that the regulation covers only funds received by the central government as grants from donor agencies, not loans. The technical instructions for Government Regulation 57/2005, contained in MOF Ministerial Regulations 52 and 53 PMK 10/2006 explicitly include central government loan funds which are then on granted to provincial and district governments.

81. This inconsistency was remedied by Government Regulation 2/2006<sup>2</sup> which deals explicitly with foreign grants and loans and channeling of foreign funds to regional governments.

82. MOF Ministerial Regulations 168 and 169 PMK.07/2008 replace MOF Ministerial Regulations 52 and 53 PMK 10/2006 and explicitly refer to Government Regulation 2/2006. The regulations cover grants made from all funding sources, including both rupiah and foreign, loans and grants, official (government) development assistance and private sector funds. Grant funds received by regional government from central government are booked as “other” revenue in the regional budget (APBD) and are managed as part of the regional budget process (Cf. paragraph 77, page 34 above). Paragraph 26 of MOF Ministerial Regulation 168 PMK.07/2008 allows regional government to make grants to private agencies which include private schools.

83. As noted above the provinces (not districts) of Aceh and Papua have an additional revenue source called “special autonomy revenues” (*penerimaan otonomi khusus*) contained in the special autonomy laws (Law 18/2001 for Aceh and Law 21/2001 for Papua). Aceh’s provincial government receives special autonomy funding from natural resources: 50% of oil and 40% of natural gas for the first eight years, falling to 35% of oil and 20% of natural gas beginning in the ninth year.<sup>3</sup> Distribution of the revenues among the district level areas is to be negotiated between the province and the districts. Papua’s provincial government receives special autonomy funding from the central government budget:

- during the first 25 years, 2% of the total national general block grant (DAU) funding plus an additional amount to be negotiated annually between the government and Parliament based on the province’s proposals;
- beginning in the 26<sup>th</sup> year and continuing for an additional 20 years, 50% of oil and 50% of natural gas.

The law explicitly states that the 2% of DAU is to be prioritized (*terutama ditujukan*) for education and health. Distribution of the revenues among the district level areas is

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<sup>1</sup> Procedures are contained in Government Regulation 54/2005.

<sup>2</sup> Issued as an implementing regulation for Law 17/2003 concerning national finance, not Law 33/2004 concerning central regional financial balance. Thus implementation authority rests with MOF, not MOHA.

<sup>3</sup> The basis for calculating these percentages is not specified in the law.

to be negotiated between the province and the districts with special attention (*perhatian khusus*) to left behind (*tertinggal*) districts.

84. Districts thus have a variety of sources of funding which they can access to support education activities:

- they have their own budgets (district APBD)
- provinces can provide funding for education activities in districts from the provincial budgets (province APBD)
- provinces can allocate central deconcentration funds to districts to support activities allowed for deconcentration funding
- central MONE can allocate block grant funds to districts to support activities allowed for block grants.

Funds from the latter three sources do not flow through the district budget (APBD). DBE1 has been assisting districts to produce strategic plans with estimates of resources required so that the districts can more effectively lobby for support from these sources, focusing at the provincial level.

85. **The package of laws on finance: Law 17/2003 concerning National Finance, Law 1/2004 concerning the National Treasury and Law 15/2004 concerning Inspection of Management and Responsibility for National Finance.** This set of laws reorganized the entire budgeting process—and MOF as well. The format of government budgets was brought into line with international (United Nations) best practice<sup>1</sup> as well as the requirements of the Central-Regional Financial Balance law. The central government budget consists of two parts: funding for central government operations (which also include funds spent by central offices for support of activities in the regions) and transfers direct to regional budgets. As explained above, these transfers are governed by the Central-Regional Financial Balance law and the funds become the sole responsibility of the region (province or district). Regions do not need to account for the funds to the center;<sup>2</sup> however, their budgets are subject to audit by the internal and external government auditors. Financial flows between the center and the regions, with special reference to education, are shown in **Figure 6**, below.

### **Financial Flow Mechanisms**

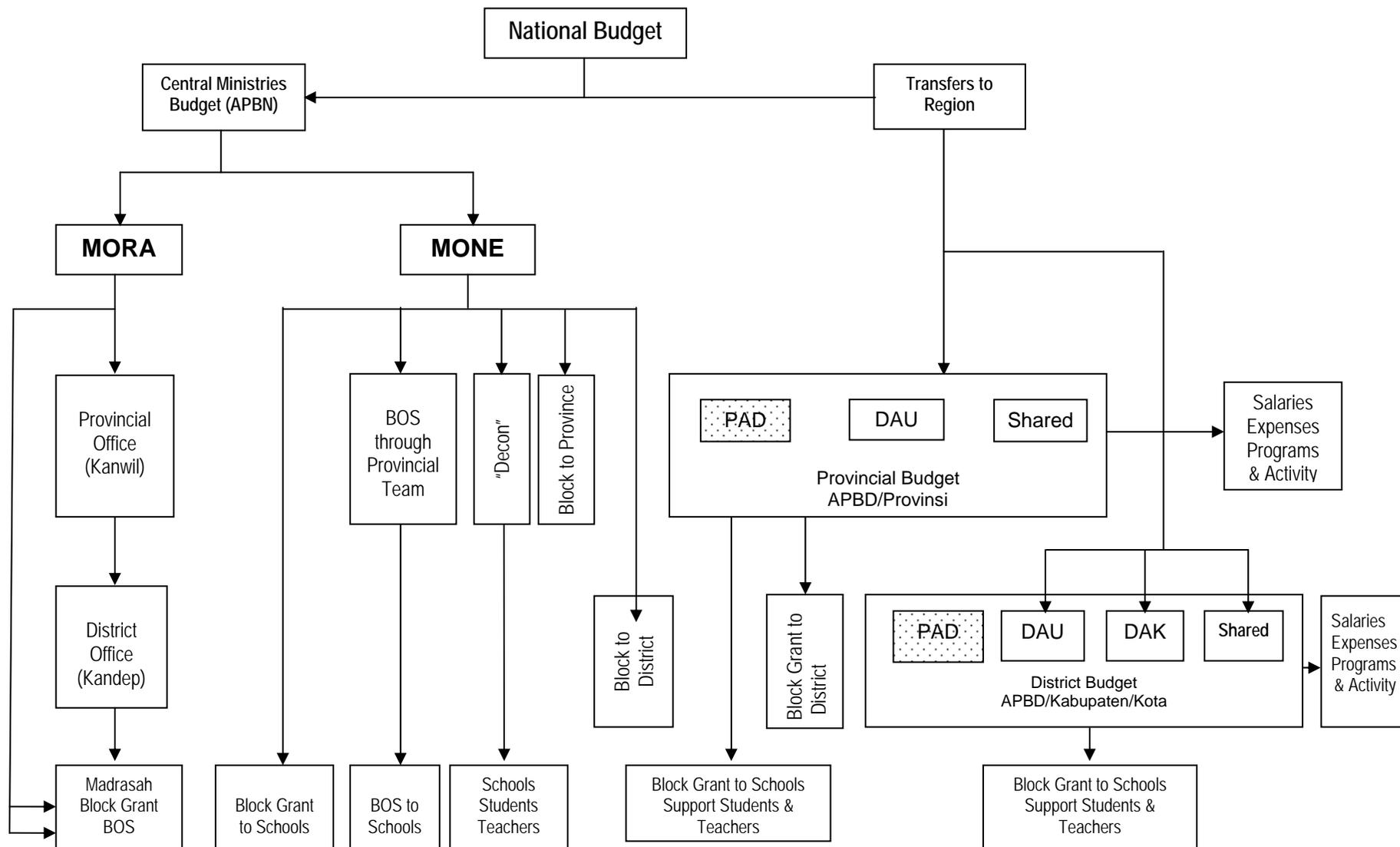
86. The central transfers to regions, i.e. “Balancing Funds”, have been discussed in the section on the central-regional fiscal balance law above. The National Finance law is consistent with those requirements and procedures. As noted above, the central transfers consist of Shared Revenues, DAU and DAK.

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<sup>1</sup> The previous distinction between the routine budget (drawn up by the Ministry of Finance) and the development budget (drawn up by Bappenas) was replaced by a unified budget (drawn up by the Ministry of Finance). It is inappropriate to compare “development spending” items from pre-2005 budgets with “capital spending” items from the current budget due to differences in definitions. Development spending was funded through projects and included both current and capital items, including large allocations for personnel costs and operation and maintenance.

<sup>2</sup> Aside from the fairly onerous reporting requirements to MOHA and Bappenas noted above.

**Figure 6. Financial Flows between the Center and the Regions**



87. **Shared Revenues.** The law provides very specific formulas for how the shared revenues (*dana bagi hasil/DBH*), consisting primarily of taxes and royalties from various natural resources, are to be divided. The actual revenue received by regions for natural resources depends upon production, the market price (in US\$ or other currency converted into US\$) and the Rupiah/US\$ exchange rate. Shared revenues are paid quarterly. Provincial and District budget teams estimate the value of shared revenues during budget preparation. Shared Revenues become part of the provincial or district budget (APBD) and can be used for expenses within the province or district and for special programs such as training teachers, providing textbooks teaching aids, etc.

88. **General Allocation Funds (DAU).** The DAU is paid in 12 equal monthly installments. MOF calculates DAU allocations for each province and district, based on estimates of revenues and fiscal gaps (Cf. **Appendix 5**). These allocations are issued in the form of a Presidential Regulation toward the end of the previous year so they are available for budget planning. Funds from DAU enter the provincial or district budget and are used in the same way as Shared Resources.

89. **Specific Allocation Funds (DAK).** The specific DAK are not defined in the law<sup>1</sup> but regions must fulfill “criteria” specified by the sectoral ministry in order to qualify for DAK. MOF allocates the DAK and matching funds from the region (minimum of 10%) are required. However this requirement may be waived if the regions meet “incapability” requirements. MOF allocates DAK, via a Ministry of Finance Regulation, after consultation with Parliament’s Budget Committee and the related sectoral ministries, including MONE. MOHA Ministerial regulation 20/2009 provides detailed instructions for regional governments on administration and management of DAK funds.

90. The education sector DAK is received only at the district level<sup>2</sup>. Beginning in 2008 MONE negotiated the exact percent of matching funds each recipient district agreed to contribute to DAK. MONE Ministerial Regulation 3/2009, concerning the implementing regulations for the education DAK for the 2009 fiscal year, contains **Appendix 3**, which is a list of the agreed percent contributions to DAK by the central government (MONE), the provincial governments of recipient districts, and the district government for each recipient district.

91. As noted in the previous paragraph, implementing regulations for the education DAK are issued as a MONE Ministerial Regulation with technical instructions produced by the Directorate for Kindergarten and Primary Education in the DG for Management of Basic and Secondary Education. During the early years, DAK was used only for physical rehabilitation of classrooms and classroom furnishings in primary schools. In 2007 DAK allocations were divided into two types of packages: rehabilitation with quality improvement and quality improvement alone. Quality improvement activities included purchase of teaching-learning materials, references for teachers, library books and materials and computers. In 2008 DAK allocations were divided into three packages: rehabilitation and [new] building, rehabilitation, new building and quality improvement, quality improvement alone. The new building

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<sup>1</sup> In fact, both the DAU and the various DAK are “re-incarnations” of Presidential Instruction (*Inpres*) Block Grants provided from the central budget to provinces and districts during the New Order period.

<sup>2</sup> As noted above, some sectors other than education have provincial DAK.

included new classrooms and other rooms required to bring the school up to national education standards. The 2009 DAK instructions returned to the original activities of physical rehabilitation and furnishings. However new construction was allowed for libraries and school health clinics.

92. The Government Work Plan for the 2010 budget<sup>1</sup> lists six groups of priorities for the 2010 DAK. The first group is assisting poor districts to achieve minimum service standards; the second group is poverty alleviation and social safety net; the third group is improving human resource quality. Within this last group, there are five specific priorities: the first four are all health sector priorities and the last is “increasing the quality of 9 year compulsory basic education with equality [of access].”<sup>2</sup> The 2010 DAK coverage is extended to junior secondary schools but the activities are limited to physical rehabilitation and furnishings except for new construction of libraries. There are also geographical priorities: districts with low enrollment ratios, backward and remote districts and international border districts.

93. **Deconcentration funding.** This is funding that flows through central ministry budgets to special provincial accounts to be spent for programs and activities which fall under the central government reserved authorities for decentralized sectors but are implemented in the regions.<sup>3</sup> Responsibility for implementation of deconcentrated programs is vested in the governor, as the representative of the central government in the province.<sup>4</sup> The governor reports back to the central sectoral ministry which was the source of the funds and the central sectoral ministry must report back to MOF. Day-to-day implementation of deconcentrated programs and activities is exercised by the provincial sectoral office (*dinas*) responsible for that sector, i.e. education deconcentrated activities are implemented by the Provincial Education Office. The central ministry decides both the amount of deconcentration funding and the scope of deconcentrated programs and activities. The provincial office allocates the funds to specific beneficiaries as mandated by the central ministry, e.g. schools, students. (Details of the deconcentration funding are discussed above.)

94. One example of the use of the term “decon” as a catch all category (cf. paragraph 68, page 32 above) is the funding for operational assistance to schools program (BOS). BOS is unique because it is not covered by either the finance laws or the regional autonomy laws. Government funding for the activities covered by BOS, however, is explicitly mandated by the national education system law, the government regulation on education finance and the law on education legal entities. The funds originate from the central government budget and flow into provincial level bank accounts from whence they are disbursed to school bank accounts. The BOS accounts are separate from the accounts for deconcentration funds and from both provincial and district budget accounts. MONE considers BOS to be a form of Block Grant (see below.) For additional information on BOS, please refer to **Appendix 2**.

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<sup>1</sup> Explanation of the role of Government Work Plan, cf. paragraph 109, page 46 below.

<sup>2</sup> Government Work Plan 2010, Book 1, Chapter 3, page 13.

<sup>3</sup> MORA does not have deconcentration funding because madrasah are not decentralized.

<sup>4</sup> The governor has two separate roles. S/he is the chief executive of the province and s/he is also the representative of the central government for the area covered by his/her province. As governor, s/he has no authority over the districts in the province. As representative of the central government, s/he carries the authority of the central government over all districts located within the province.

95. **Block grants.** This is a mechanism mandated in the national education system law for central ministries (MONE and MORA) to provide funding to provinces, districts and schools although they are not mentioned in the finance laws or regional autonomy laws. Block grants do not flow through provincial and district budgets. Although the allocation of central MONE activities to the block grant funding mechanism changes with each budget (every year), some recent examples of activities funded by block grants are:

- central block grant directly to the school: package for construction of new schools
- provincial block grant to the district to provide guidance for providers of nonformal equivalency education programs.

96. Many education activities are funded through multiple mechanisms, including deconcentration, block grants and (for permitted activities) DAK. Examples are teacher training, textbooks and teaching aids and construction/rehabilitation of infrastructure. The multiplicity of funding sources for activities in schools makes it difficult for districts to track the actual resources available for education in its jurisdiction. Most schools are unaware of the ultimate source of funding they receive, only that it comes from “government” or, sometimes, from “a [donor] project”.

97. Each level of government has a budget for its own operations which can be divided into two general categories: office operations (personnel, maintenance, consumable supplies, etc.) and education activities (programs). It should be noted that MONE has central office units physically located in provinces, for example Education Quality Assurance Agencies (LPMP) in every province and regional nonformal education development centers (BPPLS) and subject matter related development agencies (P4TK) located in various provinces throughout the country.

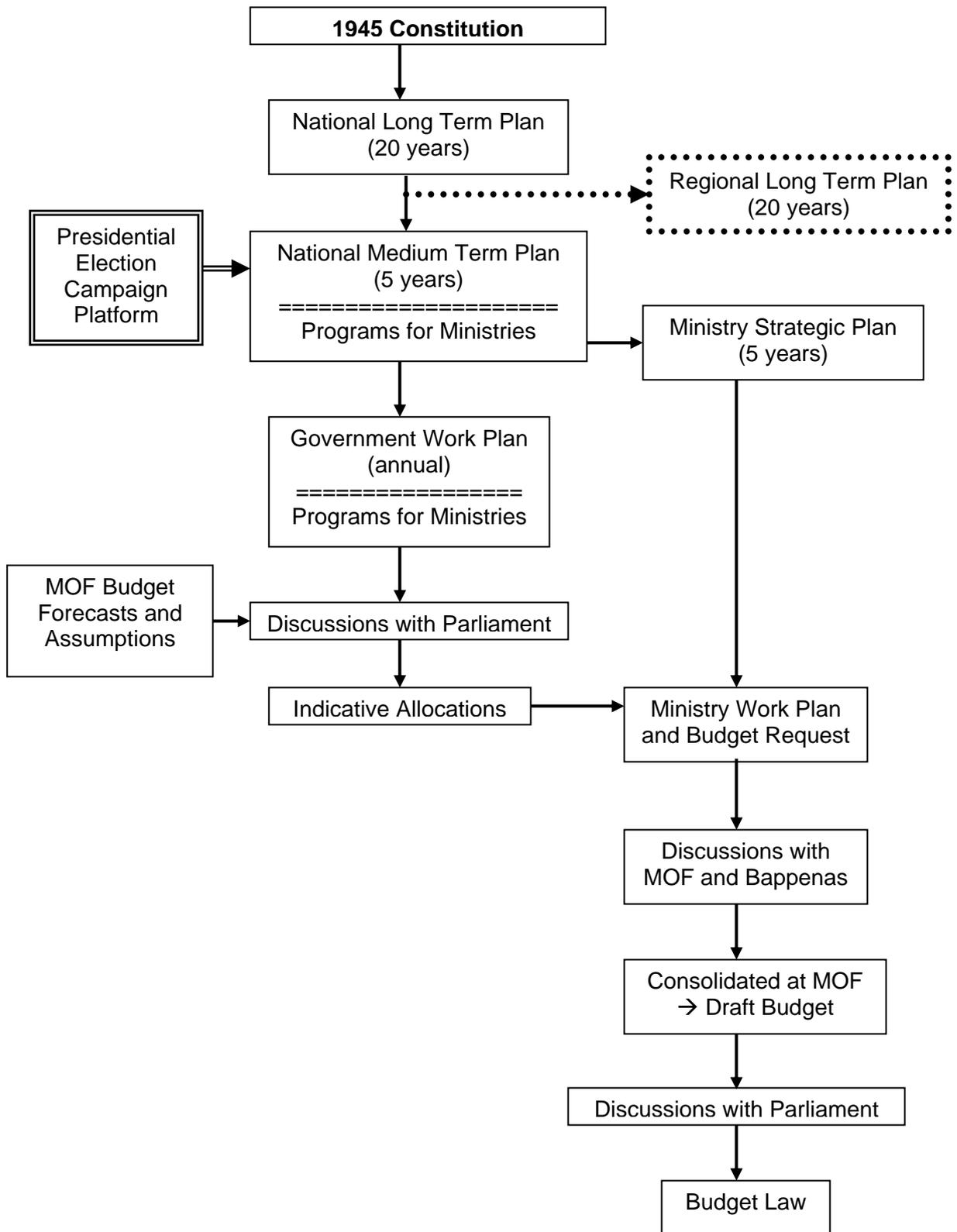
### **Budget Formation Processes**

98. The central budget process described in **Figure 7**, based on the National Finance law and Government Regulations 20 and 21 of 2004, applies to the budget for funding central government operations including both MONE and MORA. It begins with ministries developing their annual work plans.<sup>1</sup> These ministerial work plans are then combined to produce the government work plan, which is discussed in Cabinet.

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<sup>1</sup> In theory, these are the plans required by the Planning Law and provide the link between plans and budgets. PP 39/2006 is the latest in a long line of efforts to make that link a reality. Cf. World Bank (WB) Public Expenditure Review (PER) page 101 ff.

**Figure 7. Central Budget Process**



99. Meanwhile the Ministry of Finance (MOF) is developing fiscal projections for the coming year, containing forecasts of macro economic and fiscal variables.<sup>1</sup> The forecasts and overall government work plan are taken to the Budget Committee in Parliament for discussion. This information is available to the public through various sources including the mass media and the MOF website.

100. After agreement has been reached MOF then prepares “indicative” budget allocations for budget “programs” which is issued as a Presidential Instruction and is available to the public on the MOF and State Secretariat (legal products) websites. In most cases, a program refers to an activity within a ministry, usually at the level of a Directorate-General or Directorate. Thus, a budget allocation for a program is also essentially a budget allocation for a work unit. However, education is an exception: implementation of the programs—which roughly follow the organization of MONE—is split between MONE and (one Directorate-General in) MORA.<sup>2</sup> The indicative budget allocation does not define the split.

101. The ministries then prepare their draft annual work plan and budget (RKA-KL)<sup>3</sup> in consultation with Bappenas and the Sectoral Commission in Parliament which is responsible for their sector.<sup>4</sup> The forms for the RKA-KL have a column for “performance indicators,” but the indicators are frequently neither useful nor meaningfully quantifiable, e.g., the program is curriculum development; the activity is “develop curriculum;” and the performance indicator is “curriculum developed.”<sup>5</sup>

102. MOF consolidates the RKA-KL into the draft budget, which is submitted to Parliament to be passed as a law. Parliament may revise the budget allocations, which are presented in great detail with costs for each individual activity broken down into eight cost categories.<sup>6</sup> However Parliament is forbidden by law from increasing the total budget deficit, i.e. any funding increases to one activity must be balanced by decreased funding for other(s). Both the draft law and the final Budget law are available to the public. However the public versions do not contain details of budget allocations for specific activities. Once the budget law has been passed, the complete law, including detailed appendices, is available to the public on the Bappenas website.

103. After the first semester of the year, MOF recalculates actual revenues<sup>7</sup> to that point and presents a draft revised budget to Parliament. Both the draft revision and the

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<sup>1</sup> These forecasts are extremely important because they form the basis of predicted revenues (oil and other commodity prices, tax revenues, foreign exchange earnings) and predicted nondiscretionary spending (debt repayment).

These forecasts are also important to the regions because central transfers to regions are composed of shared revenues and DAU (which is a percentage of total national revenues).

<sup>2</sup> The planned “restructuring” of central budgets discussed in paragraph 108 page 46 below states that this will change under the new “single responsible authority for each program” policy in the restructuring.

<sup>3</sup> MONE Ministerial Regulation 44/2007 provides specific instructions for the MONE budget.

<sup>4</sup> The Sectoral Commission is different from the Budget Committee. Sectoral Commissions have general responsibility for supervision of all aspects of the sectors: policy, planning, budgets, implementation, and problems which arise within the society, etc.

<sup>5</sup> Government Work Plan 2009, Matrix of Programs for Education (Matrix 25). The restructuring also addresses this problem.

<sup>6</sup> Cf. WB PER, page 101 ff.

<sup>7</sup> Actual expenditure is not presented because administrative delays in budget implementation mean that by June only about 10% of the budget allocations have been spent. (WB PER, 2007, page 98.)

final Budget Revision law are available to the public. After the close of the fiscal year, budget implementation is audited by the external auditor (BKP) and the auditor reports to Parliament on the results of the audit. While the audit is not made public, because it is protected by confidentiality regulations, the auditor holds a press conference and presents important highlights of audit findings. The external auditor website also contains copies of previous years' reports which can be downloaded. MOF has one year to prepare a final budget report of actual revenues and expenditures and this is also eventually passed by Parliament as a law. This law is available to the public.

104. Nowhere in the budget process are consultations with the public required.<sup>1</sup>

105. The budget process at the regional level is analogous to the central level, cf. **Figure 8** below. However, the Regional Planning Agency (*Bappeda*) is responsible for consolidating the plans of the individual sectoral offices (*Dinas*) into the draft budget. The regional government has a "budget team" which actually draws up the draft Regional Budget Regulation to be submitted to the Regional Legislature.

