



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

PDCBL 131

March 2, 1992

NOTICE OF MEETING

BUREAU FOR ASIA

FRIDAY, MARCH 13 at 9:30 a.m. in Room 800, SA-2

TO: DISTRIBUTION

FROM: ASIA/DR/PD, Thomas Marr *TM*

SUBJECT: Indonesia - Privatization of Educational Support Services Project (497-0370), PID Review

ASIA/DR/PR is convening a review meeting of the Indonesia Privatization of Educational Support Services PID which was recently approved by the Mission. Discussion at this meeting will focus on ways in which AID/W can assist the Mission in carrying out the PP design. This can be accomplished primarily by bringing to bear lessons learned from other countries. Other ways of helping, for example, assisting with recruitment and selection of the design team, and providing TDY services, will be discussed as appropriate.

Please review the attached document and prepare any contributions your office may have. Thanks.

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AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT IDENTIFICATION DOCUMENT
FACESHEET (PID)

1. TRANSACTION CODE
A = Add
C = Change
D = Delete
Revision No.
DOCUMENT CODE 1

2. COUNTRY/ENTITY

3. PROJECT NUMBER
497-0370

4. BUREAU/OFFICE
A. Symbol B. Code

5. PROJECT TITLE (maximum 40 characters)
Privatization of Ed. Support Services

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION.
A. Initial FY 92
B. Final FY 96
C. PACD 98

7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 =)
FUNDING SOURCE LIFE OF PROJECT
A. AID 12,000
B. Other U.S. 1. 2.
C. Host Country 3,925
D. Other Donor(s)
TOTAL 15,925

8. PROPOSED BUDGET AID FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 1ST FY 92		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) EH				3,000		12,000	
(2)							
(3)							
(4)							
TOTALS				3,000		12,000	

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)
10. SECONDARY PURPOSE CODE

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code B. Amount

12. PROJECT PURPOSE (maximum 480 characters)
To improve primary school student achievement by demonstration within pilot zones, of replicable models for the private production of low cost instructional materials and privately administered in-service primary school teacher training services.

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff: USAID/EHR staff
4 P/M T.A. (IQC)
Funds PD&S plus EPP Project.

14. ORIGINATING OFFICE CLEARANCE
Signature: [Signature]
Title: Director, Office of Education and Human Resources
Date Signed: MM DD YY 02/06/92

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY

16. PROJECT DOCUMENT ACTION TAKEN
S = Suspended CA = Conditionally Approved
A = Approved DD = Decision Deferred
D = Disapproved

17. COMMENTS

18. ACTION APPROVED BY
Signature: [Signature]
Title: USAID/Director

19. ACTION REFERENCE
20. ACTION DATE
MM DD YY 02/06/92

PID Outline

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I. Overview of the Problem

A) Introduction

Indonesia is the world's fourth largest nation after China, India, and the United States. Its high rate of investment in physical capital at 30.7% of its GNP is as high as that of Japan, South Korea, Taiwan, Thailand and Malaysia, and almost as high as that of Singapore. Indonesia's excellent record of economic deregulation and its abundant natural resources promise a real chance for fast economic growth comparable to that of other Pacific Rim countries.

Indonesia's future development will take place in the midst of a world wide explosion of information, communications and technology. To compete in the modern industrializing world, particularly with Malaysia and Thailand as jobs move south from South Korea and Taiwan, however, Indonesians will require skills and attitudes that enable them to more efficiently produce, sell and distribute goods and services around the world.

Unfortunately for Indonesia, the level of government investment in education has been inadequate to assure the maintenance and growth of quality. As both direct and indirect educational costs rise, and as enrollments increase, this country of 187 million people is experiencing little overall improvement in the quality of its education system. At only about half the rate of investment in human capital of its Asian counterparts such as South Korea, Taiwan, Thailand, and Malaysia, Indonesia – which invests 9% of its budget on education – runs the risk of falling further behind its competition.

B) Quality of Primary School Students

Although 55% of its people still earn their living from agriculture, 23% percent of Indonesia's GDP is earned from other sectors. As the nation industrializes, large numbers of people must acquire the basic education that will equip them to find jobs in the rapidly changing economy, or to go on to higher education, and subsequent careers as technicians, professionals and managers in the modern industrial and commercial sectors of the society.

There are 27 million primary school children in Indonesia and approximately 1.2 million teachers. Indonesia spends less than 10% of its annual budget on education, while most other countries in SE Asia expend 14-20%. It is no surprise that while access to education has improved over the last twenty years, proxy indicators suggest that the quality of primary school instruction for the majority of students is poor and is getting worse - for example; a recent World Bank study reported that the promotion rate from primary to junior secondary school has been declining in recent years and for the 1989-90 school year had fallen below 60%, while a German Development Assistance (GTZ) study reported that for a full primary cycle, cohort drop-outs rates may be approaching 50% in some regions.