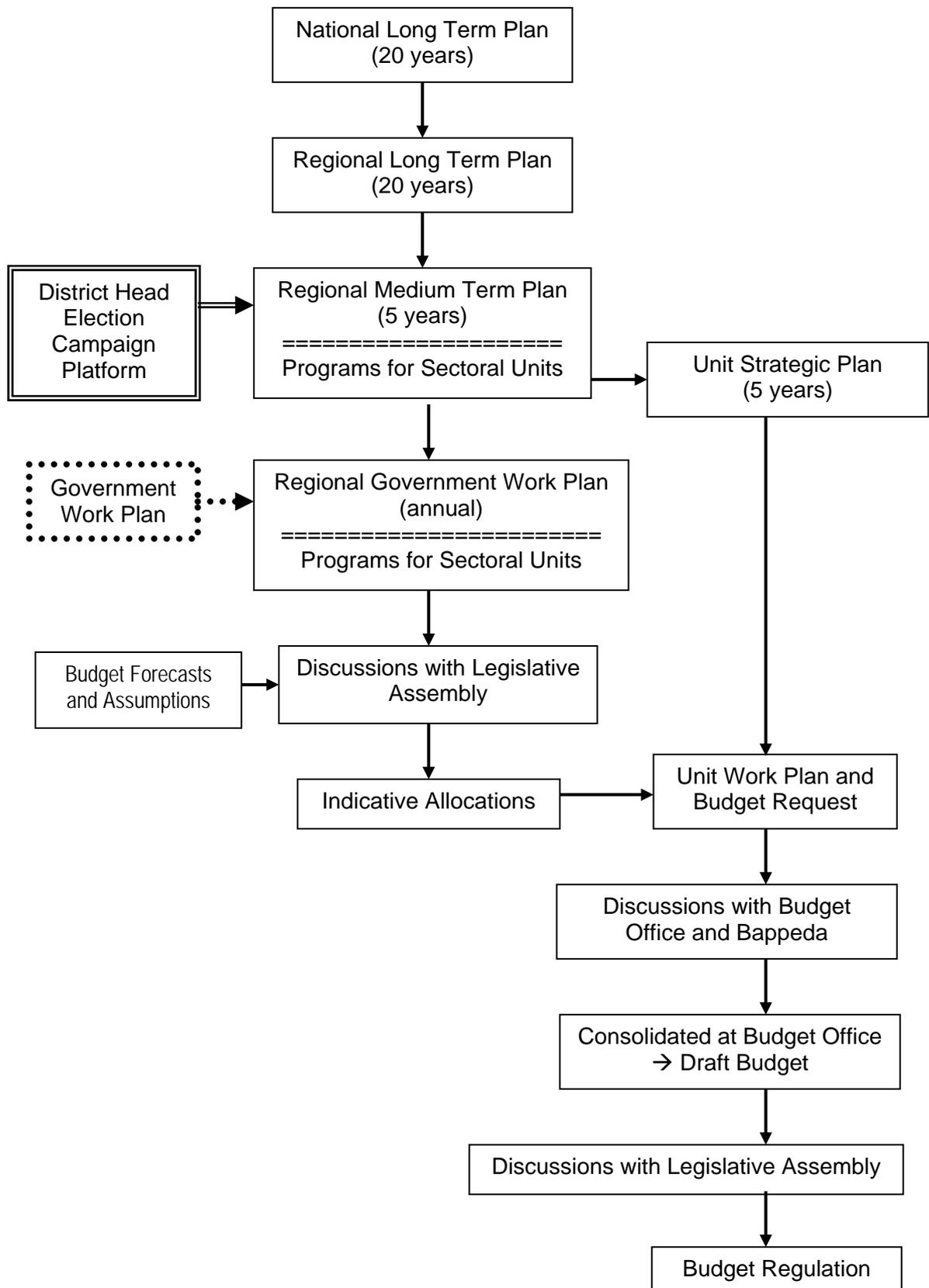
106. MOHA Ministerial Regulation 13/2006, which provides very specific instructions on the budget process, requires the regional legislature to hold "consultations" with the sectoral offices (which they do) but does not require consultations with the public.

107. The national treasury law 1/2004 provides detailed instructions on budget implementation and the law on control of state finance, law 15/2004, establishes financial reporting and auditing procedures. Government regulation 8/2006, which is an implementing regulation for the national treasury law, provides detailed formats for reporting on budget realization. Government regulation 39/2007 establishes the procedures for government budget management (treasury functions) at the central and regional levels. Neither of these is directly relevant to education governance and finance and so they are not dealt with further.

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<sup>1</sup> It is the planning process which requires public consultations.

**Figure 8. Regional Budget Process**



108. In June 2009 Bappenas and MOF issued a joint Circular Letter (*surat edaran*) number 0142/M.PPN/06/2009 (Bappenas numbering system) and SE1848/MK/2009 (MOF numbering system) outlining a planned restructuring of the national budgeting system to bring practice into alignment with the intentions of the finance and planning laws. The restructuring will tie the budget lines (specific activities) much more tightly into the priorities of the medium term and annual government work plans as well as the strategic (5-year) plans and job descriptions/division of labor among the sectoral ministries. The plan revokes the current practice of placing funding for a program (or activity) in multiple agencies; instead each program will have a single responsible agency. The restructuring will also require rolling 3-year forward estimates of budget requirements for multiyear activities, i.e. the 2010 budget will contain estimates of budget requirement for 2011, 2012 and 2013, while the 2011 budget will contain estimates of budget requirement for 2012, 2013, and 2014. The restructuring will be piloted in six ministries, one of which is MONE.

109. **The Planning Law 25/2004.** This law established a series of plans which must be produced at both the central and regional levels. The national level must have:

- a long-term (20 year) development plan;
- a medium-term<sup>1</sup> (5 year) development plan, to be drawn up by each incoming President-Vice President team to set the direction of development for their administration;
- annual development plans, called Government Work Plans (*RKP*).

Ministries<sup>2</sup> at the central level must have:

- a medium-term development plan, called the “Strategic Plan” (*Rencana Strategis/Renstra*);
- annual development plans, called Ministry Work Plans (*Renja-KL*).

Regions (provinces and districts) must have:

- a long-term development plan;
- a medium-term development plan, to be drawn up by each incoming Head-Vice Head of region team to set the direction of development for the region during their administration;
- medium-term development plans for each sectoral office,<sup>3</sup> called “Regional Sectoral Office Strategic Plans” (*Rencana Strategis Satuan Kerja Perangkat Daerah /Renstra-SKPD*)<sup>4</sup>
- annual development plans, called Regional Government Work Plans (*RKPD*);
- annual work plans for each sectoral office, called “Regional Sectoral Office Annual Plans” (*Rencana Kerja Tahunan Satuan Kerja Perangkat Daerah /Renja-SKPD*).

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<sup>1</sup> Formerly called “Five-Year Plan” (*Repelita*). The term was repudiated by the National Finance law and has now been replaced by Medium Term Plan.

<sup>2</sup> Planning for *madrasah* schools is contained in the MORA Strategic Plan and MORA Annual Work Plan.

<sup>3</sup> *Dinas*.

<sup>4</sup> This terminology has been modified by Government Regulation 38/2007, cf. paragraph 59, ff. page 29 above.

A summary of the current national plans relevant to education (national long-term, national medium-term, MONE Strategic Plan and national annual work plans 2009, 2010) can be found in **Appendix 1**.

110. Government Regulation 8/2008 provides detailed instructions for the format and content of the regional plans, as well as mechanisms and assignment of responsibility for control and evaluation of implementation of the plans.<sup>1</sup>

111. The instructions in the Planning law explicitly require that the process of producing long term and medium term development plans must include “development planning consultations” (*musyawarah perencanaan pembangunan/musrenbang*). The National Development Planning Agency (*Badan Perencanaan Pembangunan Nasional/Bappenas*) consults with representatives of the central ministries and regional governments. Bappenas also holds seminars and workshops, where civil society representatives—generally academics and nationally or locally recognized experts—are invited to comment on the draft. MONE holds annual national consultative discussions (*rembuk*) with civil society representatives to discuss the previous year’s achievements and future direction for education policy and activities.<sup>2</sup>

112. Beginning in 2006, Bappenas has published annual “handbooks” for regional government. These handbooks are intended to disseminate information about the laws and regulations governing regional government. The instructions contained in the handbook include the requirements and procedures for development planning consultations at the regional level. The 2007 and subsequent handbooks also contain a “theme”: for example, the 2007 theme was investment and the role of regional government in promoting investment; the 2008 theme was infrastructure and regional development—helping to reduce poverty; the 2009 theme was strengthening regional economies to face the global financial crisis. To the degree that regional governments actually pay attention to the guidelines, they tend to introduce a (central) uniformity on the decentralized planning process and priorities.

113. Overall the planning process is technocratic: civil servants in the sectoral offices work together with the civil servants in the planning agency to develop plans. In some cases, the planning agency hires consultants to draft the plan. The Bappenas handbooks mentioned in the previous paragraph contain huge amounts of technical information and detailed instructions for how to implement the planning process, including public consultation. Donor agencies also produce procedures and manuals for planning. The plethora of approaches is not necessarily a negative point as the real problem lies with the ability of local agencies to generate constructive public interest in what has traditionally been considered a technocratic function.<sup>3</sup>

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<sup>1</sup> However the reference for this regulation is the Law 32/3004 on regional government not the planning law. Implementing authority rests with MOHA, not Bappenas.

<sup>2</sup> The consultative discussions are separate from the national working meeting (*rapat kkerja nasional/rakernas*), where information about the current year’s policy, plans, activities, and budget are socialized to central and regional government education sector personnel.

<sup>3</sup> A number of projects, including donor-funded projects, are working together with MONE, MORA, and regional government offices to address this problem.

114. Government regulation 39/2006 requires both central ministries and heads of regions, via the regional development planning agency<sup>1</sup> (*Badan Perencanaan Pembangunan Daerah/Bappeda*) to report to *Bappenas* quarterly on achievement of plans with copies to MOF and State Minister for Empowering Government Apparatus (central ministries) or MOHA (regions). The regional reports are compiled by *Bappeda* from reports submitted by the sectoral offices (*dinas*). District sectoral reports are copied to the provincial sectoral office and to the central sectoral ministry.<sup>2</sup>

115. The instructions in the planning law also state that the medium term development plans, at both the central and regional levels, must reflect the campaign platform of the winning candidate teams. In contrast, the text of the 2005–2025 long term plan<sup>3</sup> (LTDP) stated explicitly that: “Direct election [of the President and Vice President] provides an opportunity for the candidates to present their vision, mission, and program in the campaign. [However] this opportunity has the potential to create disconnects between development during one term and the next” (LTDP 2007, Chapter 1, Section 1.1, paragraph 4, page 2) which suggests that the political flexibility and democratic responsiveness of tying the medium term development plan to elections is not viewed as an advantage by *Bappenas* planners. Furthermore MOHA’s Circular on Long Term and Medium Term Development Plans<sup>4</sup> explicitly states that provincial level plans must be based on the national plan and district level plans must be based on the provincial plan. In practice recent provincial and district plans for DBE1 assisted districts do tend to reflect the elected officials’ mission and vision for the coming term.

116. MONE Ministerial Regulation 32/2005 contains the MONE Strategic Plan which includes a long term (20 year) education plan as chapter 4. MONE Ministerial Regulation 14/2006 requires performance accountability reports from officials in the central MONE office and MONE Ministerial Regulation 14/2008 sets key performance indicators for the education sector, based on the Strategic Plan.

117. **The Education laws.** The education laws consist of Law 20/2003 concerning the National Education System and two additional laws required by that law: Law 14/2005 concerning teachers and university lecturers and Law 9/2009 concerning education legal entities.

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<sup>1</sup> Note that this agency is a part of regional government and does not stand in a hierarchical relationship to *Bappenas*.

<sup>2</sup> There is another annual performance report required of central and regional government officials, the Accountability Report for Performance of Government Agencies (*Laporan Akuntabilitas Kinerja Instansi Pemerintah/LAKIP*). LAKIP was originally intended as a personal accountability report in the name of the official; however, it has developed into an agency performance report. LAKIP is governed by the Presidential Instruction 7/1999 concerning performance accountability of government agents, (*penyelenggara negara*) under the anti-corruption policies of 1999. LAKIP is required of all government officials (Echelon 2 and above) in all government units, both in central ministries and in the regions. The basis for accountability and reporting is the central or regional strategic plan. The evaluation mechanism is a simple comparison of plan vs. achievement, weighted by the importance of each item in the overall plan. Five indicators for evaluation are given (inputs, outputs, results, benefits, and impacts). Guidelines were issued by the Institute for Government Administration (LAN). Reports go to the Minister for Empowerment of State Apparatus with copies to the State Audit Agency (BPK).

<sup>3</sup> Law 17/2007.

<sup>4</sup> Circular Letter (*Surat Edaran*) 050 / 2020 / SJ, August 11, 2005.

118. **The National Education System Law.** Law 20/2003 was designed to create a system “capable of guaranteeing equality of access to education, improved quality and relevancy, and management efficiency to face the challenge of local, national and global life [via] ... planned, directed and continuous renewal of education ...” (Considerations, c.)

119. The law brought all education providers into one national system: government and private; MONE and MORA. However the unification was achieved via a unified regulatory regime, formally located outside both MONE<sup>1</sup> and MORA, with planning, budget and management functions remaining separate. The regulatory regime consists of national education standards (NES) which would be binding on all education providers. Note that the NES are different from the MSS discussed above paragraph 56, page 29. NES are mandated under the education law; MSS under the regional government law; NES apply to the entire teaching-learning process (inputs-process-output-evaluation) but not enrollment; the previous and current draft MSS include enrollment as well as certain characteristics of schools. NES are enforced by MONE; MSS are enforced by MOHA. The education law does mention MSS in paragraph 51 which states: Management of early childhood, basic and secondary education units [schools/*madrasah*] is to be based on minimum service standards and the principle of school/*madrasah* based management. Chapter VIII Management Standards in Government Regulation 19/2005 concerning NES, required both the central and district governments to draw up annual plans, including fulfillment of MSS as one of the priorities in the plans.

120. As noted above in paragraph 32, page 18, the NES have been developed the National Education Standards Agency. This agency was given authority to develop, monitor and report on achievement but no authority for enforcement of the standards. The law (and MONE) seem to have envisioned implementation via the school accreditation process, which was entrusted to another new, independent agency: the National School/Madrasah Accreditation Agency (*Badan Akreditasi Nasional Sekolah/Madrasah, BAN-S/M*). Law 9/2009 concerning education legal entities, discussed below paragraph 141 page 54, requires the education legal entities to comply with NES.

121. The education law also imposed compulsory basic education (*wajib belajar/Wajar*)<sup>2</sup> and stipulated that central and/or regional governments must make it available at no cost to participants<sup>3</sup> (cf. paragraph 127, page 51 below and **Appendix 3**.) Presidential Instruction 5/2006 instructed various ministers to take actions to accelerate the achievement of universal compulsory 9-year basic education. MONE Ministerial Regulation 35/2006 provided implementation guidelines for the

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<sup>1</sup> The Boards of Directors of the regulatory agencies are political appointees drawn from civil society; however, the secretariats and working staff of the agencies are seconded from MONE.

<sup>2</sup> But provided no enforcement or sanctions. Some districts have noted this deficiency and addressed it in their district regulations on education.

<sup>3</sup> Paragraph 1(18) defines provision of compulsory education as “the responsibility of the government.” Paragraph 11(2) states that government is responsible for providing funding for education for all citizens aged 7–15 (basic education age range). Paragraph 34(2) states that government is responsible for providing basic education “without charge to” participants.

This was the provision that was used by Parliament to change BOS from a poverty policy to a free basic education policy, effectively de-linking it from its origin in the social safety net and fuel subsidy compensation. A discussion of the origins and development of BOS can be found in **Appendix 2**.

“movement to accelerate achievement of universal compulsory 9-year basic education”. The guidelines are organized around the three “pillars” of education policy as given in the Strategic Plan: access and enrollment, quality and relevance, governance, accountability and public image. In other words, compulsory basic education is not limited to enrollment; it also encompasses quality and governance.<sup>1</sup>

122. Government Regulation 47/2008 made achieving universal compulsory basic education mandatory for the central government (MONE)<sup>2</sup> and regional governments, in accordance with the legal authority and responsibility of each agency. Paragraph 9 of the regulation requires that the central and regional governments guarantee provision of primary level education “without collecting costs/fees” (*tanpa memungut biaya*) from participants. The paragraph also states that the central and/or regional governments must provide financial assistance (*bantuan biaya*) to students of basic education age (7–15 years old) whose parents or guardians are unable to finance their education costs.

123. Although the education law stated that issues of education finance would be dealt with in a government regulation it did provide some general guidelines.

- Education funding is the joint responsibility of the central government, regional governments and the community including parents of students.
- One permitted form of government funding is tax relief.<sup>3</sup>
- Funding from the government (central or regional) to schools must be in the form of block grants, as must funding from the central government to regional governments (provincial and district education offices). This latter requirement has the effect that funding assistance must be linked directly to specific programs and activities.<sup>4</sup> See also the paragraphs on block grants above.

124. Government Regulation 48/2008 dealt with education finance. Paragraph 3 divided education costs into three categories:

- education unit (school) costs, consisting of
  - investment costs (divided into land and facilities used directly for educational activities, e.g. classrooms, laboratories and libraries, and land and facilities not directly for education purposes, e.g. offices)
  - operational costs (divided into personnel and non personnel)
  - financial assistance (to parents)
  - scholarships<sup>5</sup>

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<sup>1</sup> The regulation differentiates between “financial assistance” (*bantuan biaya*) for students from poverty families and “scholarships” (*beasiswa*) to reward academic achievement. Some donor projects use the English term “scholarship” to cover activities that Indonesian education funding recognizes as “financial assistance.” This can create misunderstandings when the English language documents are translated into Indonesian.

<sup>2</sup> But not specifically MORA, although the Explanation to the law does mention MORA schools (*madrasah*).

<sup>3</sup> Exactly which taxes are to be relieved is not stated; perhaps land and building taxes on private school facilities.

<sup>4</sup> BOS funding is not included in the education law or Government Regulation 48/2008, as it consists of a budget line in the national budget.

<sup>5</sup> The Explanation to paragraph 3 makes the distinction between (1) financial assistance for families who cannot afford the costs of education and (2) the financial assistance (scholarships) for any students, including those from nonpoor families, as a reward for academic achievement or excellence.

- costs of providing and managing education activities: the Explanation to the regulation states that these are costs borne by central and/or regional government and private education providers, consisting of
  - investment costs (divided into land and other facilities. e.g., government and private school owners' offices)
  - operational costs (divided into personnel and non personnel)
- student costs, such as transportation and uniforms.

125. The regulation provides detailed instructions to government agencies at both the central and regional levels on how and where to allocate expenditures for the various cost categories in their budgets. Each of these discussions concludes with the statement that the government is responsible for funding “at a level which at least fulfills the national education standards”. The sections of the regulation dealing with private school provider financial obligations impose the same standard.

126. The regulation makes a clear and consistent distinction between funding for schools offering a basic education level program (both government and private; MONE and MORA) and funding for those schools offering other programs. In principle, schools offering a basic education level program must cover their school costs and provider management costs without recourse to parental contributions and government must assure that funding is available to enable this. However, paragraphs 51 and 52 of the regulation do allow both government and private schools to collect parental contributions under carefully specified circumstances, including

- school strategic and annual plans which are oriented toward (*mengacu*) achievement of the NES
- funds to be stored in a separate account and managed separately from other income with information about expenditures posted in a public location
- contributions not linked to admissions policies or evaluation (grades)
- at least 20% of the contribution funds to be used for quality improvement activities and
- an absolute ban on collecting contributions from poor parents.

The ministers (MONE and MORA) may cancel any contributions which violate these criteria.

127. The term “free education” is not used in any of the documents; instead the formulation consistently states that basic education must be provided “without collecting costs/fees” from parents. A discussion of the background to the “free education” issue can be found in **Appendix 3**.

128. Paragraph 40 of the regulation states that funding of non personnel operational costs at private schools offering a basic education level program is also the responsibility of the district government. Paragraph 45 requires these schools to accept this funding from the district government. Schools which choose to opt out of BOS are forbidden to levy any contributions at all on parents. Paragraph 44 requires private schools to provide financial assistance to students from poor families.

129. The national education system law also contains a section entitled “role of the community”, which establishes Boards of Education (Dewan Pendidikan/DP) and

school/*madrasah* committees<sup>1</sup> (*komite sekolah/madrasah*). Implementing regulations for the Boards and committees have not been issued, however the MONE website contains documents describing their “role and functions”. The roles and functions of the two institutions are identical, save for their level: the Board operates at the level of the province<sup>2</sup> or district; the committee at the level of the school. MONE Ministerial Regulation 19/2007 containing the NES for education management at the regional (provincial and district levels) requires the regional governments to cooperate with the Boards of Education on various occasions. MONE Ministerial Regulation 19/2007 containing the NES for managing education units (schools) requires that the school committee provide inputs and/or agreement on various school policies, plans and budgets and that the committee evaluate implementation of the plans and budgets. It seems that the roles and functions of these institutions are being defined indirectly, via the requirement for regional government and schools to involve them in decision making and evaluation.

130. Paragraph 51 of the law requires school based management, which is defined in the “Explanation”<sup>3</sup> section of the law as “a type of autonomous education management in the school, where the principal and teachers are assisted by the school/*madrasah* committee in managing education activities.” School based management activities typically include school committee review or participation in developing school plans and budgets, school committees voicing aspiration of school stakeholders to school management, sending administrative and financial reports to proper authorities, procuring operational needs, etc. The exact role and activities of the school/*madrasah* committee will need to be adjusted to the requirements of Law 9/2009 on Education Legal Entities, cf. paragraph 141, page 54 below.

131. Paragraph 49 of the national education system law has created a major political and social debate. This is the paragraph that mandates 20% of central and regional budgets must be allocated to education. The 2007 edition of this survey discussed the developments in the debate. Interested readers are referred to this document. In 2004, MONE and Parliament reached an agreement (*kesepakatan*) that the proportion of central budget funding for education would be increased beginning in 2006 to achieve the goal of 20% in 2009. The target percentages were 12% in 2006, 14.7% in 2007, 17.4% in 2008, and 20% in 2009.<sup>4</sup>

132. The debate was settled by decision of the Constitutional Court no. 13/PUU-VII 2008 which declared that the 2008 budget law passed by Parliament was unconstitutional because the funding for education was 15.6% of total funding—below the 20% required by the constitution. The government was given one year in which to bring the national budget into compliance. The court also settled the heart of the controversy, which was how the 20% was to be calculated. The court instructed that the total funding for the “education function”<sup>5</sup> (including salaries for civil servant

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<sup>1</sup> The school/*madrasah* committee is different from the “foundation” (*yayasan*), which is the owner-operator of a private school.

<sup>2</sup> It is explicitly stated that the provincial boards do not have a hierarchical relationship to the district boards.

<sup>3</sup> Note that Explanation sections are legally binding.

<sup>4</sup> MONE Strategic Plan, Chapter 6, page 73.

<sup>5</sup> “Functions” are one way of classifying the government budget expenditure allocations. There are 13 functions corresponding generally to sectors, of which education is one.

teachers) was to be compared with the total central government budget (excluding transfers to regions). The court also extended the 20% requirement to regional budgets (APBD) to be calculated in the same manner.

133. MOF subsequently issued MOF Ministerial Regulations 86/PMK.02/2009 and 84/PMK.07/2009 which imposed the 20% requirement on central and regional budgets respectively and provided technical instructions for calculating the education function allocation.

134. **The Law on Teachers and University Lecturers.**<sup>1</sup> Law 14/2005 is important because it defined teaching as a profession with legal standing, which required certain skills and competencies. Possession of these skills and competencies is attested by issuance of a certificate. The law contains lists of the skills and competencies required for teachers and states that certificates will be issued by accredited teacher education tertiary institutions selected by the government. MONE Ministerial Regulation 18/2007 also establishes a mechanism by which teachers can be certified on the basis of their professional experience and accomplishments in the form of a “portfolio.”

135. Possession of a certificate entitles the teacher or university lecturer to a salary supplement equal to 100% of his/her civil service base salary. Teachers or university lecturers in private schools will receive a salary supplement equal to 100% of the base salary they would receive if they were civil servants. This salary supplement should not be confused with the civil service salaries paid to private school teachers who are civil servants. The certification supplement is available to all certified teachers, wherever they teach and whatever their status, including non permanent teachers in private schools and contract teachers.

136. Law 14/2005 requires that regional government provide a sufficient number of qualified—including certified—teachers to fill the requirements of government schools. District government is responsible for providing teachers to preschool and basic education (primary and junior secondary) schools, while provincial government is responsible for providing teachers to senior secondary and special (handicapped) schools.<sup>2</sup> Private providers are required to supply an adequate number of qualified teachers for their schools. However, the new 2009 law on education legal entities gives the principal the task of hiring (and firing) individual teachers, even in government schools. Each teacher, civil service or not, will sign a contract with the school. Cf. paragraph 145, page 55 below.

137. The law also establishes salary supplements for teachers working in “special” areas, i.e.,

- rural areas which are also remote (*terpencil*) or underdeveloped (*tertinggal*)<sup>3</sup>;

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<sup>1</sup> The Indonesian word for teacher (*guru*) is not used for university lecturers who are referred to as *dosen*. Professor used to be a rank in the civil service, but autonomous tertiary institutions (*otonomi perguruan tinggi*) is now a rank of university lecturer.

Technically, universities are only one of several types of Indonesian tertiary institutions; however, the term is used generically in this review.

<sup>2</sup> Law 14/2005, paragraph 24.

<sup>3</sup> This is a technical term in Indonesian regional economic and political discourse. It refers to areas that have been “left behind” in the development process and are therefore underdeveloped relative to other areas.

- rural areas inhabited by remote tribal communities (*masyarakat adat yang terpencil*); and
- international border areas with relatively difficult transport access (*perbatasan dengan negara lain yang secara geografis relatif sulit dijangkau transportasi*), which have been defined as underdeveloped by the State Minister for Development of Underdeveloped Areas (*Menteri Negara Pembangunan Daerah Tertinggal*). The salary supplement is equal to 100% of the civil service base salary and is available to all teachers in the area. MONE Ministerial Regulation 32/2007 established technical guidelines for this salary supplement.

138. Civil service teachers and university lecturers are also entitled to “functional” salary supplements in addition to their base civil service salaries. Functional salary supplements are set by presidential regulation and are given to staff in a wide variety of different types of jobs, not only educators. Presidential Regulation 108/2007 is the latest regulation setting functional salary supplements for teachers.

139. Government Regulation 41/2009, under Law 14/2005 is an umbrella regulation providing guidelines for all salary supplements established by this law.

140. In addition to salaries, the law on teachers and university lecturers also defines the rights and responsibilities of teachers and university lecturers and establishes standard teaching loads. Teachers have a professional right to participate in policy, planning, budgeting, and controlling at their schools and in their districts.

141. **The Law on Education Legal Entities.** Law 9/2009 was also required by the national education system law. The essence of the law is that every school is a separate legal entity with its own legal identity and legal standing. Schools are no longer “owned” by either government agencies or private providers. The former owners now have the status of “founders.” The overarching objective of the law is to provide legal guarantees for true autonomy at the school level. A secondary objective is to eliminate all forms of discrimination among schools (e.g., government versus private, MONE versus MORA).

142. The actual legal technicalities of the law are a bit complicated, but the effect is to establish two types of legal entities:

- individual schools, and
- providers, who may found one or more schools.

Private foundations that currently own and operate schools will become providers.

This establishes a “hold harmless” situation for existing foundations, while allowing future schools to be founded directly as education legal entities, without the necessity for an umbrella organization.

143. A school consists of two “organs” (term from the law), each of which has its own function in the process of providing education:

- A stakeholder representation organ, which sets general policy for the school, draws up the strategic and annual plans and budgets, evaluates school performance, and hires the principal; and
- An education management organ, which has full autonomy in implementing school-based management.

144. Members of the stakeholder representation organ include the school's founder (government agency or private foundation), head of the education management organ (i.e., the principal), representatives of teachers, nonacademic personnel, and the school committee.

145. The education management organ drafts the plans and budgets for submission to the stakeholder representation organ and then implements the plans and budgets after approval from the stakeholder representation organ. Results of the implementation are reported back to the stakeholder representation organ. The principal, as head of the education management organ, has the responsibility for hiring and firing teachers and other school personnel<sup>1</sup> and for managing the teaching-learning process in the school.

146. The importance attached by the law to real autonomy at the school level is shown by the fact that instead of the usual phrase "implementing regulations for this point will be issued in the form of a government regulation," the law on education legal entities states "this point will be included in the school's charter (*anggaran dasar*) and implementing regulations (*anggaran rumah tangga*)," which are drawn up by the school's founder.

147. The law devoted extensive discussion to issues of school finances. The most important point is that the school, as a legal entity, will own all its own assets. This requirement means that current owners, government and private, will be compelled to remove the school's assets from their own balance sheets—a difficult task particularly for private schools where more than one school may share a campus. Another provision requires that all incomes received by the school be used only for its own activities: private owners will no longer be able to withdraw profits from a school or to cross subsidize between multiple schools owned by the same foundation.

148. The requirements for school revenues and expenditures follow closely the specifications of Government Regulation 48/2008 concerning education funding. In particular, paragraph 44 reiterates the government's responsibility for providing funding for basic education:

Government [central and/or regional] funds educational costs for private schools providing compulsory basic education, including operational funds and scholarships, as well as providing financial assistance for investment costs and assistance to poor students in accordance with minimum service standards in order to achieve national education standards.

149. The law also addresses the issue of access for poor students more directly. Paragraph 46 requires that a minimum of 20% of new entrants for each school be poor but academically talented students. These students may be required to pay fees based on their financial capability. Furthermore 20% of total enrollment in the school must be poor and/or academically talented. These students will receive full financial assistance or scholarships as appropriate. These provisions apply to both government and private schools at all levels, not just basic education.

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<sup>1</sup> The law states that hiring and firing of teachers and education personnel should be in accordance with the school's charter and existing manpower and civil service regulations.

150. The law gives government schools 4 years and private schools 6 years in which to comply. The MONE Long Term Development Plan for 2005–2025 targets 20% of schools achieving education legal entity status during the 2005–2010 (current) time slice,<sup>1</sup> with the number rising to 50% in 2010–2015, and 100% by 2015–2020.

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<sup>1</sup> Appendix: Long Term Development Plan, section for DG Management of Basic and Secondary Education, row for Key Performance Indicators. Although this target is not contained in the Strategic Plan for 2005–2010.

## **E. Analysis and Conclusions**

151. The existing legal products provide a workable framework to support increasing democratic interaction in education governance, rationalizing and increasing local funding for basic education, and increasing transparency and accountability in the education sector as well as increasing the quality of and access to education. The devil, of course, is in the details of implementation.

152. The following criticisms have been leveled against Indonesia's system of laws and regulations:

- relevant laws and regulations are in some cases unclearly written/defined
- relevant laws and regulations are mandated without provision for resources to properly implement the regulations.

These criticisms seem to apply more to the earlier (1999) versions of the regional autonomy laws and the old (pre-2004) budget system. Most of these issues, which were raised by donor evaluations and analyses,<sup>1</sup> are being addressed in the current laws and regulations. Prime examples of this process are the restructuring of central budgets by MOF and Bappenas and the education legal entities.

153. Lack of clarity and inconsistencies between laws and regulations is, to some degree a function of the whole approach to governing, which sees laws and regulations as setting out the general principles, with details of implementation left to the specific agency tasked with implementation. It is also shaped by a systemic weakness, i.e. lack of middle level support functions—professional staff and accessible information. Territorial skirmishes among different agencies, with very different philosophical and political approaches to decentralization, compound the confusion, as does the cultural tradition of avoiding open conflict through formulations which can be interpreted in various ways.

154. On the positive side, there have been efforts to clarify definitions, but a (perhaps not unintended) side effect of the efforts has been a tendency to re-centralize decision making and re-impose a rigid uniformity—beloved of bureaucrats but contrary to the spirit of decentralization. It remains to be seen how successful these efforts will be in practice; whether the centralizing agencies (especially Bappenas, MOHA and provincial government) have the capacity to impose their vision of development on the districts.

155. The issue of unfunded mandates has been addressed by allowing implementation in stages and explicitly tying implementation to the availability of resources. Indonesia is making substantial progress in implementing and institutionalizing decentralization.

156. In the end, listing of inconsistencies and point of “vagueness” is not terribly useful, anyway. A much more useful approach is to ask:

- what does the law/regulation seek to do;
- do the contents of the law/regulation support the goal;

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<sup>1</sup> And subsequently incorporated into GOI policy documents, such as the Medium Term Development Plan of 2005 and the MONE Strategic Plan of 2004.

- is it realistic to suppose that the law/regulation will achieve its goal (here is where inconsistency and vagueness could be explored); and
- what needs to happen in practice for the law/regulation to achieve its goal?

157. **Law 20/2003 concerning the National Education System.**

- What does the law seek to do?<sup>1</sup>
  - Fulfill the constitutional obligation of the government to “make national life smarter”<sup>2</sup> and “provide a single national education system which will increase faith and piety and good character as part of making national life smarter.”<sup>3</sup>
  - Guarantee equal access, improved quality and relevance, and more efficient management.
  - Meet the challenges of change in local, national and global life.
  - Renew the education system in a planned, goal-oriented and sustainable manner.
- Do the contents of the law support the goal?
  - The law lays out the basic principles for establishing a comprehensive national education system, including deliberate efforts to foster faith, piety and character.
  - The law also contains provisions based on current best practice in education in both teaching-learning and education management.
  - Accepting the (technocratic) assumption<sup>4</sup> that change must be planned and goal-oriented, the law clearly lays out the directions of change and ultimate goals.
- Is it realistic to suppose that the law will achieve its goal?
  - This is not a green-field law: it is attempting to make basic changes in an existing system but it is written as if it were creating a new system. Aside from a formal closing (attached to all laws) stating that any existing law or regulation not in conflict with this law will continue in force and that any existing law in conflict is no longer binding,<sup>5</sup> there is no specific change trajectory included in the law.
  - Law 9/2009 on education legal entities addresses many of these issues.
  - Law 20/2003 does take account of regional autonomy in management of the provision of education. However the regional autonomy law in force at the time of the education law was the 1999 regional autonomy law, not the 2004 regional government law which superseded it and is currently in force. The provisions dealing with regional autonomy law in the education law are sufficiently general that they are not in essential conflict with the 2004 regional government law and implementing regulations for the regional government law have clarified the situation.
- What needs to happen in practice for the law to achieve its goal?
  - Implementing regulations that are being issued, but slowly. In the meantime, the various central and regional agencies are moving forward with changes in practice, based on their interpretation of the law’s intent. Donor-funded

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<sup>1</sup> “Considerations” for Law 20/2003.

<sup>2</sup> Preamble to the 1945 Constitution

<sup>3</sup> Fourth Amendment to the 1945 Constitution.

<sup>4</sup> Held equally by GOI, donors, and consultants.

<sup>5</sup> Paragraph 75.

projects are an important source of practical ideas for how to move toward these goals.

- Accreditation. The national agency has been formed and is now working on accreditation standards and procedures. It is planned that implementation of accreditation activities will be responsibility of national government with implementation support by provinces and districts.
- Funding. The People's Consultative Assembly<sup>1</sup> addressed this issue (before the education law was passed) by requiring the government budget to “give priority” to education with a minimum of 20% of the budget and also making basic education compulsory with government required to fund it. The government has also moved decisively on funding for basic education by instituting the BOS per capita subsidy to schools.<sup>2</sup>
- The new formula for calculating DAU, even though it is not targeted specifically for education, also provides districts with more budget resources which can be used for education.

158. **Law 9/2009 concerning the Education Legal Entities.**

- What does the law seek to do?
  - Provide true autonomy for schools
  - Eliminate discrimination among different types of schools
- Do the contents of the law support the goal?
  - Yes.
- Is it realistic to suppose that the law will achieve its goal?
  - At the time of this review, implementing regulations and guidelines had been issued only for higher education institutions.
  - Implementing the law will be a long and expensive business. Most districts do not have complete inventories of education assets, i.e. schools. Many private foundations have shared usage of campuses and cross subsidies in funding.
  - Analogizing from the process of decentralization to districts, when districts felt that they were ready to handle their new responsibilities while experience showed that they were not, it remains to be seen whether principals are capable of taking on the roles of policy makers, as well as managers (including both academic and financial) in addition to their own teaching assignments. Improvements in district level capacity suggest that the situation is not totally hopeless.
- What needs to happen in practice for the law to achieve its goal?
  - Guidelines for school charters, which are the key to implementing this law.
  - A change management plan and detailed process guidance from the central MONE office to guide districts and private foundations is making the change.

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<sup>1</sup> The organization which has the power to amend the constitution. It consists of all elected members of Parliament plus appointed members. In the past, the government selected the appointed members; current practice uses a selection team composed of members of Parliament and government representatives who select from among slates of candidates submitted by CSOs.

<sup>2</sup> And its “partner” funding: BOP per capita funding for non formal equivalency programs at the basic level and MORAs Wajardikdas per capita funding for basic education programs in traditional Islamic boarding schools.

159. **Law 32/2004 concerning Regional Government.**

- What does the law seek to do?<sup>1</sup>
  - It is essential to understand what this law was attempting to do because it is frequently misunderstood. The law is deliberately restricting the scope of regional (provincial, but especially district) governments as granted under the 1999 regional autonomy law because of widespread central perceptions<sup>2</sup> that district governments were “going too far” in their autonomy to the point of endangering the central government’s role as sole source of rights and authority in a unitary state.
  - Achieve the goal of regional government, which is to “accelerate the achievement of social welfare for the people” through improving and empowering regional government, improving services and enhancing the role of civil society<sup>3</sup>.
  - Implement the principles of regional government, which are democracy, distributional equity, justice and the special features of the region within the unitary state.
  - Improve the efficiency and effectiveness of regional government, especially relations among governmental units<sup>4</sup>.
  - Give regional government the widest possible autonomy to use the region’s special characteristics to respond to the opportunities and challenges of global competition, within the national governmental system.
- Do the contents of the law support the goal?
  - The law provides scope for regional government to develop and implement policy to achieve local objectives, taking into account local characteristics. Specific decentralization of the “social welfare” and economic production sectors to district level provides the necessary authority to plan and implement<sup>5</sup> development activities, including education<sup>6</sup>.
  - The law attempted to establish systematic relations among governmental units, but multiple interpretations and formalistic “dissemination” undercut this effort. It has been found necessary to issue assorted implementing regulations. The effectiveness of these regulations is hindered by the tendency to issue “general” regulations to deal with what are essentially casuistic issues.
  - The law does not specifically address efficiency or effectiveness of regional government, except for the above-mentioned systematic relations. The law establishes reporting requirements and evaluation procedures which could address the effectiveness issue but not efficiency.<sup>7</sup>
- Is it realistic to suppose that the law will achieve its goal?
  - This law is specifically intended to reign in “excesses” of district government. This has been achieved, but it is an open question whether the achievement is

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<sup>1</sup> “Considerations” for Law 32/2004.

<sup>2</sup> MONE and Ministry of Public Works were notable exceptions to this general trend.

<sup>3</sup> This term is a code phrase for increased financial contribution.

<sup>4</sup> Both vertical (central–regional hierarchy) and horizontal (among regions).

<sup>5</sup> Funding is dealt with in a separate law. See paragraph 160 below.

<sup>6</sup> Although, at the beginning, there was some confusion as to whether this was limited to basic education or also included secondary education. PP 38/2007 specifically includes management of secondary education as a decentralized activity.

<sup>7</sup> The package of national finance laws, cf. paragraph 162 ff. contained provisions which were intended to produce cost efficiency (least cost for a given activity) but not economic efficiency (achieving objectives at least cost).

- an impact of the law or a natural progression as regional governments became accustomed to the responsibility of running their regions.
- There is little hard evidence, despite much research and survey activity, that social welfare has declined since regional autonomy, including in the education sector.<sup>1</sup> There is some evidence that social welfare has improved in some regions for some sectors. Given a Pareto-evaluation criterion (nobody worse off and some people better off) it would seem that regional government has succeeded. Inter regional migration (“voting with the feet”) creates healthy competition among districts, which is reinforced by a virtuous circle of success creating higher expectations. Active mass media and investigative journalism play an important role in providing information to the public.
  - Regions tend to ignore requirements which they feel to be an unnecessary burden, e.g. reporting, databases/MIS, etc., or too expensive. Another strategy for dealing with unrealistic requirements is formal fulfillment, e.g. hire a group of consultants to produce a district plan, review, etc.; submit the document to the requiring agency; and then proceed with the district’s own implementation activities and procedures.
  - What needs to happen in practice for the law to achieve its goal?
    - Central agencies, particularly MOHA, need to take their responsibilities seriously and provide practical guidance as well as useful supervision to regional government.
    - Most of MOHA’s guidance to date has moved in the direction of re-centralizing authority or re-establishing rigid uniformity. MOHA does not seem to have either the organizational or personnel capabilities to implement useful supervision.
    - MOHA’s implementing regulations on supervision have allocated “technical” supervision for sectoral activities, such as education, to the sectoral ministries. In the case of education, because MONE is organized differently from district education offices<sup>2</sup>, the technical supervision is limited. Note that MORA schools do not fall under this system because MORA is not decentralized.

160. **Law 33/2004 concerning Central/Regional Financial Balance.**

- What does the law seek to do?<sup>3</sup>
  - This law was deliberately intended as a companion to the regional government law to fulfill the requirement in the regional government law that decentralization of sectors from the central government to regions would be accompanied by funding, facilities and infrastructure and personnel.<sup>4</sup>

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<sup>1</sup> There is considerable dissatisfaction with **achievements** in level of social welfare, but this is different from **changes** in levels of social welfare.

<sup>2</sup> Directorate General of Basic and Secondary Education has separate directorates for levels of education: pre-school (which is classified as non formal in the education law) and primary; junior secondary; and senior secondary. District education offices vary in organization but most have separate units for non formal (including pre-school), basic (primary and junior secondary) and secondary. Both systems are historically conditions, in particular, the latter was heavily influenced by the fact that responsibility for management of primary schools was handed over to the districts well before decentralization and an interpretation of the 1999 decentralization law which held that primary and junior secondary education was decentralized to the district level while senior secondary education was decentralized either to the provincial level or retained in the center (there was a difference of opinion on this).

<sup>3</sup> “Considerations” for Law 33/2004.

<sup>4</sup> Law 32/2004, paragraph 12.

- This law was also intended to replace the central/regional finance law which had been passed as a companion to the 1999 regional autonomy law.
- This law was passed after the package of three laws reorganizing the national budgeting system, government payments system and financial control systems and the national planning system law and is in conformity with all those laws.
- Establish just and appropriate relationships among finance, public services and exploitation of natural and other resources among governmental units.
- Establish central/regional financial balance based on a clear division of labor and responsibility.<sup>1</sup>
- Do the contents of the law support the goal?
  - Yes. Most of the donor (and consultant) objections raised to the central/regional finance system are addressed to the provisions of the 1999 law, which also pre-dated the overhaul of the national financial system. In particular, this law has provided satisfactory relationships between budgets (incomes) and natural resources which was a main source of discontent in the 1999 system.
  - Neither regional nor central government agencies have made substantial complaints about the law.
  - The specific issue of 20% budget allocation for education is less contentious at the district level because non-discretionary allocations for civil service salaries form such a large proportion of the district budgets. Teachers and other education personnel, together with health (local health clinic personnel and midwives) account for most of the district civil service personnel bill.
- Is it realistic to suppose that the law will achieve its goal?
  - In terms of the financial system, it has already done so,
  - In terms of linking the financial system to public service provision, the role of the planning law is important, refer to paragraph 161 below.
- What needs to happen in practice for the law to achieve its goal?
  - In terms of the financial system, effective enforcement, which MOF has provided.
  - In terms of linking the financial system to public service provision, there were turf wars between Bappenas and MOF at the beginning, but these seem to have been resolved, and recent implementing regulations provide a framework for a more integrated system of policy, plans, and budgets. It is now up to Bappenas to provide the effective supervision of the planning-budgeting link which MOF provides for the purely financial side. Bappenas is in the process of establishing a Monitoring and Evaluation Office that could take on this task.

**161. Law 25/2004 concerning the National Planning System.**

- What does the law seek to do?<sup>2</sup>
  - The law begins with a very strong assumption: that national planning is necessary in order to “guarantee” that development activities would be effective, efficient and objective-oriented.
  - The law then adds a second assumption: that national planning requires a national planning system.

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<sup>1</sup> The “clarity” to come from the companion law on regional government.

<sup>2</sup> “Considerations” for Law 25/2004.

- The law is intended to establish a national planning system in order to achieve the national objectives as specified in the Preamble to the 1945 Constitution.
- This law also is not a green field law. It was passed after the re-organization of the national financial system (refer to paragraph 162 below) and appeared to integrate the planning function into the (new) financial system under the authority of MOF. This law institutionalized the pre-existent planning system under the authority of Bappenas and tied it into the new budgeting system.
- Do the contents of the law support the goal?
  - Given the two assumptions, yes.
  - There is also an attempt to integrate the planning system with the budgeting system via the requirement that budgets be based on a “work plan”. The restructuring will enforce this in practice.
- Is it realistic to suppose that the law will achieve its goal?
  - If the goal is defined as establishing a planning system, yes.
  - If the goal is defined as activities based on budgets based on planning, not necessarily. Experience in the first several years after the law was passed suggested that the law was not achieving its goals. Plans were formalistic and developed by the local planning agency while budgets were developed by sectoral agencies based on MOF guidelines. Recent implementing regulations have given local planning agencies a stronger role in the formal process however the actual composition of budget teams is decided by the Head of District.
- What needs to happen in practice for the law to achieve its goal?
  - Local planning agencies need to have the technical competence (and political skills) to fulfill their roles in the planning-budgeting process. Sectoral agencies also need the technical and negotiating skills to draw up plans and then budget for achievement of the plans. Donors are active in assisting with this need.
  - Bappenas needs to have both a system and capacity to implement the system for supervision of budgets from the point of view of achievement of development objectives (MOF is responsible for supervision of financial compliance).

162. **Law 17/2003 concerning the National Financial System.** This is one of three laws which reorganized the national financial system. The subsequent companion laws, Law 1/2004 concerning the National Treasury, which deals with the payments system and Law 15/2004 concerning Control of National Finance are too technical to be considered in conclusions.

- What does the law seek to do?
  - Curiously the “Considerations” of this law do not contain any statement of goals or objectives. They simply state that providing governmental services requires rights and responsibilities which can be quantified in monetary terms.
  - The “Explanation” to the law states that the financial system currently in use was taken from the Dutch colonial government and subsequently modified in 1955 and 1968. The explanation also says that this out-of-date system is what permitted the past misuses of government funds.
  - The explanation then states the goal of the revised financial system: to eliminate the misuse of government funds and create a sustainable financial system in accordance with the 1945 Constitution and international standards.
- Do the contents of the law support the goal?
  - Yes.

- Is it realistic to suppose that the law will achieve its goal?
  - It has done so. The current system has made it possible for tighter financial controls over all levels of government. The major issues of corruption are now concerned with private sector money influencing government actions, not with misuse of government funds.<sup>1</sup>
  - The current system also is in line with international best practice and based on UN standards.
- What needs to happen in practice for the law to achieve its goal?
  - Adequate and effective dissemination from MOF, which did not happen<sup>2</sup> but a phased in implementation approach and learning by doing has filled the gap.

It is perhaps not coincidental that the most successful laws are the most technical and deal with finance: the central-regional financial balance law and the national financial system law. The education, decentralization and planning laws are much broader in scope and require non-technical skills for successful implementation. This is where the new viewpoints and multiple skills packages of donor agencies can be most advantageous.

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<sup>1</sup> The legal definition of “corruption” is misuse of government funds. Private sector bribing of government officials is a crime, but not corruption in this legal sense because it involves nongovernment funds.

<sup>2</sup> The dissemination activities consisted of a series of PowerPoint slides that contained quotes from the law and examples of budget forms to be filled in.

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## **Appendix 1. Education Sector in National Development Planning (2005/2025)**

This appendix contains short excerpts of the text of the plans, translated into English. Some text lists have been re-edited as bullet points. Only text relevant to education has been included. In some cases, this results in numbering which is not consecutive.

Additional explanatory material by author necessary to clarify references or intention of excerpted text is enclosed with square brackets [ ] and in Arial font.

Page and/or paragraph references are given for all excerpts.