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II. Program Factors and Context

A) Conformity with Indonesia Objectives

Indonesia's educational system is an integral part of the national development process. "Improving the Quality of the Indonesian People" largely through education, has been declared the primary objective of Indonesia's Second 25 Year Plan (1993–2018). The GOI is addressing basic education needs in two major ways, by extending the period of universal education from six to nine years, and by increasing the quality of education for students in the system. Universalization of junior secondary education, servicing grades seven to nine, is now law; implementation is planned during the sixth national development plan (REPELITA 1994–1998). A number of donors including the British Council, UNESCO, UNICEF and the development banks have made major commitments to assist the Government in achieving this challenging objective.

The path to improving quality of the current primary education system, in many ways is an even more challenging one. Studies undertaken for the Government of Indonesia, for example, show that the three prime, controllable variables that influencing the level of primary student performance are, in order of importance: increasing the availability of learning materials, extending the experience of the teacher, and raising the level of training of the teacher. The Government has attempted to address these variables, and others, but with relatively little impact. Although the quality and volume of instructional materials have improved, for instance, there is still a chronic undersupply. Although the number and experience of teachers has increased over time, they have had far too little training.

The Government's lack of success is not surprising. Its nation-building and infrastructural investment problems are staggering. Spread over a landmass divided among some 6,000 inhabited islands spanning more than three thousand miles, Indonesia is culturally diverse and hard to reach. Population and natural wealth are distributed disproportionately, and its level of economic development is enormously varied, ranging from slash and burn agriculture to space-age manufacturing.

In light of the immensity of these problems, the Government is looking to a comprehensive approach that will improve the efficiency, effectiveness, availability and sustainability of quality primary education. Currently, funding for the system derives from a range of sources including (i) the state income and expenditure budget (routine and development); (ii) regional income and expenditure budgets; (iii) parental contributions; and (iv) funds coming from the "society", i.e., the private sector and community groups. The overwhelming majority of basic education financing, however, comes from central government.

Recognizing the need to increase the role of local governments, the private sector, and families in sharing the costs of education, the Government of Indonesia has recently announced policies giving the green light to efforts to privatize aspects of the education system:

"Education is basically the responsibility of the family, the community and the government jointly, which applies also to the maintenance of the costs of the operation of education." [GOI Notes to Article 25, Law 2 1989: The National Education system.]

Further, the Government of Indonesia has initiated a plan for studies and small research and development activities which will directly affect the prospects for increasing the involvement of the private sector and the community in providing quality primary education. These include studies to address policy changes to increase the role of private sector teacher training, to increase the role of provincial and local authorities in monitoring, managing and allocating education resources to promote more efficient and equitable primary education, and to enhance the role of the family and community in financing primary education.

B) Relationship to USAID Strategy

USAID/Indonesia's strategy places high priority on the need to address the problem of low quality primary education in Indonesia, and the need for additional resources – mobilized from the private sector – to resolve it. Two of the five objectives of the Mission's Vision Statement directly focus Mission attention on this problem. These are:

"To enhance the quality of Indonesia's human resources for private sector development."

"To foster private provision in the provision of public goods and services within a responsible regulatory framework."

C) Experience with Other USAID Projects

In several important areas, PRESS is a follow-on to the Education Policy and Planning project (EPP) which reaches PACD in September, 1992. EPP sought to strengthen the capacity of the Ministry of Education and Culture (MOEC) research and development arm (BALITBANG DIKBUD), and improve the efficiency of several aspects of the education system. A great deal has been accomplished in these regards, and a certain momentum established. The third amendment of EPP called for a further investigation of privatization of educational services. Under EPP, a number of policy initiatives have begun to bear fruit, and several feasibility studies were implemented that set the rationale and foundation for PRESS.

Two current projects in the USAID portfolio, Private Sector Family Planning (PSFP) and Health Sector Financing (HSF) are relevant to the design and implementation of PRESS. The aim of both projects is to increase involvement of the private sector in providing public goods – family planning and health services respectively – to Indonesians nationwide. Both are designed to work closely with Indonesian Government entities to carry out studies and selected pilot activities required in developing a program for policy change within the sector. Both, too, fund activities, at

which will realize concrete changes in service provision and have measurable impact on the status of the population. To date, favorable progress has been recorded for both these projects; the Indonesian Government is strongly committed to finding means for expanding private sector involvement in social services, as well as expanding the role of family and community.

D) Other Donors

There is a substantial amount of bilateral and multi-lateral donor involvement in the education sector, including the World Bank, the Asia Development Bank, the British Council, and UNESCO. In fact, Indonesia receives more assistance in the education sector from the World Bank than any other country in the world. However, for the type of assistance that PRESS envisions, the principal actors on the donor stage are USAID and the World Bank.

There is a long and fruitful history of collaboration between the World Bank and USAID in the education sector in general and primary education in particular. Generally, USAID has focused upon research and development while the Bank has provided funding for broad application (implementation) of research findings. Largely building upon research conducted under the USAID's EPP project, for example, the World Bank is about to sign a loan agreement with the GOI for the implementation of the Primary Education Quality Improvement Project (PEQIP). As USAID's program has increasingly focussed on developing the potential of the private sector in its priority areas, its privatization emphasis is recognized by other donors. They have come to expect USAID leadership in such areas as health, family planning, and education, as has the GOI.