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### **I. Long-Term Development Plan (2005–2025) Law 17/2007**

#### Chapter II General Conditions

##### Section II.1 Current Conditions

###### Point A. Socio-cultural and religion

1. Socio-cultural and religious development are closely related to individual and social quality of life. One indicator is quality of the population, including education.

p. 5

3. Efforts to improve quality of life are important because human resources are the subject and, at the same time, the object of development. Quality of life can be measured by the Human Development Index (HDI), which includes education.

p. 5

6. Educational levels have improved:

- reduced illiteracy
- increased numbers of people who have completed junior secondary education
- increased average number of years of education
- increased school participation rates for all age groups.

However these achievements are insufficient to face future global competition. It is made worse by the increasing disparities in education levels between groups, especially between rich and poor, between urban and rural, between [geographical] regions and gender disparities.

p. 6

##### Section II.2 Challenges

###### Point A. Socio-cultural and religion

2. Low quality of Indonesian human resources as measured by the HDI causes low productivity and national competitiveness. Education is important to improve human resources.

Challenges include:

- improve quality educational services to raise the proportion of people who complete basic education and higher levels of education
- reduce illiteracy

- reduce education disparities.

Also:

- raise quality and relevance of education
- education must include patriotism, character building, ability to live in a multi-cultural society and [economic] competitiveness
- life-long learning to exploit the “demographic bonus”.

p. 22

#### Point B. Economic

3. The proportion of population in economically productive ages will grow to between 20–30% of total population by 2020–2030. The average educational level will rise from the current primary level to junior and senior secondary level. Economic growth will have to be able to provide suitable employment for this labor force.

p. 24

#### Point D. Infrastructure and Facilities

3. Need integration between education and information technology as well as other strategic sectors.

p. 26

#### Point E. Politics

3. Need political education to consolidate reform, develop political parties and strengthen civil society.

p. 28

### Chapter III Vision and Mission

Indonesia, which is self-sufficient, progressive, just and prosperous.

Indicators for progressive include:

- human resources with high quality education.

High quality is measured by:

- reduced numbers of people with low levels of education
- increased participation in education
- larger numbers of experts and professionals produced by the system.

p. 37

Indicators for justice and prosperity include:

- equal access in all sectors, including education.

p. 38

8 missions:

1. Create a society with excellent character, morals, ethics, and cultured and civilized through education.

p. 39

2. Create an economically competitive nation.

3. Create a democratic society based on law.

4. Create an Indonesia which is safe, peaceful and united.

5. Create equitable distribution of development and [social] justice.
6. Create natural beauty and environmental sustainability.
7. Create an archipelago nation which is self-sufficient, progressive, strong and based on national interests.  
[Code words for priority of marine, as opposed to terrestrial, development and national defense.]
8. Create an important international role.

## Chapter IV Directions for Development

### Section IV.1 Long-term development

#### Section IV.1.2 Create a[n economically] competitive nation.

##### Point A. Develop quality human resources.

3. Education is investment in human resources to support growth, employment and poverty reduction.

Basic education must be of high quality, accessible and free.

p. 47

#### Section IV.1.3 Create a democratic society based on law.

2. Role of the state is to create self-sufficient and “adult” civil society with strong economy and education.

p. 58

#### Section IV.1.6 Create natural beauty and environmental sustainability.

10. To be achieved through social learning and formal education at all levels.

p. 73

#### Section IV.1.7 Create an archipelago nation which is self-sufficient, progressive, strong and based on national interests.

1. To be achieved through education.

p. 74

### Section IV.2 Phases and Scale of Priorities

#### Section IV.1 First medium term (2004–2009).

[Note: the Medium Term Plan had already been created (2004) before the Long Term Plan was developed (2007).]

Improved human resources via education.

p. 78

#### Section IV.2 Second medium term (2010–2014).

Improved HDI scores, including education, supported by fully-consolidated national education system.

p. 79

Economic development from industry, backed by strong agriculture supported by relevant education.

p. 80

Section IV.3 Third medium term (2015–2019)

Achieve middle income status.

Improved quality and relevance of education, including local competitive advantage.  
Supported by efficient and effective management.

p. 81

Section IV.4 Fourth medium term (2020–2025)

Improved and competitive human resources via access, quality and relevance of education, supported by efficient and effective management.

pp. 82-83

Stronger links between education and higher accomplishments in science and technology.

p. 83

II. Medium-Term Development Plan (2004–2009) Presidential Order 7/2005

[Note that this plan was developed and issued before the Long-Term Development Plan was issued. At the time this plan was developed, there was a “draft” Long-Term Development Plan which was somewhat different from the permanent Long-Term Development Plan.]

Vision 2004–2009

1. Social, national and country’s life which is safe, unified, harmonious and peaceful.
2. Society, nation and country which holds in high esteem law, equality and human rights.
3. An economy which provide jobs and an adequate livings as well as a strong foundation for sustainable development.

p. Part I, 1-1

Missions

1. Safe and peaceful Indonesia
2. Just and democratic Indonesia
3. Prosperous Indonesia.

p. Part I, 1-2

Strategies

1. Reform
2. Develop.

p. Part I, 1-2

Challenges

1. Safe and peaceful Indonesia  
separatism  
crime  
terrorism.

2. Just and democratic Indonesia

existing laws and regulations which are not conducive  
low quality of public services  
weak political institutions and agencies  
weak decentralization and regional autonomy.  
pp. Part I, 1-4 / 1-5

3. Prosperous Indonesia

low quality human resources (access to education)  
low quality education  
decentralization of education has not been completely successful  
+ health and social conditions<sup>1</sup>  
+ economic sectors.  
pp. Part I, 1-5 / 1-6

Priorities

3. Prosperous Indonesia

Third priority is quality of human resources as measured by HDI  
first target is access and quality of education.  
p. Part I, 1-17

Policies are:

- compulsory universal 9 year basic education
- improved access for groups which have not had equal access (poor, remote, conflict areas and handicapped)
- vocational and entrepreneurial education, including quality nonformal education
- competency and professionalism of teachers
- [financial] welfare of teachers
- improve educational management and community participation
- better quality curriculum and implementation for character formation and life skills so graduates can solve problems and be [economically] productive.  
pp. Part I, 1-18 / 1-19

Specific programs and targets for improving access to higher quality education.

Constitution as basis for universal compulsory 9-year basic education.

pp. Part IV, 26-1

Problems:

- average level of education low (7.1 years and 36% JSE or above; illiteracy 10%) which result in insufficient for knowledge-based economy and global competitiveness.  
pp. Part IV, 26-1
- demographic changes (reduced birth rates) cause changes in demand for education: reduced demand for primary; increased demand for lifelong and non-forma.  
pp. Part IV, 26-1

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<sup>1</sup> Important to note that these are tied to ministries and programs = budget allocations.

- unequal access (rich-poor, male-female, urban-rural, geographical)
  - Susenas data (2003) showed that 76% of drop outs and non-transition was due to financial costs of schools
  - poor parents think education is expensive and benefits are not worth it.  
pp. Part IV, 26-1 / 26-2
  
- physical facilities for JSE and higher are unequally distributed
- quality is low and not relevant
  - number of teachers is insufficient and quality is low, including formal qualifications
  - teacher [economic] welfare is low
  - physical facilities are insufficient
  - not enough operational funding.  
  - result of this is that graduates are not entrepreneurial and prefer to be employees.  
pp. Part IV, 26-2 / 26/3
  
- education management is not effective and efficient
  - at both school and district levels
  - division of responsibility, including for funding is unclear
  - minimum service standards are not fulfilled
  - Boards of Education and school committees are not doing their jobs.  
pp. Part IV, 26-2 / 26-3
  
- not enough development budget funding for education<sup>1</sup>
  - during the past 5 years (2000–2004) education was the highest priority (largest development budget sector)
  - two requirements of constitutional amendment and education law: 20% of budget for education AND free basic education
  - 2004 education was 21.5% of the central development budget
  - in 1999–2001, Human Development Report cited [central] public expenditure on education was 1.3% of GNP while 2003 Susenas showed private expenditures on education were 3.49% of expenditure → claims to show that private expenditures are larger than government.  
p. Part IV, 26-4

**Targets:**

- significant reduction in illiterate adult population
- measurable increase in percent of people who achieve 9 year basic education
  - reduce primary drop out rate to 2.06% and JSE drop-out to 1.95%
  - increase 7–12 year school participation rate to 99.57% and 13–15 year rate to 96.64%
  - increase primary gross enrollment to 115.76% and JSE to 98.09%
  - reduce completion time by reducing repetition rates to 1.63% for primary and 0.32% for JSE

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<sup>1</sup> Note: this plan was drawn up before the budget format was changed in 2004.

- increased proportion of children receiving pre-school education
- increase proportion of people at SSE and tertiary levels
  - increase transition rates
  - reduce repetition
  - increase gross enrollment rates
- improve justice by decreasing urban-rural and gender differences
- increase the percent of teachers with full qualifications and professional certification; adjust numbers of teachers to numbers of students
- improve quality as measured by passing test scores
- improve R&D and new scientific and technological discoveries in tertiary and dissemination via social service.

p. Part IV, 26-5

#### Policy directions

- increase compulsory universal 9 year basic education
- expand access and equity for SSE and vocational SSE to anticipate increases in enrollment from successful graduates of 9 year basic education; create SSE graduates who are quality labor force members
- expand access to tertiary to produce graduates for the labor market; tertiary institutions as the “spear point” for global competitiveness through development of science, technology and art
- improved access for groups which have not had equal access (poor, remote, conflict areas and handicapped)
- vocational and entrepreneurial education, including quality nonformal education
- provide non formal education for people who cannot enroll in formal, especially illiterates and drop outs and others who want to improve their quality of life
- improve physical facilities and teachers
- improve [financial] welfare of teachers
- improve educational management and community participation
- increase autonomy and decentralization of education management by giving increased authority to schools, together with a system of control and guarantees of quality based on performance evaluation
- reform the education funding system to achieve 20% in 2009 in order to expand access to quality education
- better quality curriculum and implementation supported by media, for character formation and life skills so graduates can solve problems and be [economically] productive for a knowledge based economy and society
- develop multi-cultural education for national integration and values of pluralism, tolerance and inclusivity.

p. Part IV, 26-6

- develop reading culture
- education R&D for policy, programs and activities in order to improve quality, access, effectiveness and efficiency in management.

p. Part IV, 26-7

## Programs<sup>1</sup>

1. Pre-school education [Directorate within DG Basic and Secondary Education]
2. Compulsory Universal 9 Year Basic Education [3 Directorates within DG Basic and Secondary Education: primary, JSE, special education]

### Goal:

increase access and equity of access to quality basic education for both boys and girls through formal and nonformal, MONE and MORA schools

### Priorities:

- increased access for children who have never been enrolled in primary and increased transition to JSE
- maintain current achievements, reduce drop outs and repetition and improve quality
- offer additional education to students who cannot transition to SSE  
p. Part IV, 26-7

### Activities:

- increased and improved quality infrastructure and facilities, especially for rural, remote and archipelago areas; rehabilitation of damaged facilities; provision of adequate operational funding; quality improvements
  - via block grants and counterpart funding
- multiple alternatives such as formal and non formal education, including special provision for handicapped and gifted students
- retrieval of dropouts and nontransitioners, including community-based EMIS and financial assistance in the form of scholarships and vouchers
- curriculum development, including vocational for JSE students who do not continue to SSE
- providing facilities, teaching-learning media and education technology, including equipment, textbooks, reading books, science and technology books as references
- special attention to gifted students
- school based management and community participation which gives authority and responsibility to the schools
- increased community participation in provision of services, funding and management; increasing community awareness of the importance of basic education for boys and girls.  
p. Part IV, 26-8
- policy development, planning, M&E, supervision based on transparency, accountability, participation and democracy.  
p. Part IV, 26-9

3. Secondary Education [2 Directorates within DG Basic and Secondary Education]
4. Higher Education [Directorate General]
5. Non formal Education [Directorate General]
6. Improving Teacher Quality [Directorate General]
7. Civil Servant Education and Training
8. Improving a Reading Culture and Libraries

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<sup>1</sup> These correspond approximately to Directorates-General and/or Directorates within MONE.

9. Education R&D

10. Education Management.

III. Government Annual Work Plan [as the basis for the] 2010 [budget]

Presidential Regulation 21/2009

### **Volume I.**

Chapter I, Introduction

The current medium term (5 year) development plan ends in 2009 and the subsequent (2010–2014) plan has not been drafted yet. Therefore the basis for the 2010 annual work plan is the second 5 year time slice of the current (2005–2025) long term development plan.

Introduction, 1.1-1

The annual work plan does not cover the entire range of activities in the 2010 budget proposal [RKA-KL] because the budget was drafted while the work plan was still in process. However the work plan was included in discussions of the 2010 budget with Parliament's Budget Committee.

[Volume] 1. [Chapter] 1- [page] 2

Chapter II, Themes and Priorities for National Development 2010

Achievements:

- poverty alleviation
- education
- other sectors and programs.

1.2-1–2-32

Challenges:

- poverty
- access and quality of education
- other sectors.

1.2-32–2-51

Theme for 2010: reviving the national economy [from the effects of the global financial crisis] and maintaining people's welfare.

1.2-52

Operational basis: eight principles of mainstreaming and three cross sectoral issues

- mainstreaming society's participation
- mainstreaming sustainable development.

1.2-52

- mainstreaming gender
- mainstreaming reduction of inter regional disparities and accelerating development for "left behind" regions
- mainstreaming decentralization and regional autonomy.

1.2-53

- mainstreaming labor intensive [activities]
  - mainstreaming island dimensions
    - archipelagic state [English in the original] approach
    - maritime as the “center of attention.” [English in the original]
- 1.2-54
- cross sectoral issue protecting children
  - cross sectoral issue HIV/AIDS
  - cross sectoral issue improving nutrition.
- 1.2-55

#### Priorities for 2010

1. Maintaining people’s welfare together with re organizing and improving implementation of the social protection system
  2. Improving the quality of Indonesian human resources
  3. Securing the reformation of bureaucracy and law together with lasting democracy and national security
  4. Reviving the economy supported by developing agriculture, infrastructure and energy
  5. Improving the quality of the natural environment and capacity to deal with global climate change.
- 1.2-56

#### Policy Directions

for Priority 2: Improving the quality of Indonesian human resources  
[education falls under this priority]

##### Targets:

- improve access and equity in access to quality basic education for children 7–15 years old
  - gross enrollment in elementary school 117.1%
  - net enrollment in elementary school 95.27%
  - gross enrollment in junior secondary school 99.26%
- improve access and equity in access to secondary and higher education
- improve access to pre school education
- reduce drop out and repetition rates for all levels of education and raise transition rates
- reduce disparities in participation between groups including gender equality and justice
- improve adult literacy
- improve education quality as indicated by an increase in the proportion of teachers who fulfill academic qualifications and competency standards together with improvements in teacher welfare.

1.2-57

##### Policy directions:

- improve the quality of equitable 9 year basic education
- improve access, quality and relevance of secondary and higher education
- improve quality and relevance of non formal education

- improve the professionalism and welfare of teachers.  
1.2-57

#### Policy Directions

for socio-cultural and religious sectors  
[education is included in these sectors]

- better quality of equitable 9 year basic education
- better access, quality and relevance of secondary and higher education
- better quality and relevance of non formal education
- more professionalism and welfare of teachers
- better equity and coverage of pre school education.

1.2-60

- improved management of provision of education services
- public-private partnership [English in the original] in provision and financing of education.

1.2-61

#### Chapter III, Macro Economic Framework and Financing Development [DAK is included here]

##### Policy priorities for DAK:

1. Priority is to help regions with relatively low financial capacity in order to support achievement of minimum service standards...through provision of facilities and physical infrastructure for basic services.... as well as other regions which are included as priority areas by law...
2. Support the priority of accelerating improved welfare for poor people ... and the social protection system especially for increased access to basic services by poor people.
3. Support the priority of improving human resources through... [5 health sector programs] and improving the quality of equitable nine year basic education.

1.3-13

##### Education DAK programs

1. New classrooms for junior secondary schools
2. Libraries or learning resources centers for elementary and junior secondary schools together with furniture
3. Rehabilitation of elementary and junior secondary schools.

Priority given to regions where basic education participation rates are low. “left behind” areas and international border areas.

1.3-15

**Volume II** contains the matrices of sectoral programs, targets, implementing agencies and funding allocations.

The matrices are divided into 9 “groups” (*bidang*) which are collections of sectors.

Education is part of Group 1 socio-cultural and religious life.

Within each group, there are priority focus areas.

Education is priority focus 1 in Group 1 socio-cultural and religious life.

Each matrix is complemented by a “narrative” which is divided into the following sections:

- A. Current conditions
- B. Problems and targets for 2010
- C. Policy Directions

Within each of these sections, all sectors in the group are covered.

The matrix for education contains 109 rows (activities, funding lines).

The columns are:

- Budget code
- Activity
- Outputs (quantity)
- Program under which the activity falls
- Implementing agency
- Budget allocation.

Nine year compulsory basic education is a program.

The following activities are funded under this program.

| <b>Implementing Agency</b>              |                                      |
|---|--------------------------------------|
| <b>MONE</b>                             | <b>MORA</b>                          |
| <b>BOS</b>                              | <b>BOS</b>                           |
| one roof elementary and JSE schools     | quality improvement for madrasah     |
| new JSE schools                         | construct new madrasah (ADB program) |
| science labs for JSE                    | rehabilitate madrasah                |
| ITC for education                       | non formal equivalency in pesantrens |
| national exit exams                     | basic education in pesantrens        |
| non formal equivalency                  |                                      |
| special education                       |                                      |
| accredit 10,000 primary schools         |                                      |
| accredit 2500 JSE schools               |                                      |
| accredit 150 special education schools  |                                      |
| develop model curriculum/teaching       |                                      |
| develop teaching materials in districts |                                      |

### **Volume III**

[This volume is new in government annual work plans and harks back to the Five-Year Development Plans (*Repelita*) of the New Order Period.]

The volume contains the government work plans for provinces divided into seven geographical regions:

- Java—Bali
- Kalimantan
- Nusatenggara
- Papua
- Sulawesi
- Sumatra
- Maluku.

The government work plan for each region is divided into sections:

1. Current conditions

2. Goal and objectives, including quantitative targets
3. Strategy and policy directions, based on existing spatial plans.

While the data for each of the geographical regions is different, the outline and substantive content (sectors covered, priorities, etc.) is uniform across regions.

There is no information on costs or discussion of funding sources.

**Volume IV.** Ministry of National Education Strategic Plan 2005–2009

official version: attached to MONE Ministerial Regulation 32/2005  
but dated 2007

[This version is posted on the MONE website. A previous version, dated October 2005, circulated in the form of a CD. The previous version was quite different from this official version.]

There is also a draft Education Strategic Plan 2010–2014 dated February 2009 circulating at the time of this review. However in October 2009 a new Minister of Education was inaugurated and it is most probable that he will lead the production of his own Education Strategic Plan 2010–2014.]

The plan begins with a Preface which defines the long term (20 years) goal of education development as Indonesians who are smart (*cerdas*) and competitive.

The long term is divided into four five-year time slices:

- 2005-2010 improve capacity and modernity
- 2010-2015 improve and strengthen educational services at the national level.
- 2015-2020 strengthen competitiveness at the regional [ASEAN] level
- 2020-2025 strengthen competitiveness at the regional level.

The entire strategic plan, each time slice and each section within the time slices are organized around three “foci”

- Equity and improved access to education
- Improved quality, relevance and competitiveness
- Strengthened governance, accountability and public image for the entire education structure in the center [Jakarta] and regions.

## Chapter 1 Background

This chapter contains a brief summary of education policy contained in the Five-Year Plans (*Repelita*) of the New Order Period as well as the current legal foundations (Government Medium Term Development Plan 2004–2009). It also cites a Decision of the People’s Consultative Assembly TAP MPR VII/MPR/2001 concerning the Vision of Indonesia for the Future (2020) which contains a list of characteristics which Indonesia should have by 2020. Point 7 of the vision is for a “progressive” Indonesia and sub point c requires improvements in the quality of education to create workers with national and international standard competency.

[What is interesting here is that the Education System Law of 2003 does not cite this Decision as a source.]

p. 2

Chapter 1 also contains a section grouping the 39 MONE programs (budget lines) into Bappenas program groups: eight education program groups and seven “other” program groups.

Table 1.1, pp. 3–4

## Chapter 2 Bases of Policy for Development of National Education

Medium term goals for MONE:

- upgrade faith and religious practice, good character and spiritual quality of students
- improve command of science and technology
- improve sensitivity to and ability to express aesthetics
- upgrade physical [human body] quality
- provide equal access for all types and levels of education to all citizens; in a just/fair, non-discriminatory and democratic way; without discriminating by place of residence, socio-economic status, gender, religion, ethnicity or special physical, emotional, mental or intellectual difference
- achieve the compulsory universal 9 year basic education program efficiently, with high quality and relevance as a strong foundation for development Indonesian human beings
- significantly reduce number of illiterate adults
- increase access to non formal education for males and females who have never enrolled, are illiterate, drop outs and nontransitioners and all others who want to improve their knowledge, abilities and skills
- raise national competitiveness through graduates who are self-reliant, high quality, skilled, expert and professional, can learn, have life skills, can face challenges and change
- raise education quality through national education standards and minimum service standards, raise minimum qualifications and certification for teachers
- improve the relevance of education through education R&D and development of science and technology by higher education institutions and dissemination through social service
- reform education organization and management to be more efficient, productive and democratic in good governance and accountability
- improve effectiveness and efficiency of management through school based management and community participation, effective autonomy and decentralization
- eliminate corruption, collusion, nepotism for good governance in MONE.

p. 9

Vision:

Education as a social structure which is strong and respected to empower all Indonesian citizens to become quality human beings who are capable and proactive in answering the challenges of the times which always change.

In addition to this official Vision Statement, MONE is also dedicated to producing Indonesians who are intelligent (*cerdas*) and competitive.

The explanation emphasizes that the intelligence intended is “comprehensive,” including spiritual, emotional, social, intellectual, and kinesthetic.

p. 10

It is emphasized that the vision is for “transformative education” which will be the driver of change from a developing society to an advanced society.

p. 11

#### Mission

Create education which is capable of developing Indonesian people who are comprehensively and competitively smart.

p. 12

#### Values of MONE

input values: values for employees

process values: values for managers

output values: values for stakeholders.

p. 13

[each of the groups has a list of values attached]

#### Chapter 3 Basic Policies for Development of National Education

[Each basic policy is expanded into a list of policies which is followed by a list of “programs” (budget lines). Only policies and programs related to basic education are listed below.]

##### 1. equity and equality of access

###### Policies

- remove cost barriers to basic education through BOS
- build “one roof” elementary/junior secondary schools
- non formal equivalency programs for basic education aged students.

p. 19

###### Programs

- operational funding for 9 year basic education/BOS.
- provision of infrastructure and facilities (rehabilitate elementary, build junior secondary)
- recruit teachers and other personnel.

p. 21

##### 2. quality, relevance, and competitiveness

###### Policies

- national education standards
- school exit examinations for elementary schools and national exit examinations for junior secondary school
- quality assurance through analysis of exit examination scores to identify causative factors as a basis for interventions
- affirmative action with special attention to low quality schools
- accreditation.

p. 24

#### Programs

- national education standards
  - quality assurance based on national education standards
  - international benchmarking surveys
  - accreditation
  - professional development for teachers.  
p. 25
  - infrastructure and facilities
  - international standard schools in each district
  - use of ICT in education.  
p. 26
3. governance, accountability and public image  
reformation of education to be effective, efficient and accountable.  
p. 28

#### Policies

- capacity development at all levels of government and in schools.  
p. 29
- internal control systems, in cooperation with state internal and external audit agencies
- capacity building for Inspectorate General
- capacity building for planning and budgeting.  
p. 30
- managerial capacity building
- abiding by rules and regulations together with improved rules and regulations
- public image
- anti corruption.  
p. 30
- follow up of audit findings
- integrated management information systems.  
p. 31

#### Chapter 4 Long Term Education Development Plan 2005–2025

4 time slices each with its own strategic theme

- capacity building and modernization 2005–2010
- improved services 2010–2015
- regional competitiveness 2015–2020
- international competitiveness 2020–2025 .  
p. 36

3 main focus areas for each theme/time slice:

- access
- quality, relevance and competitiveness
- governance, accountability and public image.  
p. 36

[here is also an appendix which lists “theme,” “vision,” “targets,” and “activities” (programs/budget lines) for each echelon 1 unit in MONE during each period. The targets and activities are grouped by the 3 main focus areas.]

## Chapter 5 Medium Term Education Development Plan 2005–2009

Figure 5.1 (p. 43) shows current conditions → programs → expected conditions 2009-11-20 for the 3 main focus areas. For basic education:

### access

- current condition: 3.2% of children aged 7–12 and 16.5% of children aged 13–15 are not in school
- program: basic education
- expected condition: 98% of children aged 13–15 are not in school.

### quality

- current condition: Indonesia ranks 12<sup>th</sup> out of 12 internationally for relevance\*
  - students are undernourished
  - 40% of basic education teachers are teaching subjects in which they are not qualified
  - 58% of elementary classrooms are in either moderately bad or very bad condition
  - additional 218,000 teachers are needed.
- program: basic education
- expected condition: achievement of national education standards.

[no supporting data or source is given for this statement]

### governance

- current conditions
  - 8,817 findings by auditors (1997–2004)
  - decentralization
  - MIS not providing information needed for management
  - financial reports have disclaimers from auditors.
- program: various
- expected condition:
  - change management
  - performance based budgets
  - school based management
  - national education standards (management)
  - ICT for management
  - financial reports without disclaimers.

[Each of the “programs” is an echelon 1 unit.]

### Basic education programs

- Access
  - BOS
  - [block grants] for school construction and rehabilitation + laboratories, libraries and books
  - “one roof” combined elementary and junior secondary schools
  - special services for students in remote, sparsely populated, natural disaster, conflict and isolated areas and street children.

#### Targets

7–12 year old school enrollment rate 99.6%  
elementary net enrollment rate 95%  
13–15 year old school enrollment rate 96.6%  
junior secondary net enrollment rate 75%.

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- Quality, relevance and competitiveness
  - model curriculum, teaching learning methods and evaluation methods
  - professionalization and competencies of teachers
  - upgrade infrastructure and facilities
  - schools based on local comparative advantages
  - international standard schools
  - ICT.
- Governance, accountability and public image
  - school boards and school committees
  - EMIS

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### Chapter 6 Funding Strategy

#### Priorities for limited resources

- first priority for government resources is support for students from poor families and other disadvantaged children
- second priority is funding for decentralization and autonomous education.
- third priority is using budgets for incentives and disincentives

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#### Funding Plan

Table 6.1 (p. 70) shows five year macro estimates for central and regional government budget allocations for education. The central budget allocation for education (net of civil service salaries) as a percent of total central spending rises from 9% in 2005 [actual] to 20% in 2009. With civil service salaries included, the percentage is 43% in 2005 rising to 127% in 2009.\* The total regional budget allocations for education as a percent of total regional spending rises from 20% in 2005 [estimated] to 28% in 2009.

[This figure can be greater than 100% because the civil service salaries are not included in the “central government budget” as they are transferred directly to regions through the DAU (part of shared revenues). The “central government budget” is defined as the total national budget net of transfers to regions (shared revenues, special autonomy and balancing funds).]

Table 6.2 (p. 70) shows the actual per student total cost of various types (MONE and MORA) and levels (primary, junior secondary, senior secondary) of schools.

[Information obtained from interviews during this update indicates that these costs are based on surveys carried out for the National Education Standards Agency (BSNP).]

Tables 6.3 (p. 71), 6.4 (p. 72) and Graph 6.1 (p. 72) show the five year estimates for actual funding required compared to a breakdown of the anticipated MONE budget by spending program (category). total funding required rises 69%\* over the five year period to account for improved quality and higher access to junior and senior secondary schools. MONE's contribution to total required funding rises from 31% to 55% over the period, which requires a 200% increase in the MONE budget.\*\* International donor contributions are assumed stable at 5%. Community contributions are assumed relatively stable at 38%–40% of total funding requirements but this requires a 62% increase in the value of those contributions over the period. Finally, the fiscal gap falls from 23% in 2005 to 1% in 2009.\*\*\*

[\*The tables and graph show rupiahs. Calculation of percentages by the author.]

\*\*Note that all calculations assume an inflation rate of 8% in 2005 falling to 3% in 2009.]

\*\*\*Note that the fiscal gap is defined as a shortfall in quality improvement not an absolute spending deficit.]

## Chapter 7, Monitoring and Evaluation

Begins with a theoretical discussion of M&E as part of organizational management.

Continues with lists of the types of monitoring and evaluation to be implemented by each agency.

Performance indicators consist of: inputs, process, outputs, impacts for each strategic policy (access, quality, governance).

Table 7.1 core indicators:

- access and equity
    - enrollment ratios (including non formal programs)
    - disparities in enrollment between various groups (gender, urban-rural, poor-non poor, etc.)
    - adult illiteracy.
  - quality and relevance
    - exit examination scores
    - proportion of SSE in vocational programs
    - proportion of tertiary in vocational and professional programs.
  - governance
    - number of problems discovered in audits
    - rupiah value of problems discovered audits
    - rupiah value of cases followed up/solved.
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Annual quantitative targets for the indicators are also given.

## Appendix 2. BOS and the Fuel Subsidy Compensation Fund

### Introduction

1. The School Operational Funding subsidy (*Bantuan Operasional Sekolah/BOS*) is an activity<sup>1</sup> (budget line) in the Compulsory 9-Year Basic Education (*Wajib Belajar 9 Tahun/Wajar*) program<sup>2</sup> of the current government. Although the BOS is now a funding item in its own right, it has its origins in the social safety net and fuel subsidy compensation fund, which were political categories, not budget lines. This background explains some of the unusual features of the BOS funding procedures. Furthermore during the fiscal years in which BOS has been included in the budget,<sup>3</sup> the design and administrative procedures of the activity have changed substantially. Therefore, it seems useful to provide a brief description of the BOS and its background.

### Social Safety Net

2. The social safety net activities, which would eventually evolve into the fuel subsidy compensation program and then into BOS, began as a component of the response to the foreign exchange crisis of late 1997. As part of the Indonesian commitment for International Monetary Fund (IMF) emergency assistance, GOI agreed to a “social safety net” concept. At this time, the concept was very loosely defined: “budgetary allocations for social spending will be increased, so as to ensure that all Indonesians receive at least nine years of education and better basic medical services.”<sup>4</sup> As the foreign exchange crisis deepened into an economic crisis, the first concrete commitment was community-based work programs to sustain the purchasing power of the poor in both rural and urban areas.<sup>5</sup> The next addition to the program was increased budgetary subsidies on food, fuel and electricity as well as subsidized credit schemes for small- and medium-size enterprises where most of the non-agricultural labor force was employed.<sup>6</sup> Almost a year into the crisis, the government began three new programs: subsidized rice for very poor families, scholarship programs for elementary and junior secondary students from poor families and block grants to schools to cover operational expenses which had increased due to the massive inflation.<sup>7</sup> All these programs were funded through the development budget, with donor assistance. For the 1999/2000 academic year, the Asian Development Bank financed the scholarships and school grants in 16 provinces while the World Bank financed the other 10 provinces. The funds flowed through the development budget allocation for the relevant ministries, e.g. labor-intensive public works through Ministry of Public Works; rice through *Bulog* (the government-owned rice procurement agency); scholarships and school block grants through the Ministry of Education and Culture.<sup>8</sup>

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<sup>1</sup> Line item in the budget.

<sup>2</sup> Group of related activities that together form a funding category.

<sup>3</sup> Beginning from 2005.

<sup>4</sup> Letter of Intent, October 31, 1997; (d) Social Safety Net; paragraph 45.

<sup>5</sup> Memorandum of Economic and Financial Policies of the government of Indonesia, January 15, 1998, paragraph 48.

<sup>6</sup> Supplementary Memorandum of Economic and Financial Policies, April 10, 1998, paragraph 20.

<sup>7</sup> Letter of Intent and Memorandum of Economic and Financial Policies, July 29, 1998.

<sup>8</sup> Name has been subsequently changed to Ministry of National Education.

3. In late March 2000, the government announced plans to increase fuel prices on April 1 in an effort to cut fuel subsidies. At the same time, it announced that it would protect poor families and public transportation passengers from the increases by providing them with cash aid to buy fuel at the new prices. After consultations with Parliament, the price increase was delayed until October and the government provided unconditional cash transfers to identified poverty families.<sup>1</sup>

4. A year later, the World Bank cancelled the second tranche of its safety net loan and this was the end of donor assistance for the safety net. The bank's evaluation concluded: "Overall, the contribution of the safety net programs to mitigating the worst effects of the crisis on the poor was likely to have been modest, although some programs including scholarships and subsidized rice distribution have been shown to have had a positive impact."

5. In June 2001, the government raised fuel prices again by 30 percent. At the same time, the government proposed to Parliament to provide budgetary allocations for assistance to public transportation operators to help them cope with the higher prices; additional subsidized rice for 1.2 million poor families; vaccination programs for children and other medical needs of the poor; scholarships and school renovation; clean water for poor villages; cheap loans for small enterprises; and assistance for empowerment of marginal fishing communities. The education assistance comprised scholarships for class 1, 2, 3 primary students, classes 1 and 2 JSE and SSE students;<sup>2</sup> block grants for operational funding for primary, JSE and SSE schools; students and tutors in the nonformal education program; and assistance to MORA for scholarships and student block grants. This was the first time that budget allocations for the social sectors had been explicitly linked to fuel prices. However the amounts of the increased budget allocations for social sectors were not directly related to calculations of reductions in budget allocations for fuel subsidies, instead they were based on the unit costs used for the social safety net activities.

6. The scholarship money was distributed to eligible students through the Post Office. The Ministry of Finance transferred the funds to the Post Office headquarters, while debiting the transfers from the Ministry of Education budget allocation. The Post Office headquarters then sent the money to local post offices for payment direct to the students.

### **Fuel Subsidy Compensation Fund**

7. The fuel subsidy compensation fund is a political category, not a budget line. The budgetary process is complex. In essence, the subsidy is paid by the Government to Pertamina (a state-owned corporation) to reimburse Pertamina for the cost of importing and distributing oil products. This cost has 2 components:

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<sup>1</sup> Originally the identification was made through a household census by the Family Planning Agency under its "Family Welfare Program" because the Agency had an existing system of categorizing households on "welfare" status using a combination of consumption levels, ownership of durable goods and other variables. Subsequent identification was made through household censuses by the Central Statistical Agency using a consumption poverty line.

The chair of the (government sponsored) neighborhood organization issues a letter certifying poverty when the household wishes to apply for assistance. This provision eliminates illegal migrants (who are not registered with the local neighborhood organization) from eligibility for assistance.

<sup>2</sup> Scholarships for students in classes 4, 5, 6 primary and class 3 in JSE and SSE were financed under existing budget allocations to MONE.

- the difference between the price Pertamina pays in the international market (or the international price at which Pertamina could sell domestic production) and the domestic price
- multiplied by the quantity of fuel used.<sup>1</sup>

The Ministry of Mines and Energy and Pertamina, together with Ministry of Finance, forecast both the international price and the domestic demand. This is the basis for the Government's budget proposal to Parliament for the budget line "subsidies to state-owned corporations".

8. If the international price of oil rises drastically, then the budget allocation for subsidy to Pertamina is spent faster than the scheduled disbursement and—ultimately—threatens Pertamina's corporate cash flow and ability to import oil. Because the subsidy is a budget item, both the original forecasts ("assumptions") and revisions in the total subsidy require Parliamentary approval. It is the difference between the potential subsidy required under certain assumptions and the actual subsidy budgeted (based on alternative assumptions) which is the fuel subsidy compensation "fund". The "fund" can arise from differences in assumptions between one year and the next (e.g. the 2003 budget proposal), as well as arising from the changes in assumptions calculated in the process of evaluation of the actual revenues and expenditures during the first semester of the fiscal year in preparation for submitting the proposed budget revision to Parliament during the second semester (e.g. 2004).

9. Allocation of the "fund" is also part of the budgetary process, and therefore subject to negotiations between the Government and Parliament. The fact that the "fund" is generated by assumptions means that its size is negotiable, within certain limits. Assumptions about the international price of oil products affect both sides of the budget, revenues and expenditures, so the only hard constraint is the level of the total budget deficit and even that is negotiable within limits set by law. Increasing the domestic price of fuel products increases Pertamina's revenues and reduces the amount of subsidy required to cover Pertamina's costs. Reductions in the budget allocation for subsidies allows increased expenditure for sectoral ministries within the same budget deficit but the size and distribution of this "dividend" is a political process between Parliament and the Government.

10. In January 2002 the government raised fuel prices again and, for the first time, announced a specific mechanism to launch a "compensation fund" to mitigate the effect of the fuel price hike on the poor. The government estimated that there were 40 million poor people and that the fuel price increase would add Rp.170,000 to the annual cost of living for each poverty household, however, the value of the total package of assistance (scholarships, free medical care, subsidized rice) would be Rp.350,000. The funding for these programs was channeled through the sectoral budget allocations for each ministry (and Bulog).

11. In January 2003, the Government raised the administered price of electricity, followed a day later by the price of fuel. Again the Government announced that there

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<sup>1</sup> In 2003, serious underestimation of the demand for gasoline resulted in a 30% shortage of cash available to Pertamina, which caused international banks to refuse to issue Letters of Credit for fuel imports. The WB PER, 2007, notes that cash flow is still a problem at Pertamina.

would be compensation for the poor in the form of subsidized rice, education and health services. However, there were no new budget allocations announced and the “compensation” appears to have been a continuation of previously existing programs.

12. The sharp increase in international oil prices during the first quarter of 2003 related to US involvement in Iraq and the subsequent rise in prices through the remainder of the year were included as assumptions in the Government’s proposed budget for 2004. When the proposed revision for the 2004 budget was submitted to Parliament in the second semester of 2004—during the campaign for the first direct Presidential election—all candidates acknowledged the need for an increase in the domestic price of fuel to address the 300% over-spending for the fuel subsidy budget line caused by a doubling of the international oil price.

13. The newly-elected presidential team of Susilo Bambang Yudoyono and Jusuf Kalla immediately announced that an increase in the domestic price of oil products would be necessary in early 2005 but reached a compromise with Parliament that the price increase would not be submitted as a revision to the 2005 budget, which had already been passed by Parliament. Instead the price increase would be implemented as “flexibility” in implementing the existing budget.

14. The government announced a “new progressive, pro-poor scheme” to minimize the impact of the fuel price increase on the poor in the form of a “new fund”, however the activities were a continuation and extension of previous activities, i.e. subsidized rice, education and health, public works, etc. For the first time, the government presented explicit calculations: showing that the budget allocation was Rp.19 trillion; without the fuel price increase (and under certain assumptions about the international price of oil) the subsidy would amount to Rp.39.8 trillion; and without the fuel price increase (under the same assumptions about the international price of oil) Rp.60.1 trillion would be required to fund the subsidy. Thus Rp.20 trillion was available as the savings in the fuel subsidy, of which the government would allocate half (Rp.10.5 trillion) to programs for the poor. This would be added to the existing budget allocations Rp.7.3 trillion for the same program to provide a total “fund” of Rp.17.8 trillion.<sup>1</sup> The government also offered a package of assistance to the owners of public transport so that they would not need to raise fares.

## **BOS**

15. Domestic oil prices were raised in March 2005 and an extraordinary budget revision was submitted to Parliament. This step was necessary in order to provide funding channels for post-tsunami reconstruction as well as the revision in the allocation for subsidy to Pertamina and the fuel subsidy compensation assistance, which was programmed through central ministry budgets but sent to a variety of implementing agencies: provincial and district sectoral agencies (*dinas*), Askes Corp. (the state-owned insurance company), Bulog, etc. In June the revised budget was passed by Parliament, which raised the total allocation for poverty programs from Rp.10.5 trillion to Rp.12.5 trillion with almost the entire increase going for education.<sup>2</sup> The form of assistance for education was also changed from scholarships

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<sup>1</sup> *Jakarta Post* newspaper, Tuesday, March 1, 2005.

<sup>2</sup> The allocation for health was raised slightly. The allocation for rural infrastructure remained the same, but the size of the block grant to each village was reduced from Rp.300 million to Rp.150 million in order to cover more villages.

for low-income students to a per capita grant to schools. This was the Operational Assistance for Schools (*Bantuan Operasional Sekolah/BOS*) program. BOS was offered to all<sup>1</sup> schools and madrasah offering basic education (primary and JSE levels) while the scholarship program was retained for students at schools and madrasah offering senior secondary level education.

16. The official justification<sup>2</sup> for the BOS at this time was that poor households<sup>3</sup> had lower access to education (enrollment rates) and this violated both their right to education and jeopardized the successful achievement of the government's Universal Compulsory 9 Year Basic Education targets. It was claimed that one reason for the lower enrollment of children from poor households was the high cost of education, including indirect costs such as transport, pocket money, etc. The increase in fuel prices was seen as reducing poverty households' purchasing power, which would make it even more difficult for them to send their children to school and further threaten the Universal Compulsory 9 Year Basic Education targets.

17. It was explicitly stated that BOS would "free students from the burden of school operational costs ... [for] registration, tuition, examination fees and materials and costs of laboratory and workshop sessions."<sup>4</sup> The goal of BOS was to provide assistance to schools in order to "permit them to eliminate student fees while still maintaining the level of educational quality".<sup>5</sup>

18. Originally BOS was designed with a self-selection mechanism that would encourage only schools serving poverty students to apply. The original draft handbook (and the original announcement by the Parliamentary Budget Commission) specified that any school accepting the BOS was required to stop charging all tuition and fees to students. The theory was that schools which were currently charging less than the BOS would apply for BOS and exempt their students from paying for education, while schools which were currently charging more than BOS (to more affluent families) would opt out of BOS.<sup>6</sup>

19. However this requirement was changed under political pressure based on the constitutional guarantee of free basic education. As the Minister of Education explained: "We will begin providing free education beginning this upcoming school year ... however, the term 'free' would not mean that it would be totally without payment. 'Free' education will be given through block grants disbursed to all public, private and religious elementary schools and junior high schools across Indonesia. ...

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<sup>1</sup> Except the Open JSE Schools (*SMP Terbuka*), because the additional costs of the "open" program were covered by a central MONE block grant to the Mother Schools (*Sekolah Induk*). The "Open JSE" is actually a program run by a regular (government) JSE called the Mother School (*Sekolah Induk*) in addition to its regular program. Mother schools were eligible for BOS to cover their regular enrollment, but not the open program enrollment.

In 2007, BOS coverage was extended to open program enrollment.

Nonformal basic education programs (*Packets A and B*) were also excluded from BOS for the same reason as Open JSE: their costs were covered by existing MONE budget lines.

<sup>2</sup> Stated in the Handbook for Implementation (*Buku Panduan*) 2005, page 2.

<sup>3</sup> And households living in remote or conflict areas and households with handicapped children.

<sup>4</sup> *Ibid.*, page 3.

<sup>5</sup> *Ibid.*, pages 3–4.

<sup>6</sup> This distinction was retained in the Handbook, even after the requirements were changed, cf. paragraph 20, page 90 below.

Schools will no longer be allowed to demand any kind of fees from poor students," he stressed. "They will be given grants, the amount of which will depend on the number of students in each school, not only poor students, multiplied by the cost per student," he said. "'Free' education for the students who are capable of paying fees would be given by limiting the kinds of fees schools will be allowed to charge. ... We will decide what kinds of fees a school can collect from the non-poor," he said. Thus BOS is now available to all primary and JSE schools and madrasah who apply and fulfill the administrative requirements for receipt of the funds.<sup>1</sup>

20. The 2006 Handbook links the BOS explicitly with the fuel subsidy compensation fund, but the 2007 Handbook, while still mentioning the burden of fuel price increases, no longer mentions the "fund". The management team for BOS at central, provincial and district levels was called the Fuel Subsidy Compensation Fund management team in 2005 and 2006 but was re-named BOS management team in 2007.

21. The 2007 Handbook also contains three subsections which link BOS to national education policies rather than to the fuel subsidy compensation mechanism. The first subsection<sup>2</sup> discusses BOS in relation to the universal compulsory 9 year basic education program<sup>3</sup> and identifies BOS as an activity contributing to the increased and more equitable access group of programs.<sup>4</sup> This subsection also requires principals to "pay attention to" the following aspects of access:<sup>5</sup>

- it is imperative that no poor students drop out of school because of financial reasons
- every effort must be made to assure that primary graduates continue on to JSE; it is imperative that no poor students fail to transition for financial reasons
- principals should actively engage in retrieval activities, i.e. seeking out children who have dropped out or not transitioned to JSE and bringing them back into school.

22. The second subsection deals with BOS in relation to school-based management. The discussion emphasizes that BOS is school-based management in action because the funds are completely under the control of the school which empowers the school and increases community participation.<sup>6</sup> Finally the third subsection discusses BOS and regional government (provincial and district). This subsection lists the obligations of regional government:

- continue to provide operational funding for schools<sup>7</sup>
- if the region (district or province) has a "free school" policy, then it must provide sufficient funding out of the regional budget to cover all costs

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<sup>1</sup> *Jakarta Post* newspaper, Tuesday, May 18, 2005, and Handbook for Implementation (*Buku Panduan*) 2005, page 7.

<sup>2</sup> This subsection is included in the 2006 Handbook. The other subsections are new in the 2007 Handbook.

<sup>3</sup> The term "program" is used here as a synonym for "budget line" (containing many activities), and the same term later in the sentence is used as a synonym for "activity." The Indonesian term *program* is used in both senses, depending upon the context.

<sup>4</sup> The other two program groups are increased quality, relevance, and competitiveness; and management, accountability, and public image.

<sup>5</sup> Handbook for Implementation (*Buku Panduan*) 2007, pages 10–11.

<sup>6</sup> *Ibid.*, pages 11–12.

<sup>7</sup> This obligation was also stated in the 2005 and 2006 Handbook.

- provide “safeguarding” funding
- supervise use of BOS funds by schools.

### **Eligibility and Participation**

23. All schools and madrasah are eligible to receive BOS. Private schools must be properly registered with either MONE or MORA. Traditional Moslem boarding schools (*pondok pesantren*) which are registered as participants in the universal compulsory 9 year basic education program<sup>1</sup> are also eligible to receive BOS for the students participating in the program.

24. Schools which have revenues larger than their BOS allocations are permitted to reject BOS funding and are not required to abide by BOS rules however the principal must register his/her rejection with the district BOS team. The notification of rejection must be counter-signed by the school committee. If the school has poor students, it is required to “guarantee” that they will not drop out for financial reasons.<sup>2</sup>

25. Schools which elect to receive BOS must abide by the following rules:

- if the school has poor students, then these students must be relieved of all costs and fees and the remaining BOS funds used to “subsidize” other students
- if the school has no poor students, then the BOS funds must be used to reduce costs and fees to all students equal to the total BOS funds.

The former condition is explicitly referred to as “limited free education”,<sup>3</sup> cf. paragraph 19 above.

26. Schools which elect to receive BOS must open bank accounts in the name of the school (not personal accounts) with authorized signatures of the principal and chair of the school committee, indirectly requiring also that the school have a legally established school committee.

### **Size and Structure of BOS**

27. BOS consists of funding provided from the central budget to schools and is calculated as a unit (per capita) cost x enrollment. The program disbursed Rp 5.3 trillion in June–December 2005 and Rp 11.12 trillion in 2006, which equated to around 25 percent of the overall central budget for education.<sup>4</sup>

28. The unit cost allocations are shown in **Table 1**, below.

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<sup>1</sup> Under this program, the students in the boarding school also receive instruction in the subjects comprising the national curriculum and sit for national exit examinations at the end of grade 6 and 9. This program is different from the situation in which madrasah are sited within the boarding school campus. A madrasah is a school: there are classrooms, desks and chairs, chalk board, etc. and the class schedule follows regular school hours. In the boarding school program, the lessons in national curriculum subjects are provided in the physical facilities of the boarding school where students may sit on grass mats (or carpets) on the floor and the lessons are scheduled around the Islamic studies curriculum.

<sup>2</sup> Handbook for Implementation (*Buku Panduan*) 2007, page 2.

<sup>3</sup> *Ibid.*, page 10.

<sup>4</sup> Spending for Development: Making the Most of Indonesia’s New Opportunities—Indonesia Public Expenditure Review 2007, World Bank Initiative for Public Expenditure Analysis, Jakarta 2007, page 36.

**Table 1. Unit Cost Allocations for BOS**

| Year (fiscal)  | Unit Cost (Rp.)      |                      |
|--|----------------------|----------------------|
|  | Primary              | JSE                  |
| 2005: 2005/2006 1st semester                         | 235,000 <sup>1</sup> | 324,500 <sup>1</sup> |
| 2006: 2005/2006 2nd semester; 2006/2007 1st semester | 235,000              | 324,500              |
| 2007: 2006/2007 2nd semester; 2007/2008 1st semester | 254,000              | 354,000              |

<sup>1</sup>Full year equivalent. Actual payment was 1/2 of this amount.

Source: Handbook for Implementation (*Buku Panduan*), various years.

Although the unit cost allocation for BOS was unchanged between 2005 and 2006, the annual inflation<sup>1</sup> during 2005 was 17.11%, during 2006 was 6.60%, and during the first quarter of 2007 was 1.91%. The total increase (from 2005 to 2007) for the BOS primary unit cost allocation was 8.08%, and for the JSE unit cost it was 9.09%. Thus, the real value of the BOS funds received by schools has dropped significantly.

29. The unit cost structures were based on the results of an empirical study carried out by the Research and Development of MONE in 2002/2003<sup>2</sup>, however the actual unit cost allocations were based on discussions among MONE, MOF and Parliament. MONE provided preliminary calculations to MOF and Parliament, who then fixed the total funds available for BOS. MONE divided the total funds available by the estimated enrollment and arrived at the unit cost allocation which was included in the handbook.

30. The methodological framework for identification of cost components used in the study followed the formula funding proposal developed by UNICEF/UNESCO for MONE in 2001.<sup>3</sup> This formula divided total costs into two categories: operational/recurrent costs and investment/capital/development costs. Only the former are covered by BOS. Operation costs are subdivided into two categories: personnel and nonpersonnel costs. BOS covers the latter.<sup>4</sup> The cost items which may be paid out of BOS are shown in **Table 2**, below.

<sup>1</sup> Central Agency for Statistics (*Badan Pusat Statistik*), Consumer price index. This is a national average—there are large regional differences.

<sup>2</sup> Published in 2005 as Abbas Ghozali, “Analysis of Unit Costs for Primary and Secondary Education (*Analisis Biaya Satuan Pendidikan Dasar dan Menengah*),” Research and Development Office, Ministry of National Education, Jakarta, 2005.

<sup>3</sup> McMahon, W. and Boediono, “Improving Education Funding in Indonesia,” in McMahon, et al., *Improving Education Finance in Indonesia*, Research and Development Office, Ministry of National Education, Indonesia, UNICEF and UNESCO, 2001.

<sup>4</sup> Personnel costs for civil servant teachers (and principals) in both government and private schools are covered by government budget allocations.

**Table 2. Eligible Cost Items**

| Original 2005 instructions   | Changes in 2006 and 2007  |
|--|---|
| registration   | expanded to include "all" activities related directly and indirectly to admissions and re-registration of returning students  |
| required and supporting textbooks for the library collection   | expanded to include reference books for the library collection <sup>1</sup>   |
| teacher quality support (subject matter discussion groups/MGMP, principals' discussion groups, training, etc.) | no change   |
| tests and examination fees   | expanded to include costs of preparing reports  |
| consumables (notebooks, chalk, pencils, consumables for laboratory sessions)                                   | expanded the list to include office supplies for school administration and newspaper subscriptions  |
| light maintenance  | specified what activities were eligible, including painting, repairing leaky roofs, repairing doors and windows, repairing furniture<br>2007 added repairs to bathrooms and sanitary facilities |
| utilities  | provided explicit lists including electricity, water and telephone and allowed installation of additional telephones to existing systems <sup>2</sup>   |
| salary supplements for permanent teachers and payments to nonpermanent teachers                                | specified that BOS was limited to salary payments for nonpermanent staff and stated that salary supplements for teachers were the full responsibility of the District Government                |
| student activities (remedial programs, special tutoring for exit exam preparation, extracurricular)            | expanded the list to include sports, art and specific examples of extra-curricular activities   |
| transport costs for poor students  | added that this assistance was limited to poor students who experienced "problems" in covering their transport costs to and from school   |
| dormitories<br>(for religious boarding schools only)   | no change   |
| equipment for religious rites<br>(for religious boarding schools only)   | no change   |
|  | new item: costs of BOS administration (office supplies, duplicating materials, correspondence, reporting)   |
|  | new item: transport reimbursement <sup>3</sup> for teachers but only for activities outside the regular teaching load   |
|  | new item: if all of the above have been covered and there are still BOS funds remaining, they may be spent for teaching-learning media and purchase of furniture                                |

Source: Handbook for Implementation (Buku Panduan), various years.

<sup>1</sup> 2007 added that these books were in addition to those purchased through BOS-for-Books (BOS Buku).

<sup>2</sup> I.e., if telephone lines already reach the school. Paying for running new telephone lines from the nearest existing point to the school is prohibited.

<sup>3</sup> This is often a euphemism for salary supplements.

The instructions in the 2007 handbook say that BOS funding is to be used “primarily” (*diutamakan*) for the items in the list.

31. There is also a list of ineligible items, which includes:

- financial instruments (such as certificates of deposit) to generate interest income
- loans
- expensive activities which are not school priorities, specifically study tours, comparative study tours and other excursions
- bonuses, transport and uniforms [for teachers] and any other costs that are not specifically related to student needs
- major maintenance
- new construction
- purchase of any items which do not directly support teaching-learning
- purchase of stock/shares in publicly listed companies
- any costs which are already being covered out of central or district government budgets, specifically contract teachers supplied by government and extra teaching loads.

#### **Payments Schedule and Mechanism**

32. Since BOS is included in the central budget, it follows the fiscal year (January to December). However schools operate and budget on the academic year (July to June). Thus the BOS allocation for any given fiscal year funds the second semester of the current academic year and the first semester of the following academic year. Schools are required to report changes in enrollment at the beginning of the (following) academic year.

33. The 2005 BOS was introduced as part of the mid-year budget revision process and so covered only the first semester of the 2005/2006 academic year. The second semester was covered by the 2006 BOS. The 2005 BOS was distributed in one payment. The 2006 BOS was distributed in tranches:

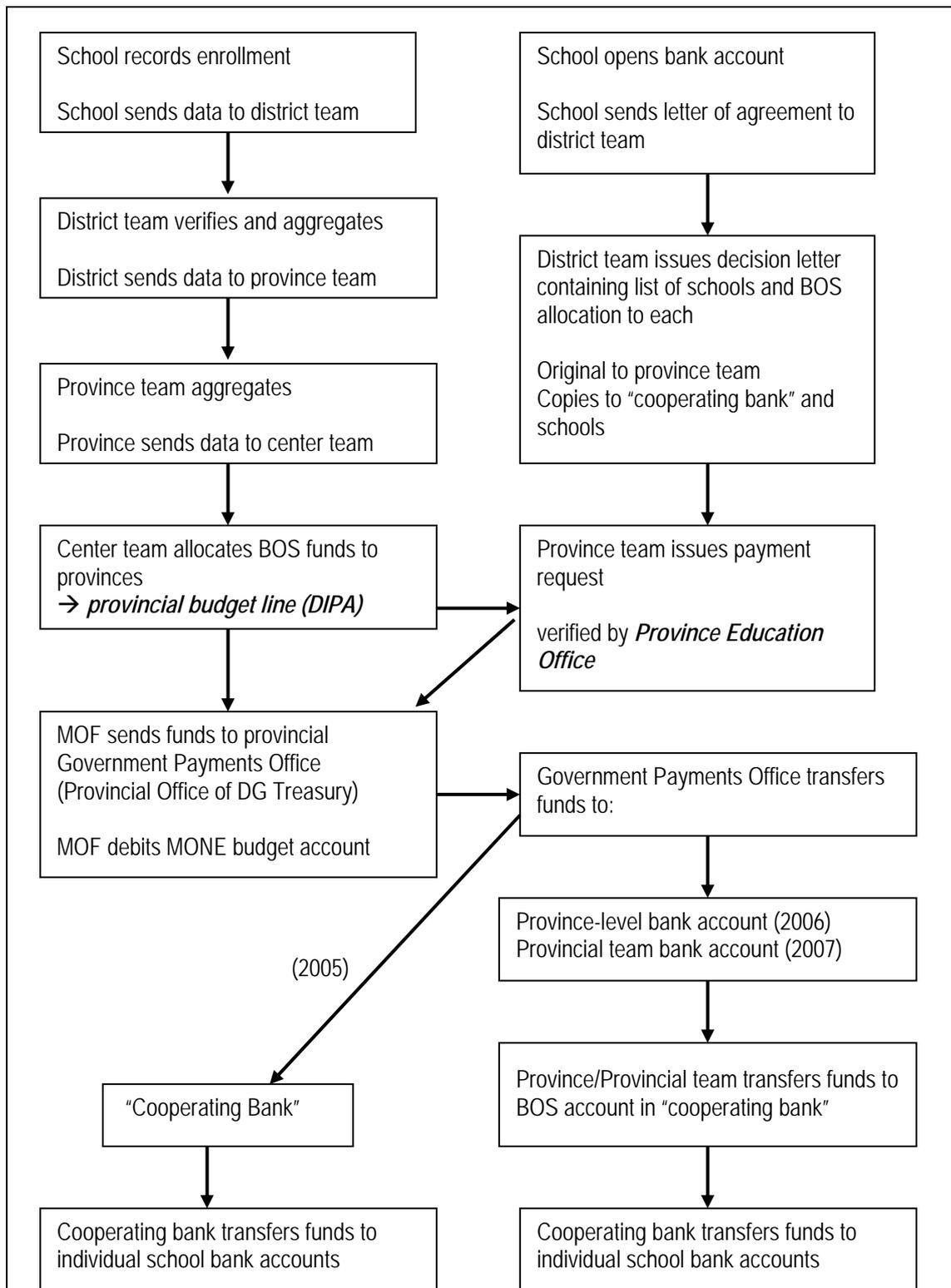
- First tranche for January and February;
- subsequent tranches for Java and Bali at 2-month intervals;
- subsequent tranches in other districts at 3-month intervals.

The 2007 BOS was distributed at 3-month intervals, with the requirement that the disbursement must occur at the beginning of the first month in the interval.

34. It is frequently said that BOS, like the fuel subsidy compensation funds and social safety net before it, flows “direct” from MOF to schools via the Post Office or school bank accounts. This was true in 2005, but is no longer correct as the payments mechanism has changed each year, cf. **Figure 1**.

35. There are BOS management teams (formerly called Fuel Subsidy Compensation management teams) at the center, province and district. These teams are comprised of MONE staff and provincial/district education office staff but their legal status as team members is separate from their civil service job assignments. In 2005 and 2006, the management teams were jointly between MONE and MORA; however, beginning in 2007, MORA has its own budget allocation for BOS and its own management and payments structures.

**Figure 1. Payments Mechanism**



36. The discussion following is focused on MONE procedures, with supplementary comments on MORA procedures where they differ from MONE. MONE allocates its BOS budget based on enrollment data submitted by schools to district teams, which is then aggregated at the provincial and central levels. The budget allocation is reported to MOF as a budget item which will be spent in the provinces. In 2005 and 2006 the provincial budget item was attached to the office of the governor. Thus the BOS funds followed the same mechanism as the MONE deconcentration<sup>1</sup> funds.<sup>2</sup> In 2007, the provincial BOS management team has the legal status of a “budget user” (*satuan kerja/satker*) under MOF regulations<sup>3</sup> which means it is eligible to control its own bank account.<sup>4</sup>

37. None of these issues arise for MORA. The MORA central team reports its BOS allocation to MOF as a budget item which will be spent within the MORA vertical apparatus, i.e. in the MORA provincial and district offices. MORA does not have deconcentration funding because MORA is not decentralized.

38. In 2005, the provincial (joint MONE/MORA fuel subsidy compensation team) issued a request for payment which was verified by the provincial education office. The provincial Government Payments office<sup>5</sup> then released the money directly to the “cooperating bank” which transferred the money to the school accounts. In 2006, an additional step was added: the money went into the provincial-level bank account<sup>6</sup> before being transferred to the cooperating bank. In 2007, as noted above, the provincial BOS management team had its own bank account which received the funds from the Government Payments office before transferring them on to the cooperating bank. These mechanisms were also applied to the MORA allocation, except that the verification is issued by the MORA provincial office.

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<sup>1</sup> Deconcentration funds are MONE central budget funds which are allocated to the provincial governor as representative of the central government in the geographical area of the province. Day-to-day management of the funds is delegated to the provincial education office. Deconcentrated funds are kept separate from the provincial budget (*APBD*) funds allocated to the provincial education office. Deconcentrated funds are spent for activities in the districts which comprise the province. They are managed by the district education office but kept separate from the district budget (*APBD*) allocation to the district education office.

<sup>2</sup> However MOF does not acknowledge BOS as legitimate deconcentration funding.

The situation is further confused by the fact that the Handbooks list the regulation governing deconcentration funds (Government Regulation 106/2000 concerning management and accountability for deconcentration and assistance task funds) as one of the legal bases for BOS guidelines. But it should be noted also that this regulation pre-dates both the national finance law (Law 17/2003) and the central-regional financial balance law (Law 33/2003).

In the 2010 budget, MONE considers BOS to be a special form of Block Grant whereby money is sent to a provincial account and then to schools.

<sup>3</sup> Provincial and district level agencies, such as the provincial/district education offices, cannot be budget users for central budget funding except for deconcentration funds (limited to provincial level agencies) and assistance task funds.

<sup>4</sup> This may be related to the fact that the Fuel Subsidy Compensation Team was an ad hoc team while the BOS management team is linked to a specific budget line (BOS) within a recognized MONE program (universal compulsory 9 year basic education).

<sup>5</sup> I.e. the provincial office of the Directorate General of Treasury in MOF.

<sup>6</sup> In the name of the provincial education office as designated recipient of authority delegated from the governor.

39. A “cooperating bank” is a bank which has signed an MOU with the provincial team to distribute the BOS funds to the school bank accounts. In theory, schools are free to open their accounts at any bank, however in practice, the MOU may specify that schools are required to open their accounts in the cooperating bank. The bank receives a service fee for providing the transfer services. Only government-owned banks are eligible to serve as cooperating banks. The Handbooks specify that the distributing financial institution may be either the Post Office<sup>1</sup> or a cooperating bank, however in practice, the Post Office is no longer used.

### **BOS-for-Books (BOS Buku)**

40. In 2006, MONE noted that one of the largest components of school operational costs was provision of textbooks. Thus an additional Rp.20,000 per student was budgeted to be used specifically for the school to purchase textbooks to be loaned to students free of charge. The books must be new, not used, and taken from a list of approved texts. They must be officially listed as “library books”, i.e. part of the school’s inventory, and used for a minimum of five years.

41. The total number of books purchased must permit each student to have his/her own textbook. If the school already owns some books, BOS-for-books can be used to purchase the remaining required books and to replace damaged books.

42. At the primary level, BOS-for-books can be used to purchase textbooks for Indonesian language, mathematics and science. At the JSE level, the eligible subjects are Indonesian language and literature, English and mathematics.

43. Textbook purchasing decisions are made by the teachers with consideration given to the opinion of the school committee. The school then purchases the books from a bookstore or direct from a distributor based on prices and delivery dates. The BOS-for-books allocation includes the cost of delivery of books to the school.

44. All schools which receive BOS are eligible to receive BOS-for-books but they must register separately for the BOS-for-books. A school may decide to accept BOS but reject BOS-for-books. Schools which reject BOS funding are not eligible for BOS-for-books.

45. BOS-for-books is managed in parallel with BOS. Each of the management teams has a BOS-for-primary-books and a BOS-for-JSE-books representative. BOS-for-books funds flow through the same channels as BOS, but the accounts are separate except at the school level.

### **BOS 2009**

46. 2009 saw a number of important changes in the BOS program driven by a re definition of the BOS policy. The title of the 2009 handbook is BOS for (*untuk*) free education. The 2004–2009 Strategic Plan for MONE also identifies BOS as part of the free education policy. Furthermore what had begun as a social safety net policy to support access (by poor children) was declared a “success”. The future orientation of BOS was expanded to include quality improvements.

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<sup>1</sup> This may be a holdover from the social safety net mechanism.

47. These changes caused some changes in BOS content and implementation including:

- an increase in the per capita allocation as well as differentiating between schools located in municipalities (*kota*) and districts (*kabupaten*).
- replacement of BOS-for-books with the “cheap textbooks” policy whereby schools are required to use “part” of the BOS funds to purchase textbooks whose copyrights have been purchased by the government
- changes in restrictions on items which may/not be financed using BOS funds
- changes in the organizational structure of BOS administration in the central MONE office by splitting the formerly independent central team into two teams and moving them into the directorate offices: one team in the directorate for management of kindergarten and primary education, the other team in the directorate for management of junior secondary education.

48. The introduction to the handbook explains the classification system for education funding as laid out in Government Regulation 48/2008 concerning education funding (page 7) and specifies that BOS is intended to cover the school-level nonpersonnel costs (page 8). Given the increased allocations for BOS and the improvements in teacher welfare (salary supplements for certified teachers), government schools are now forbidden from collecting any funding from students to cover operational costs. Note that government schools are still permitted to collect funds to cover investment costs and that they are free to accept “voluntary” contributions from students to cover any or all types of costs (stated specifically on page 9). District governments are required to keep fees collected by private schools “under control” (*mengendalikan*) to assure that poor students are not charged any fees and that more affluent students are not charged excessive fees. (page 8)

49. All government schools<sup>1</sup> are now required to accept BOS—and therefore the rules governing funding in general. Private schools are eligible but not required to accept BOS. As in previous years, any school which chooses not to accept BOS must guarantee that poor students will be able to continue their schooling. There are two changes here:

- in previous years, government schools were permitted to opt out (but none did)
- in previous years, the requirement for schools to opt out of BOS was that they charged no fees to anyone.

50. The changes in permitted spending items include:

- hiring a clerk to handle BOS administration for elementary schools (which do not have a permanent administrative staff—administrative work is done by teachers)
- purchase of computers for students (one per elementary school and two per junior secondary school).

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<sup>1</sup> Except international standard.

### **Appendix 3. Review of Evolution of the Concept of Free Education**

1. The issue of free (basic) education or free schools has been much discussed in the mass media recently. The discussion is closely linked to two other issues in education funding, the “20% controversy”<sup>1</sup> and the school operation funding program (BOS). Since both these issues have been covered in the other parts of this review, they will not be considered in detail here.

2. During the New Order period, both government and private schools charged a variety of fees including:

- capital contribution, on average equal to about 1 year’s tuition, at the time a student first enrolled
- annual registration/re registration fees
- monthly tuition
- purchase of consumables for science and art lessons (intra curricular)
- extra curricular activities (consumables; honoraria for principals as “responsible party”, teachers, outside resource persons and administrative staff; required field trips/work)
- textbooks and fabric for school uniforms purchased in bulk by the school and re sold to students at a mark up—some but not all schools
- school supplies (paper, pencils, etc.) purchased in bulk by the school and re sold to students through the student cooperative—some but not all schools.

In addition to these costs, parents were responsible for providing transport and pocket money (according to MONE research, used mostly for snacks). Parents of students in schools which did not supply textbooks, uniforms and school supplies also paid the costs of these items.

3. Government Regulation 48/2008 concerning education funding and Law 9/2009 concerning education legal entities define three categories of education costs:

- costs at the school level
- management costs (costs at the government level)
- costs at the personal level

however neither the general public nor schools and district offices are familiar with the terminology, all the more so with the technical definitions.

These laws and regulations do not use the term “free education,” instead they allocate responsibility for funding the various types of costs among central government, regional government, parents and the community. The only costs explicitly required to be covered by parents are costs at the personal level. The laws and regulations specifically state that parents are permitted to make “voluntary” contributions to all types of costs.

4. Thus it is inherently unclear exactly what is intended to be “free” when the term “free school” or “free education” is used.

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<sup>1</sup> The 20% controversy had not been resolved at the time of the original version of this review however it was definitively settled by the Constitutional Court in 2009. The discussion from the original version of the paper is attached below as Appendix 3A.

5. The first recorded use of the term free school came during the 1999 presidential election campaign when one of the candidates declared that, if he was elected, he would institute free basic education. However this statement was widely derided as unrealistic and subsequently used as an example of irresponsible campaign promises. When Megawati Soekarnoputri ascended to the presidency, she explicitly criticized political parties which were campaigning on a platform of free basic education during the 2004 legislative elections saying there was no such thing as free or cheap education.

6. The actual activities to reduce education costs were partial at first. In 1999 as part of the social safety net program to reduce the impacts of the 1997 financial and economic crisis, the government (with donor financial support) provided scholarships for poor children and block grants to schools for operational expenses.

One donor also provided funding to cover capital contribution and registration fees for elementary students from poor families. However a combination of poor timing (the program was announced during the school holidays so neither the schools nor the parents were aware of it) and poor socialization led to a public perception that the program would also cover school fees. By the time this misperception was rectified through an official announcement, there was already a widespread sense of betrayal on the part of parents as and the foundation of distrust for “free education” had been laid in the public mind, including the mass media.

7. Early in 2001 the government announced that the costs of the 2001 elementary and junior secondary exit examinations would be covered from the government budget and that schools were not permitted to charge examination fees. However the actual disbursement of the funds occurred after the examinations had been administered so schools had already covered their costs by collecting examination fees from parents.

8. In addition, there were reports of schools charging parents fees for “farewell parties” or other non prohibited activities, the costs of which were marked up to cover the costs of administering the exit examinations. More betrayal of parents and mistrust by the general public.

9. Later in 2001, at the beginning of the 2001/2002 academic year, the government announced that schools were required to use government published textbooks (actually published and sold by a sub contractor) which were to be distributed free to students. Schools were forbidden to require students to purchase textbooks through the school or to require students to use textbooks other (or in addition to) the government published books. However teachers in some good quality schools were dissatisfied with the government textbooks and required “voluntary” compliance by parents in the use of other textbooks which the parents “voluntarily” purchased in the market. Inevitably these cases came to public attention via the mass media and so had an effect on public opinion much larger than the actual number of schools and students involved.

10. After the new law requiring direct election of heads of regions (governors, mayors and regents), free education became a campaign promise.

- in a 2003 campaign, a candidate for governor of East Java promised free education for poverty students to be funded through the provincial budget—note that this promise is at the provincial level, not the district level
- in a 2005 campaign, both candidates for mayor of Bandarlampung Municipality, the capital of Lampung Province, promised free education for all students
- in a 2007 campaign, a candidate for re election as regent of Musi Banyuasin district in S. Sumatra campaigned on a platform of having achieved 20% of the district budget for education funding and a promise to use this additional funding to provide free education—and he was re elected
- in a 2008 campaign, a candidate for mayor of Samarinda Municipality, the capital of E. Kalimantan Province promised free education
- in a 2008 campaign, a candidate for governor of W. Nusatenggara Province promised free education.

11. Another route through which the idea of free education became a public issue was statements by regional government officers (heads of education service/*dinas*) and members of the regional legislative assemblies. In most cases these claims represented hopes and/or plans rather than funds which had actually been authorized in the budgets.

- in 2003, the head of the Tangerang, W. Java (a suburb of Jakarta) district education office announced that he was planning to offer subsidized tuition for basic education schools in 2005 and that he would consult the district legislative assembly about funding for this program
- in 2003, the head of the Bantaeng, S. Sulawesi district education office announced that he was planning to offer free education through “cross subsidies” to the district from the provincial education budget
- in 2006, the head of the Cirebon, W. Java district education office announced that he was submitting a budget proposal to provide top up funding to BOS to cover school fees, operational costs and school costs [note that these are the technical terms from Government Regulation 48.2008]
- in 2007 the East Java Provincial Government announced that it was working with the Legislative Assembly on a program for free education and that Surabaya and Blitar Municipalities in E. Java had already achieved this goal
- in 2008 the head of the Rembang, C. Java district education office announced that he was submitting a budget proposal to provide free schooling to fulfill the nine year compulsory education program
- in 2008 the head of the Dompu, W. Nusatenggara district education office announced that he was submitting a budget proposal to provide free schooling
- in 2008 the head of the Bandung, W. Java municipality education office announced that he was submitting a budget proposal to provide free schooling in order to implement the recently passed regional regulation on education
- in 2009 the head of the Bontang, E. Kalimantan municipality education office announced that he was planning to provide free education as part of the overall development plan for the municipality.

12. When BOS was announced in 2005 it was explicitly stated that BOS would “free students from the burden of school operational costs... [for] registration, tuition, examination fees and materials and costs of laboratory and workshop sessions.” The goal of BOS was to provide assistance to schools in order to “permit them to

eliminate student fees while still maintaining the level of educational quality”. Statements by Cabinet level government officials who used the terms free schools and free education without additional qualification or explanation contributed to a wide public perception that education henceforth would be free of charge to parents.

Parental experience of being charged fees and contributions to cover various types of costs defended by the schools as “necessary learning experiences”, as well as statements by opposition political party leaders and legislators, politicized the issue and further inflamed the pre existing climate of polemic around the issue.

13. Much of the funding which was eventually provided for “free education” has been in the form of provincial and/or district top-ups to BOS, i.e. the funding is provided to schools to cover their operational expenses. These top ups often come with the proviso that schools were not to charge any fees at all to poverty students and, in some cases, they are not permitted to charge any fees at all.

- beginning in 2005, the Jakarta Provincial government announced that it would provide annual per capita subsidies to elementary and junior high schools and has continued to do so to the present; in 2006 this program was extended to include private schools<sup>1</sup>
- beginning in 2005, Jembrana District in the Province of Bali provided annual per capita subsidies and also enforced a strict free education policy which has been widely praised in the mass media and among donors/consultants
- beginning in 2007, Kupang District (the capital city) of E. Nusatenggara Province announced that it would finally be able to provide subsidies to elementary and junior high schools after several years of planning and preparation.

14. DBE1 has been working with MONE’s National Education Standards Agency (BNSP) to assist districts to calculate operational costs for schools in the district based on MONE standards for school operations and using local costs. Once the costs are determined, the costs are then compared with BOS funds received by the schools. In most cases a significant negative gap has been found resulting in district and provincial polices to help close the gap and thereby promote free or close to free education.

- Karawang district in West Java province presented the results of operational costs calculations to the West java government with the result that both district and province would provide funds their local budgets to schools to make up the difference between BOS grants and the actual costs needed to operate the schools.
- Some districts in Central Java have provided funds through their local annual budgets to help top off BOS; however, the provincial government has not forthcoming in supplementing BOS grants because the governor’s policy is one of inexpensive/affordable education not free education.

15. During the last two years, the mass media coverage of the free school issue has been much less contentious although there continue to be many different definitions of the “free” component of free education. Many poor families, in fact, no longer pay tuition or fees and some whose children receive scholarships pay no costs of education at all. In other cases, when BOS and regional top ups are sufficient to cover school operating expenses, the school may choose not to charge any tuition and, in

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<sup>1</sup> In 2007 this program was extended to senior high schools.

some cases, not charge fees either. In other cases, the BOS may be used to subsidize tuition and fees. Thus a public consensus seems to have emerged that free education is now understood as what is provided by BOS and the regional top ups. This is very much in line with the legal and regulatory framework's approach. There is also a realization that quality and cost are positively correlated and parents who choose to send their children to schools with reputations for higher quality are prepared to pay for this.

### **Appendix 3A. The 20% Controversy**

16. Paragraph 49 of the national education system law (Law 20/2003) has become a source of on going debate. This is the paragraph that mandates 20% of central and regional budgets must be allocated to education. The following paragraphs attempt to summarize the major developments in that debate. In 2002 the MPR passed the fourth amendment<sup>1</sup> to the 1945 Constitution. One of the provisions of this amendment revised Chapter 13 Education and Culture, paragraph 31. The original formulation said that all citizens were guaranteed education and that the government would provide a single education system. The amendment added the following provisions:

- basic education was compulsory for all citizens and the government was required to fund it; (new point 2) and
- “The State [government] will give priority to the education budget a minimum of 20% of the national budget and the regional budget[s] in order to fulfill provision of national education” (new point 3).<sup>2</sup>

17. The education law stipulated:

Education funding net of educator<sup>3</sup> salaries and civil service education and training [is] a minimum of 20% of the central budget for education sector and minimum of 20% of regional budgets.<sup>4</sup> (paragraph 49, point 1)

The Explanation<sup>5</sup> for this point stated: “Fulfillment of the education financing may be done in phases”.<sup>6</sup>

18. The Budgetary Note submitted by the Government to Parliament as an accompaniment to the 2005 Budget noted that the education sector accounted for 20% of total development funding during the period 2002–2004, i.e. that the Government had been in compliance with the Constitution and Education Law during that period.<sup>7</sup>

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<sup>1</sup> The 20% requirement was not part of the original constitution.

<sup>2</sup> *Negara memprioritaskan anggaran pendidikan sekurang-kurangnya dua puluh persen dari anggaran pendapatan dan belanja negara serta dari anggaran pendapatan dan belanja daerah untuk memenuhi kebutuhan penyelenggaraan pendidikan nasional.*

<sup>3</sup> This is a technical term defined in paragraph 1 of the law. It covers “education personnel qualified as teachers, university lecturers, [guidance] counselors, [various technical terms for different types of] tutors, instructors, and facilitators and other specialized terms, who provide education.” (point 6) It does not include administrative personnel in schools, central MONE/MORA staff, and staff of provincial and district education offices.

At the time that both the constitutional amendment and the education law were passed, the government was still using the dual budget, that is, separate budgets for “routine” and for “development” (capital) spending items. Arguably, the intention of the MPR and DPR was 20% of the development budget, which would automatically exclude personnel expenses from **both** the numerator (education spending) and denominator (total spending) of the calculation.

The unitary budget system currently in use requires personnel expenses to be apportioned to each budget item (activity). Thus it is no longer possible to calculate “net of personnel.”

<sup>4</sup> *Dana pendidikan selain gaji pendidik dan biaya pendidikan kedinasan dialokasikan minimal 20% dari Anggaran Pendapatan dan Belanja Negara (APBN) pada sektor pendidikan dan minimal 20% dari Anggaran Pendapatan dan Belanja Daerah (APBD).*

<sup>5</sup> “Explanation” text is part of the law and is legally binding.

<sup>6</sup> *Pemenuhan pendanaan pendidikan dapat dilakukan secara bertahap.*

<sup>7</sup> This also supports the interpretation that the 20% rule was intended to apply only to the development budget as the routine budget was used to fund personnel expenses. It was only after the budget format was changed that questions of interpretation arose on application of the 20% rule.

19. In 2005, a group of nine teachers from Banyuwangi, East Java, filed a case with the Constitutional Court. They demanded the court cancel “Explanation” of paragraph 49 of the law on the grounds that it was inconsistent with the constitutional amendment. The court agreed. The effect of this decision was to require that the existing (2005) budget law and the draft budget for 2006, which was currently being debated in Parliament, comply with the 20% criterion.

20. The applicants thus petitioned the court to declare the 2005 budget law unconstitutional because it did not fulfill the 20% criterion. The court determined that the applicants did have legal standing and constitutional grounds to submit their petition. However, the court considered that if the case was admitted and further adjudicated, it would lead to a financial disaster to the state, which would create legal uncertainties. Based on this reasoning, the majority of the court declared the case "inadmissible". Two dissenting judges on the case wrote important remarks to the effect that the nature of the budget law was different from ordinary laws in that it served a budgetary function rather than a legislative function, and that it was only valid for a one-year period, unlike normal laws that stand until they are explicitly revoked.

21. In January 2006, the Indonesian Teachers Association (PGRI) and the Association of Indonesian Education [Faculty] Graduates (ISPI), petitioned the court to re-consider the constitutionality of the 2005 budget law, claiming that it allocated only 8% to education. The government rejoinder contained two different arguments:

- the 8% referred only to budget funding for “schools” whereas the actual total for education was 19.3%<sup>1</sup>
- the Constitution did not explicitly oblige the government to allocate 20% of the national budget for education; it stated that the government should "strongly consider" (i.e. “give priority to”) that percentage.

Again the court ruled in favor of the petition, but the ruling was only a moral victory because it required the government to “revise” the allocation in subsequent budgets but did not impose the 20% criterion nor did it provide any sanctions for failure to comply.

22. The same case was brought in 2007 against the 2006 and 2007 budget laws. The 2007 case also contended that the government had failed to implement free compulsory basic education. The court’s determination was similar, i.e. that the government was in violation but accepted the government’s argument that it was impossible to fulfill the legal requirement. However the court handed a major victory to the government when it accepted the government’s calculation of 11.8% of the budget for education against the petitioners’ claims that including in-service training was inappropriate.

23. In 2004, MONE and Parliament reached an agreement (*kesepakatan*) that the proportion of central budget funding for education would be increased beginning in 2006 to achieve the goal of 20% in 2009. The target percentages were 12% in 2006, 14.7% in 2007, 17.4% in 2008, and 20% in 2009.<sup>2</sup>

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<sup>1</sup> At the time of the original decision, some members of parliament had also offered varying definitions of what should be included in the 20% and what should be included in the base against which the 20% would be calculated.

<sup>2</sup> MONE Strategic Plan, Chapter 6, p. 73.

24. The debate was settled by decision of the Constitutional Court no. 13/PUU-VII 2008 which declared that the 2008 budget law passed by Parliament was unconstitutional because the funding for education was 15.6% of total funding—below the 20% required by the constitution. The government was given one year in which to bring the national budget into compliance. The court also settled the heart of the controversy, which was how the 20% was to be calculated. The court instructed that the total funding for the “education function”<sup>1</sup> (including salaries for civil servant teachers) was to be compared with the total central government budget (excluding transfers to regions). The court also extended the 20% requirement to regional budgets (APBD) to be calculated in the same manner.

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<sup>1</sup> “Functions” are one way of classifying the government budget expenditure allocations. There are 13 functions corresponding generally to sectors, of which education is one.

## Appendix 4. Translated Appendix to Regulation 38/2007 on Education

APPENDIX  
GOVERNMENT REGULATION OF THE REPUBLIC OF  
INDONESIA  
NUMBER : 38 Year 2007  
DATE : 9 July 2007

### A. DIVISION OF GOVERNMENT FUNCTIONS IN EDUCATION

| SUBDIVISION | SUB-SUBDIVISION         | CENTRAL GOVERNMENT   | PROVINCIAL GOVERNMENT   | DISTRICT GOVERNMENT  |
|-------------|-------------------------|--|---|--|
| 1. Policy   | 1. Policy and Standards | 1.a. Establishment of national education policy.   | 1.a. Establishment of education operational policies in the province level in accordance with national policy.  | 1.a. Establishment of education operational policy in the district level in accordance with national and provincial policy.  |
|             |                         | <p>b. Coordination and synchronization of operational policies and education programs across provinces.</p> <p>c. National education strategic planning.</p>   | <p>b. Coordination and synchronization of operational policies and education programs across districts.</p> <p>c. Strategic planning for early childhood education, primary education, secondary education<sup>1</sup>, and nonformal education in accordance with national education strategic planning.</p> | <p>b. —</p> <p>c. Operational program planning for early childhood education, primary education, secondary education, and nonformal education in accordance with national and provincial education strategic planning.</p> |
|             |                         | 2.a. Development and establishment of national education standards (content, processes, graduates' competencies, education staff, facilities <sup>2</sup> and infrastructure, management, financing and education assessment). | 2.a. —  | 2.a. —   |

<sup>1</sup> When reference is made to “secondary education (*pendidikan menengah*)” it means senior secondary education (grades 10–12).

<sup>2</sup> “Facilities (*sarana*)” includes desks, chalk boards, typewriters, laboratory equipment, and more.

| SUBDIVISION | SUB-SUBDIVISION | CENTRAL GOVERNMENT  | PROVINCIAL GOVERNMENT  | DISTRICT GOVERNMENT  |
|-------------|-----------------|---|--|--|
|             |                 | <p>b. Socialization of national education standard and its implementation at the higher education level.</p>  | <p>b. Socialization and implementation of national education standard at the province level.</p>   | <p>b. Socialization and implementation of national education standard at the district level.</p>   |
|             |                 | <p>3. Establishment of guidelines for management and provision for early childhood education, primary education, secondary education, higher education, and nonformal education.</p>  | <p>3. Coordination for management of and provision for education, education staff development and provision for education facilities across districts for basic and secondary levels of education.</p> | <p>3. Management of and provision for early childhood education, basic education, secondary education and nonformal education.</p>                             |
|             |                 | <p>4. Policy establishment for international standard schools and schools of local excellence<sup>1</sup>.</p>  | <p>4. —</p>  | <p>4. —</p>  |
|             |                 | <p>5.a. Issuing and revoking permits for the establishment of universities.</p> <p>b. Issuing and revoking permits for the establishment of international standard schools and/or international standard programs of studies.</p> | <p>5.a. —</p> <p>b. —</p>  | <p>5.a. Issuing and revoking permits for the establishment of basic and secondary schools, and nonformal education providers and institutions.</p> <p>b. —</p> |

<sup>1</sup> “*Satuan pendidikan berbasis keunggulan lokal*” is translated herein as “schools of local excellence.”

| SUBDIVISION | SUB-SUBDIVISION | CENTRAL GOVERNMENT  | PROVINCIAL GOVERNMENT   | DISTRICT GOVERNMENT  |
|-------------|-----------------|---|---|--|
|             |                 | <p>c. Provision for and/or management of international standard schools and/or programs of studies.</p> <p>d. —</p> <p>e. —</p> | <p>c. Provision for and/or management of international standard schools and/or programs of studies at the basic and secondary education levels.</p> <p>d. —</p> <p>e. —</p> | <p>c. Provision for and/or management of international standard elementary schools<sup>1</sup>.</p> <p>d. Issuing and revoking permits for the establishment of basic and secondary schools of local excellence.</p> <p>e. Provision for and/or management of basic and secondary schools of local excellence.</p> |
|             |                 | <p>6. Management and/or provision of higher education.</p>  | <p>6. Providing resources support for provision of universities.</p>  | <p>6. Providing resources support for provision of universities.</p>   |
|             |                 | <p>7. Monitoring and evaluation of international standard schools.</p>  | <p>7. Monitoring and evaluation of international standard schools.</p>  | <p>7. Monitoring and evaluation of international standard basic education schools.</p>   |
|             |                 | <p>8. Provision for Indonesian schools abroad.</p>  | <p>8. —</p>   | <p>8. —</p>  |
|             |                 | <p>9. Issue establishment permits, revoke operational permits and support for foreign schools in Indonesia.</p>                 | <p>9. —</p>   | <p>9. —</p>  |

<sup>1</sup> “Basic education (*pendidikan dasar*)” means elementary and junior secondary (grades 1–9).

| SUBDIVISION                | SUB-SUBDIVISION | CENTRAL GOVERNMENT  | PROVINCIAL GOVERNMENT  | DISTRICT GOVERNMENT  |
|----------------------------|-----------------|---|--|--|
|                            |                 | <p>10.a. Development of nationwide education management information system.</p> <p>b. Updating data of the national education management information system for the national level.</p>   | <p>10. a. —</p> <p>b. Updating data of the national education management information system for the provincial level.</p>  | <p>10. a. —</p> <p>b. Updating data of the national education management information system for the district level.</p>  |
| <p><b>2. Financing</b></p> |                 | <p>1.a. Establishment of financing guidelines for early childhood education, basic education, secondary education, higher education, and nonformal education</p> <p>b. Provide financing support for provision for higher education in accordance with its authority.</p> <p>c. Financing of school quality assurance in accordance with its authority.</p> | <p>1.a. —</p> <p>b. Provide financing support for provision for international standard education in accordance with its authority.</p> <p>c. Financing of school quality assurance in accordance with its authority.</p> | <p>1.a. —</p> <p>b. Provide financing support for provision for early childhood education, basic education, secondary education, and nonformal education in accordance with its authority.</p> <p>c. Financing of school quality assurance in accordance with its authority.</p> |

| SUBDIVISION   | SUB-SUBDIVISION | CENTRAL GOVERNMENT   | PROVINCIAL GOVERNMENT   | DISTRICT GOVERNMENT  |
|---------------|-----------------|--|---|--|
| 3. Curriculum |                 | <p>1.a. Establishment of curriculum basic framework and structure for early childhood education, basic education and secondary education.</p> <p>b. Socialization of basic framework and structure of the curriculum for early childhood education, basic education and secondary education.</p> <p>c. Establishment of content standards and competency standards of the graduates from basic and secondary education, and its socialization.</p> | <p>1.a. Coordination and supervision of the development of school level curriculum<sup>1</sup> for secondary education.</p> <p>b. Socialization of basic framework and structure of the curriculum for early childhood education, basic education and secondary education.</p> <p>c. Socialization and implementation of content standards and competency standards of secondary education graduates.</p> | <p>1. a. Coordination and supervision of the development of school level curriculum for basic education.</p> <p>b. Socialization of basic framework and structure of the curriculum for early childhood education, basic education and secondary education.</p> <p>c. Socialization and implementation of content standards and competency standards of basic education graduates.</p> |
|               |                 | <p>2.a. Development of school level curriculum model for early childhood education, basic education, secondary education, and nonformal education.</p> <p>b. Socialization and facilitating the implementation of school level curriculum.</p>   | <p>2.a. —</p> <p>b. Socialization and facilitating the implementation of school level curriculum for secondary education.</p>   | <p>2.a. —</p> <p>b. Socialization and facilitating the implementation of school level curriculum for early childhood and education.</p>  |

<sup>1</sup> “*Kurikulum tingkat satuan pendidikan* (school level curriculum)” is the name given to a new curriculum introduced by MONE in 2007.

| SUBDIVISION                      | SUB-SUBDIVISION | CENTRAL GOVERNMENT   | PROVINCIAL GOVERNMENT   | DISTRICT GOVERNMENT  |
|----------------------------------|-----------------|--|---|--|
|                                  |                 | 3. Supervision of the implementation of school level curriculum for early childhood education, basic education, and secondary education.   | 3. Supervision of the implementation of school level curriculum for secondary education.  | 3. Supervision of the implementation of school level curriculum for basic education.   |
| 4. Facilities and Infrastructure |                 | 1.a. Monitoring and evaluation of the implementation and compliance with national standards for educational facilities and infrastructure.<br><br>b. Supervision of the utilization of assistance for education facilities and infrastructure. | 1.a. Supervision of compliance with national standards for secondary education facilities and infrastructure.<br><br>b. Supervision of the utilization of assistance for education facilities and infrastructure. | 1.a. Supervision of compliance with national standards for secondary education facilities and infrastructure for early childhood education, basic education, secondary education, and nonformal education.<br><br>b. Supervision of the utilization of assistance for education facilities and infrastructure. |
|                                  |                 | 2.a. Establishment of standards and approval of textbook appropriateness.<br><br>b.—   | 2.a. —<br><br>b. Supervision of the use of secondary education textbooks.   | 2.a. —<br><br>b. Supervision of the use of early childhood education, basic education, secondary education, and nonformal education textbooks.   |

| SUBDIVISION                            | SUB-SUBDIVISION | CENTRAL GOVERNMENT   | PROVINCIAL GOVERNMENT   | DISTRICT GOVERNMENT  |
|--|-----------------|--|---|--|
| <b>5. Teachers and Education Staff</b> |                 | 1.a. Planning for teachers and education staff needs and recruitment nationally.<br><br>b. — | 1.a. Planning for teachers and education staff needs and recruitment for international standard education in accordance with its authority.<br><br>b. Appointment and placement of civil servant teachers and education staff for international standard schools. | 1.a. Planning for teachers and education staff needs and recruitment for early childhood education, basic education, secondary education and nonformal education in accordance with its authority.<br><br>b. Appointment and placement of civil servant teachers and education staff for early childhood education, basic education, secondary education and nonformal education in accordance with its authority. |
|  |                 | 2. Relocation of civil servant teachers and education staff across provinces.                | 2. Relocation of civil servant teachers and education staff across districts.   | 2. Relocation of civil servant teachers and education staff within districts.  |
|  |                 | 3. Improvement of teachers' and education staff's welfare, respect and security.             | 3. Improvement of international standard teachers' and education staff's welfare, respect and security.   | 3. Improvement of early childhood education, primary education, secondary education, and nonformal education teachers' and education staff's welfare, respect and security.  |

| SUBDIVISION                         | SUB-SUBDIVISION                 | CENTRAL GOVERNMENT   | PROVINCIAL GOVERNMENT   | DISTRICT GOVERNMENT   |
|-------------------------------------|---------------------------------|--|---|---|
|                                     |                                 | <p>4.a. Planning for needs, appointment and placement of teachers and education staff for organizational units within departments that have responsibility in the field of education.</p> <p>b. Termination of civil servant teachers and education staff because violation of laws and regulations.</p> | <p>4.a. Support and development of international education standard teachers and education staff.</p> <p>b. Termination of civil servant teachers and education staff of international standard education for reasons other than violation of laws and regulations.</p> | <p>4.a. Support and development of teachers and education staff for early childhood education, basic education, secondary education, and nonformal education.</p> <p>b. Termination of civil servant teachers and education staff of early childhood education, basic education, secondary education, and nonformal education for reasons other than violation of laws and regulations.</p> |
|                                     |                                 | 5. —   | 5. Allocation of teacher and education staff manpower potential in the regions.   | 5. —  |
|                                     |                                 | 6. Teacher certification.  | 6. —  | 6. —  |
| <b>6. Education Quality Control</b> | 1. Learning Outcomes Assessment | 1. Establishment of guidelines, exam materials, control checks, and establishment of the national exam passing criteria.   | 1.—   | 1.—   |
|                                     |                                 | 2. Implementation of national exam for basic education, secondary education, and nonformal education.  | 2. Assist the implementation of national exam for basic education, secondary education, and nonformal education.  | 2. Assist the implementation of national exam for basic education, secondary education, and nonformal education.  |

| SUBDIVISION | SUB-SUBDIVISION | CENTRAL GOVERNMENT  | PROVINCIAL GOVERNMENT   | DISTRICT GOVERNMENT  |
|-------------|-----------------|---|---|--|
|             |                 | 3. Coordination, facilitation, monitoring, and evaluation of the national exam implementation.  | 3. Coordination, facilitation, monitoring, and evaluation of school exam implementation at the provincial scale.  | 3. Coordination, facilitation, monitoring, and evaluation of school exam implementation at the district scale.   |
|             |                 | 4. Providing formats for diploma and/or national exam certificates.   | 4. —  | 4. —   |
|             |                 | 5. Providing the financing for national exam implementation.  | 5. Providing the financing for school exam implementation at the provincial scale.  | 5. Providing the financing for school exam implementation at the district scale.   |
|             | 2. Evaluation   | 1.a. Establishment of evaluation guidelines for administrator, school, track, level, and type of education.<br><br>b. Implementation of national evaluation for administrator, school, track, level, and type of education. | 1.a.—<br><br>b. Implementation of evaluation for administrator, school, track, level, and type of education for early childhood education, basic education, secondary education, and nonformal education at the provincial scale. | 1.a.—<br><br>b. Implementation of evaluation for administrator, school, track, level, and type of education on early childhood education, basic education, secondary education, and nonformal education at the district scale. |

| SUBDIVISION | SUB-SUBDIVISION      | CENTRAL GOVERNMENT   | PROVINCIAL GOVERNMENT   | DISTRICT GOVERNMENT   |
|-------------|----------------------|--|---|---|
|             |                      | <p>2.a. Establishment of evaluation guidelines for achieving national education standards.</p> <p>b. Implementation of the evaluation of national education standard achievement.</p>            | <p>2.a. —</p> <p>b. Implementation of the evaluation of national education standard achievement for early childhood education, basic education, secondary education, and nonformal education at the provincial scale.</p> | <p>2.a. —</p> <p>b. Implementation of the evaluation of national education standard achievement for early childhood education, basic education, secondary education, and nonformal education at the district scale.</p> |
|             | 3. Accreditation     | <p>1.a. Establishment of accreditation guidelines for formal and nonformal education tracks.</p> <p>b. Implementation of accreditation for formal and nonformal education tracks.</p>            | <p>1.a. —</p> <p>b. Assist the central government in the implementation of accreditation for basic and secondary education.</p>   | <p>1.a. —</p> <p>b. Assist the central government in the implementation of accreditation for nonformal education.</p>   |
|             | 4. Quality Assurance | <p>1. Establishment of school quality assurance guidelines.</p> <p>2.a. Supervision and facilitation of schools in implementation of quality assurance to meet national education standards.</p> | <p>1. —</p> <p>2.a. —</p>   | <p>1. —</p> <p>2.a. Supervision and facilitation of early childhood education, basic education, secondary education, and nonformal education schools in quality assurance to meet national education standards.</p>     |

| SUBDIVISION | SUB-SUBDIVISION | CENTRAL GOVERNMENT  | PROVINCIAL GOVERNMENT   | DISTRICT GOVERNMENT  |
|-------------|-----------------|---|---|--|
|             |                 | <p>b. Supervision and facilitation of international standard schools in quality assurance to meet international standards.</p> <p>c. -</p> <p>d. Evaluation of the implementation and the impact of school quality assurance at the national scale.</p> | <p>b. Supervision and facilitation of international standard schools in quality assurance to meet international standards.</p> <p>c. -</p> <p>d. Evaluation of the implementation and the impact of school quality assurance at the province scale.</p> | <p>b. Supervision and facilitation of international standard schools in quality assurance to meet international standards.</p> <p>c. Supervision and facilitation of local excellence schools in the quality assurance.</p> <p>d. Evaluation of the implementation and the impact of school quality assurance at the district scale.</p> |

## Appendix 5. Explanation for Calculating DAU

1. The fiscal gap, as explained above, is the difference between fiscal needs (to provide basic services) and fiscal capacity. The DAU, as part of the balancing funds, is a mechanism to reduce fiscal gaps. The DAU is divided into two parts:

- basic allocation, which is intended to cover personnel costs for the district's<sup>1</sup> civil servants<sup>2</sup> (including all teachers in MONE<sup>3</sup> government schools and some teachers in MONE private schools who have civil service status)
- fiscal gap.

2. The fiscal gaps for the individual districts (= needs—capacity) are summed to obtain the national total fiscal gap, and each district's fiscal gap "weight" is calculated as a percentage of the total fiscal gap. This weight is then applied to the central budget allocation for DAU (less the total basic allocation for civil service salaries), producing the amount of funding which the district will receive for the fiscal gap component of DAU. See **Figures 1 and 2** below.

**Figure 1. DAU Allocation at the Center**

|   |                                   |
|---|-----------------------------------|
| Total DAU in central budget<br>(calculated by MOF based on total central budget revenue)        |                                   |
| <i>less</i>   |                                   |
| Regional civil servant costs: approximately 50% of total DAU <sup>4</sup><br>(estimated by MOF) |                                   |
| <i>equals</i>   |                                   |
| DAU available for fiscal gap  |                                   |
| <i>divided into</i>   |                                   |
| DAU available for provinces (10% <sup>5</sup> )   | DAU available for districts (90%) |

<sup>1</sup> The explanation herein is related to districts. An identical process is used to calculate provincial budgets, with the exception that provinces do not pay teacher salaries.

<sup>2</sup> Many of whom were "inherited" when the district offices of central sectoral ministries were closed and their assets transferred to district authority during the original decentralization of 1999-2001.

<sup>3</sup> Teachers in MORA government schools and civil servant teachers in MORA private schools are counted as MORA civil servants and funded through the (central) MORA budget.

<sup>4</sup> WB PER, 2007, p. 120

<sup>5</sup> Government Regulation 55/2005.

**Figure 2. DAU Calculation for the District**

|  |
|--|
| District fiscal needs (formula)<br><i>less</i><br>District fiscal capacity<br>(own revenue base capacity + shared revenues)<br><i>equals</i><br>District fiscal gap<br><br>Sum district fiscal gap over all districts<br><i>equals</i><br>National fiscal gap<br><br>Calculate $\frac{\text{district\_fiscal\_gap}}{\text{national\_fiscal\_gap}} = \text{district "weight"}$<br><br>Multiply district "weight" by total DAU available for districts<br><i>equals</i><br>District fiscal gap DAU<br><i>plus</i><br>District civil servant costs<br><i>equals</i><br>Total district DAU |
|--|

3. Districts with a positive fiscal gap, i.e. needs larger than capabilities, receive DAU equal to their basic allocation (for civil service salaries) plus their percentage of the total national fiscal gap. Note that this amount does not necessarily cover all the district's costs of providing services in the decentralized sectors. The size of the actual subsidy received depends upon the total DAU available (total national revenue collection) and the fiscal gaps in other districts.

4. Districts with fiscal gap = 0 receive only the basic allocation of DAU (to pay civil service salaries) because they are assumed to be able to fund all their decentralized responsibilities.

5. Districts with negative fiscal gap (capability larger than needs) smaller than the basic allocation of DAU receive the basic allocation less the fiscal gap, i.e. they are assumed to be able to fund a portion of the civil service salaries, as well as total responsibility for services provision, from their fiscal capacity. Regions with negative fiscal gap (capability larger than needs) larger than the basic allocation of DAU will receive no DAU.

## Appendix 6. Glossary and Abbreviations

Alphabetical order based on the English term. Where there is no English term (cross-reference), alphabetical order is based on the Indonesian term.

| English         | Indonesian and Abbreviation  | Meaning   |
|-----------------|--|---|
|                 | Angka partisipasi kasar (APK)  | See Gross enrollment rate (GER)   |
|                 | Angka partisipasi murni (APM)  | See Net enrollment rate (NER)   |
|                 | Angka Partisipasi Sekolah (APS)  | See School Participation Ratio (SPR)  |
|                 | Badan Pemeriksaan Keuangan/BPK   | see State Auditor   |
|                 | Badan Pengawasan Daerah/ Bawasda   | see Regional Inspectorate   |
|                 | Badan Perencanaan Pembangunan Kabupaten/ Bappekab  | see:<br>Regency Development Planning Agency   |
|                 | Badan Perencanaan Pembangunan Kota/ Bappekot   | see:<br>Chartered Municipality Development Planning Agency  |
|                 | Badan Perencanaan Pembangunan Nasional/Bappenas  | see National Development Planning Agency  |
|                 | Badan Perencanaan Pembangunan Provinsi/ Bappeprov  | see:<br>Provincial Development Planning Agency  |
|                 | Bantuan Operasional Sekolah/ BOS   | see School Operational Assistance   |
|                 | Bappeda<br><i>(former name, no longer used)</i><br><br>Bappekab<br>Bappekot<br>Bappeprov | see:<br>Chartered Municipality Development Planning Agency<br><br>Provincial Development Planning Agency<br><br>Regency Development Planning Agency         |
|                 | Bappenas   | see National Development Planning Agency  |
| Basic education | Pendidikan dasar   | Elementary + junior secondary levels<br>Grades 1–9 ages 7–15<br><br>Note that the term “sekolah dasar” is used for elementary school, grades 1–6 ages 7–12. |
|                 | Bawasda  | see Regional Inspectorate   |
|                 | Bupati   | see Regent  |
|                 | BOS  | see School Operational Assistance   |
|                 | BPK  | see State Auditor   |

| English  | Indonesian and Abbreviation  | Meaning   |
|--|--|---|
| Central-Regional Financial Balance Law             | Undang-undang 33/2004 tentang Perimbangan Keuangan antara Pemerintah Pusat dan Pemerintah Daerah | Law 33/2004 concerning Financial Balance between the Central Government and Regional Government(s)  |
| Chartered Municipality                             | Kota (formerly Kotamadya)  | A type of district which meets certain criteria of urbanization. Note: these criteria are different from those used for the “urban-rural” classification of statistics. |
| Chartered Municipality Development Planning Agency | Badan Perencanaan Pembangunan Kota/Bappekot  | Agency responsible for district development planning in chartered municipalities. Part of the municipality government; not subject to authority of Bappenas.            |
|  | Daerah   | see Region  |
|  | Daerah terbelakang   | Least developed regions   |
|  | Daerah tertinggal  | “Left behind” regions, i.e. underdeveloped regions. This term is a hold over from the New Order Government usage.   |
|  | DAK  | see Sectoral Block Grant Allocation   |
|  | Dana bagi hasil/DBH  | see Shared revenues   |
|  | DAU  | see General Block Grant Allocation  |
|  | Departemen Agama/ Depag  | see MORA  |
|  | Departemen Dalam Negeri/ Depdagri OR Dagri   | see MOHA  |
|  | Departemen Keuangan/ Depkeu  | see MOF   |
|  | Departemen Pendidikan Nasional/Depdiknas   | see MONE  |
| Development planning consultations                 | Musyawarah perencanaan pembangunan/Musrenbang  | Public consultations organized by Bappenas to discuss draft plans (long-term and medium-term). Mandated by the planning Law.  |
|  | Dewan Perwakilan Rakyat/ DPR   | see: Parliament   |
|  | Dewan Perwakilan Rakyat Daerah/DPRD  | see: Regional Legislative Assembly  |
|  | Dinas  | see Regional Sectoral Office  |
|  | Dinas Pendidikan   | see Regional (Provincial or District) Education Office  |
| District   | Kota AND Kabupaten   | Geographical subdivision of a province, which has its own Executive and Legislature. Not subordinate to the province.   |
| District office of a central (sectoral) ministry   | Kantor Departemen/ Kandep  | District office for sectoral activities in a non-decentralized sector, e.g. District Office of MORA which oversees madrasah<br>Not part of District Government.         |

| <b>English</b>                          | <b>Indonesian and Abbreviation</b>  | <b>Meaning</b>   |
|---|---|--|
| Education Law                           | Undang-undang 20/2003 tentang Sistem Pendidikan Nasional                                | Law 20/2003 concerning the National Education System   |
| Finance Law                             | Undang-undang 17/2003 tentang Keuangan Negara   | Law 17/2003 concerning State [Government] Finance  |
| Financial Inspection Law                | Undang-undang 15/2004 tentang Pemeriksaan Pengelolaan dan Tanggungjawab Keuangan Negara | Law 15/2004 concerning Inspection of Management and Responsibility for State [Government] Finance  |
| General Block Grant Allocation          | Dana Alokasi Umum/DAU   | Central transfer to regional budgets in the form of an unrestricted block grant  |
| “general” schools                       | sekolah   | A term used by MORA to refer to schools under MONE jurisdiction.   |
| [central] Government                    | Pemerintah  | Literally: government.<br><br>Used in legal documents without an adjective, always refers to the central government.   |
| Government Regulation/ GR               | Peraturan Pemerintah/ PP  | Implementing regulation for a Law, issued by the President   |
| Government Work Plan                    | Rencana Kerja Pemerintah/RKP  | Annual Work Plan for Central Government as a whole   |
| Governor                                | Gubernur  | Chief executive of a Province.   |
| Gross enrollment rate (GER)             | Angka partisipasi kasar (APK)   | Ratio of total number of children enrolled in a certain level of schooling to total age cohort for that level, e.g. total number of children enrolled in primary school per total number of children aged 7–12 |
| Head of Region                          | Kepala Daerah   | Chief executive of a region. Includes Governors, Mayors and Regents.   |
| Head of Region Executive Order          | Peraturan Walikota/ Peraturan Bupati OR Surat Keputusan Walikota/Surat Keputusan Bupati | Implementing regulation for a Regional Regulation, issued by the Head of Region  |
|   | Instruksi Presiden/Inpres   | see Presidential Instruction   |
|   | Instruksi Menteri/Inmen   | see Ministerial Instructions   |
| Junior secondary education (JSE) school | Sekolah Menengah Pertama (SMP)  | Grades 7–9, ages 13–15<br>Note that the Indonesian term “menengah” is now properly used exclusively for senior secondary education, as JSE level is included in “basic” education.                             |
|   | Kabupaten   | see District (general) OR (specific) Regency   |
|   | Kantor Departemen/ Kandep   | see District office of a central (sectoral) ministry   |
|   | Kantor Wilayah/Kanwil   | see Provincial office of a central (sectoral) ministry   |

| English                           | Indonesian and Abbreviation         | Meaning  |
|-----------------------------------|-------------------------------------|--|
|                                   | Kepala Daerah                       | see Head of Region   |
|                                   | Kota                                | see District (general) OR (specific) Chartered Municipality  |
| Law (capitalized)                 | Undang-undang/UU                    | Law passed by (central) Parliament   |
| Long Term Development Plan (LTDP) | Rencana Pembangunan Jangka Panjang  | 20 year development plan   |
| madrasah OR madrasah schools      | madrasah                            | A term used by both MORA and MONE to refer to the “general schools with special Islamic characteristics” which are under MORA jurisdiction.<br><i>The term “Islamic schools” is inappropriate for madrasah.</i>  |
|                                   | Madrasah diniyah                    | Not a madrasah.<br><br>Traditional Moslem Boarding School which offers a curriculum of Moslem religious subjects. Independent of both MONE and MORA.<br><br>Some also offer the national curriculum for basic education under a special MORA program.                  |
|                                   | Majelis Permusyawaratan Rakyat/MPR  | see: Peoples’ Consultative Assembly  |
| Mayor                             | Walikota                            | Chief executive of a Chartered Municipality.   |
| Medium Term Development Plan      | Rencana Pembangunan Jangka Menengah | 5-year development plan  |
| Minimum service standards/MSS     | Standard pelayanan minimum/SPM      | Standards for providing services in decentralized sectors mandated in regional government Law. Standards will be defined by the sectoral ministry. Standards are binding on district governments.  |
| Ministerial Decision              | Surat Keputusan Menteri/SK          | Implementing regulation, issued by the Minister charged with implementation of the original Law, used primarily for issuing permits, announcing the winners of procurement/tenders, etc.   |
| Ministerial Instruction/MI        | Instruksi Menteri/Inmen             | Implementing regulation, issued by the Minister charged with implementation of the original Law, frequently used to provide more detailed information, e.g. lists of budget transfers from central budget to regional budgets are issued as MI by Ministry of Finance. |

| English   | Indonesian and Abbreviation                           | Meaning   |
|---|---|---|
| Ministerial Regulation/PR                         | Peraturan Menteri/Permen                              | Implementing regulation for a Law or Government Regulation, issued by the Minister charged with implementation of the original Law  |
| Ministry Annual Work Plan                         | Rencana Kerja Tahunan-Kementerian/Lembaga Renja-KL    | Annual Work Plan for a Ministry   |
| Ministry [annual] Work Plan and Budget            | Rencana Kerja dan Anggaran—Kementerian/Lembaga RKA-KL | Preliminary budget document prepared by ministries.   |
| MOF   | Departemen Keuangan/Depkeu                            | Ministry of Finance   |
| MOHA  | Departemen Dalam Negeri/Depdagri OR Dagri             | Ministry of Home Affairs: responsible for regional government   |
| MONE  | Departemen Pendidikan Nasional/Depdiknas              | Ministry of National Education: responsible for overseeing the national education system. Has direct jurisdiction over “general” schools. Ref: MORA   |
| MORA  | Departemen Agama/ Depag                               | Ministry of Religious Affairs: one of its responsibilities is to oversee the “madrasah” schools which are defined as “general schools with special Islamic characteristics.” <i>The term “Islamic schools” is inappropriate for madrasah.</i> |
|   | Musyawaharah perencanaan pembangunan/Musrenbang       | see: Development planning consultations   |
| National School and Madrasah Accreditation Agency | Badan Akreditasi Sekolah-Madrasah Nasional/BAS-MN     | Independent Agency, established by and responsible to the President with the task of developing standards and procedures for accrediting schools and madrasah.  |
| National Development Planning Agency              | Bappenas  | Agency responsible for drawing up Long-Term (20-year) and Medium Term (5-year) national development plans. Chairperson holds ministerial rank.  |
| National Education Standards/NES                  | Standard pendidikan nasional                          | National standards for education. Cover input, process, output and evaluation. Will be defined by the NES Agency and issued by MONE. Binding on all education institutions (MONE and MORA).   |
| National Education Standards Agency/NES Agency    | Badan Standard Nasional Pendidikan/BNSP               | Independent Agency, established by and responsible to the President with the task of developing NES.  |

| <b>English</b>                 | <b>Indonesian and Abbreviation</b>                                    | <b>Meaning</b>  |
|--------------------------------|---|---|
| Net enrollment rate (NER)      | Angka partisipasi murni (APM)   | Ratio of number of children of the correct age enrolled in a certain level of schooling to total age cohort for that level, e.g. total number of children aged 7–12 enrolled in primary school per total number of children aged 7–12 |
| Parliament                     | Dewan Perwakilan Rakyat/ DPR  | National legislative agency.  |
|                                | Peraturan Daerah/Perda  | see Regional Regulation   |
|                                | Peraturan Menteri/Permen  | see Ministerial Regulation  |
|                                | Peraturan Pemerintah/ PP  | see Government Regulation   |
|                                | Peraturan Presiden/Perpres  | see Presidential Regulation   |
| Peoples' Consultative Assembly | Majelis Permusyawaratan Rakyat/MPR                                    | Highest governmental authority. Members consist of all members of Parliament + representatives of “functional groups” (stakeholders). Has authority to amend the Constitution and impeach the President.                              |
| Planning Law                   | Undang-undang 25/2004 tentang Sistem Perencanaan Pembangunan Nasional | Law 25/2004 concerning the National Development Planning System   |
|                                | Pondok pesantren  | Traditional Moslem Boarding School which offers a curriculum of Moslem religious subjects. Independent of both MONE and MORA.<br><br>Some also offer the national curriculum for basic education under a special MORA program.        |
| Presidential Decision          | Surat Keputusan Presiden/SK   | Implementing regulation issued by the President, used primarily to provide legal foundation for “policy” packages   |
| Presidential Instruction/PI    | Instruksi Presiden/Inpres   | Implementing regulation issued by the President, used primarily for making appointments, creating “teams”, etc.   |
| Presidential Regulation/PR     | Peraturan Presiden/Perpres  | Implementing regulation for a Law or Government Regulation, issued by the President   |
| Province                       | Propinsi  | Geographical subdivision of the unitary state of Indonesia, which has its own Executive and Legislature. Consists of districts but the hierarchy is only geographical.  |

| <b>English</b>                                     | <b>Indonesian and Abbreviation</b>                | <b>Meaning</b>   |
|--|---|--|
| Provincial Development Planning Agency             | Badan Perencanaan Pembangunan Provinsi/Bappeprov  | Agency responsible for provincial development planning.<br>Part of the provincial government.<br>Not subject to authority of Bappenas and not having authority over district planning agencies.  |
| Provincial office of a central (sectoral) ministry | Kantor Wilayah/Kanwil                             | Provincial office for sectoral activities in a non-decentralized sector, e.g. Provincial Office of MORA which oversees madrasah.<br>Not part of Provincial Government.   |
|  | Provinsi  | see Province   |
| Regency  | Kabupaten   | A type of district which does not meet the criteria of urbanization required to become a Kota.<br>Note: these criteria are different from those used for the “urban-rural” classification of statistics.<br>Regencies can be “urban” for statistical purposes. |
| Regency Development Planning Agency                | Badan Perencanaan Pembangunan Kabupaten/ Bappekab | Agency responsible for district development planning in regencies.<br>Part of the regency government; not subject to authority of Bappenas.  |
| Regent   | Bupati  | Chief executive of a Regency.  |
| Region (Provincial or District)                    | Daerah  | Geographical unit with its own government (executive and legislature) outside the center.<br><br>Includes both Provinces and Districts (Chartered Municipalities and Regencies).   |
| Regional government                                | Pemerintah daerah/pemda                           | Governmental unit outside the center.<br><br>Opposite of “central” government:   |
| Regional Government Law                            | Undang-undang 32/2004 tentang Pemerintah Daerah   | Law 32/2004 concerning Regional Government   |
| Regional Inspectorate                              | Bawasda   | Internal auditor for regional government agencies  |
| Regional Legislative Assembly                      | Dewan Perwakilan Rakyat Daerah/DPRD               | Regional (provincial or district) legislative agency.  |
| Regional Regulation/RR                             | Peraturan Daerah/Perda                            | Law passed by regional (provincial or district) legislature.   |
| Regional (Provincial or District) Education Office | Dinas Pendidikan                                  | Unit of regional government with responsibility for education in the region.   |

| English                                    | Indonesian and Abbreviation                                     | Meaning  |
|--|---|--|
| Regional Financial Information System/RFIS | Sistem Informasi Keuangan Daerah/SIKD                           | Database in MOF to track regional budgets and financial statements<br><br>World Bank (WB) assisted MOF to establish the system. Information can be submitted on-line.<br><br>Most recent data available for public access is 2003. |
| Regional Sectoral Office                   | Dinas   | Responsible to Head of Region, not to central sectoral ministry.   |
| Regional Sectoral Office Annual Work Plan  | Rencana Kerja Tahunan Satuan Kerja Perangkat Daerah /Renja-SKPD | Annual work plan for a regional sectoral office  |
| Regional Sectoral Office Strategic Plan    | Rencana Strategis Satuan Kerja Perangkat Daerah /Renstra-SKPD   | Medium term (5 year) plan for a regional sectoral office   |
|  | Rencana Kerja Pemerintah/RKP                                    | see Government Work Plan   |
|  | Rencana Kerja Tahunan-Kementerian/Lembaga Renja-KL              | see Ministry Annual Work Plan  |
|  | Rencana Kerja Tahunan Satuan Kerja Perangkat Daerah Renja-SKPD  | see Regional Sectoral Office Annual Work Plan  |
|  | Rencana Pembangunan Jangka Panjang                              | See Long Term Development Plan   |
|  | Rencana Pembangunan Jangka Menengah                             | See Medium Term Development Plan   |
|  | Rencana Strategis/Renstra                                       | see Strategic Plan   |
|  | Rencana Strategis Satuan Kerja Perangkat Daerah /Renstra-SKPD   | see Regional Sectoral Office Strategic Plan  |
|  | Renja-KL  | see Ministry Annual Work Plan  |
|  | Renja-SKPD  | see Regional Sectoral Office Annual Work Plan  |
|  | Rencana Kerja dan Anggaran—Kementerian/Lembaga RKA-KL           | see Ministry [annual] Work Plan and Budget   |
|  | RKA-KL  | see Ministry [annual] Work Plan and Budget   |
| School Operational Assistance              | Bantuan Operasional Sekolah/BOS                                 | Program (budget line) in MONE budget.<br><br>Provides central government budget funds direct to schools based on school enrollment.  |

| English                                 | Indonesian and Abbreviation                        | Meaning  |
|---|--|--|
| School Participation Ratio (SPR)        | Angka Partisipasi Sekolah (APS)                    | Ratio of number of children of the correct age enrolled in any level of schooling to total age cohort for that level, e.g. total number of children aged 7–12 enrolled in any school per total number of children aged 7–12  |
| Sectoral Block Grant Allocation         | Dana Alokasi Khusus/DAK                            | Central transfer to regional budgets in the form of a block grant tied to specific activities in a specific sector.  |
| Senior secondary education (SSE) school | Sekolah Menengah Atas (SMA)                        | Grades 10–12, ages 16–18   |
| Shared revenues                         | Dana bagi hasil/DBH                                | A revenue source in regional budgets, consisting of the region's share of revenues generated on the region's own tax base (in the case of provinces, revenues generated from the districts comprising the province) and shared with the central government and/or other regions. |
|   | Sistem Informasi Keuangan Daerah/SIKD              | see Regional Financial Information System  |
|   | Standard pelayanan minimum/SPM                     | see: Minimum service standards/ MSS  |
| State Auditor                           | Badan Pemeriksaan Keuangan/BPK                     | Independent agency for external audit of government agencies   |
| Strategic Plan                          | Rencana Strategis/Renstra                          | Medium term (5 year) plan for a central ministry OR a regional government sectoral office ( <i>dinas</i> )   |
|   | Surat Keputusan Presiden/SK                        | see Presidential Decision  |
| Treasury Law                            | Undang-undang 1/2004 tentang Perbendaharaan Negara | Law 1/2004 concerning the State [Government] Treasury  |
|   | Undang-undang/UU                                   | see Law  |
|   | Walikota   | see Mayor  |