The PEQIP project funded by the World Bank will provide resources for a broad range of activities that include pre-service teacher training, curriculum development and decentralization. Since PRESS focuses upon privatization, the potential for complementarity between the two projects is high, and the possibility for redundancy is slight. Nonetheless, there are areas, such as decentralization where careful coordination needs to take place in design. The PRESS PP team will receive special guidance to ensure that PRESS inputs do not overlap with or conflict with those of the PEQIP project. It will also pay special attention to increasing the likelihood that PRESS activities can leverage the impact of projects like PEQIP, whether funded by the World Bank or other donors.

III. Project Description

A) Constraints to be Addressed

The fundamental problem to be addressed under the project is the poor quality of education available to the large majority of Indonesia's primary school students. The basic constraints to improving student performance are many, but one of the most important, and most susceptible to action by the Government of Indonesia, is the ~~lack of~~ ~~untimely~~ availability of appropriate learning materials for primary students. Other constraints include: (1) the level of training of the teacher; (2) the imbalance in the organization and financing of primary education between central, regional and local entities; (3) inappropriate models for allocating resources to schools and teachers at the local and regional level; and, (4) a near absence of suitable information that would permit monitoring of student performance.

The Government is systematically addressing these factors, and others at all levels, but it essentially lacks the where-with-all to do it alone. Without assistance from sources outside the Government, especially from the private sector, the promise of far-reaching, sustainable success is dim. A key need is for potential private sector resources to be freed up, and for constructive relationships to be developed between the Government and private sector which will help generate resources and structure private sector initiatives. PRESS will address a number of these constraints, exploring and demonstrating the usefulness of the private sector in the process. Because of the critical importance of instructional materials to student performance, and the high potential this particular school input promises as a means for realizing and demonstrating the potential for private sector involvement, instructional materials deserves priority attention in project design.

1) Constraint – Instructional Materials

In the developing world, the availability of textbooks and other instructional materials is one of the most important and cost effective variables in educational attainment. It is also one of the school inputs most commonly given short shrift. Of the 27 million primary school children in Indonesia, only one in 13 has access to a book (whether purchased by family or provided by the school) in each subject when the full range of primary subjects is taken into account. While this figure varies considerably from province to province, the Education Ministry acknowledges that under current fiscal constraints, it has only printed, on average, for example only one science and social text for every three students.

It is clear that the current system does not come close to meeting the need. A recent EPP study reported that for the first 6 grades alone, assuming a 5 year text replacement cycle and one book per student for each of the essential subjects, some 27 million replacement texts would be needed annually. And, while Repelita V calls for GOI to provide 360 million primary texts during the planning period, a more functional figure would reflect the need for 70 million replacement subject texts (1 per child, per

subject, per grade) and an equal number of workbooks and 10 million teachers' guides and other support materials.

Balai Pustaka, a state owned and subsidized enterprise, publishes and sells reprint editions of government textbooks in runs as large as 200,000 copies - in total, for all education levels, they offer about 18 million texts for sale each year. The Government Book Center, part of Balitbang Dikbud, publishes and distributes 2 million free primary texts each year. Best estimates of private publisher sales are at a level of about 20-25 million textbooks per year. It appears, therefore, that the government and the private sector combined produce and sell about 45 million textbooks annually. A number that falls far short of recognized needs.

The cost of printing and distributing the "free" textbooks by the Book Center is estimated at Rp.1000 per book. To serve all students, the cost of printing and distributing only two paperback books per student would be Rp.92,000,000,000 per year (\$46 million). The current book production budget stands at Rp. 1,000,000,000 (\$505,000) per year, which is insufficient to begin to meet the government's own targets.

Balai Pustaka textbooks sell for an average of Rp.1750 each, but the cost is borne by consumers. It is the largest publisher of textbooks and has a monopoly of sorts in that only its "approved" books may be used in schools. Although the Government Book Center holds the copyright on books produced, only Balai Pustaka is allowed to reprint textbooks that are developed by the Center. Both the Book Center's production system and Balai Pustaka's printing and distribution system are inefficient and need to be streamlined. It takes three years to produce a school book compared to an average of six months in the private sector. In addition, many deliveries of books are made not only well after the start of the school year, but some are apparently based on the 1975 curriculum, rather than the revised 1984 curriculum.

Privately published books are available commercially primarily through bookstores in urban areas. Private publishers and printers appear to respond only to markets created by densely populated areas, and even there many of the books are sold at prices that the majority of families cannot afford.

Students face three key problems associated with textbooks that are made available from both government and private sources:

- they are out of date and/or contain poorly organized material;
- they are too expensive; and,
- they are not delivered until well after the school year has begun.

Government policies inhibit the private production of low cost instructional materials in a number of ways:

– Value-added taxes inhibit profitability. Newsprint is not taxed, but book paper is. Books themselves are also taxed.

– Only government issued textbooks may be used in schools for such core subjects as mathematics. Only GOI approved books may be used in schools as texts for supplemental subjects such as art. GOI approval of textbooks applies to books that have already reached a certain level of sales in stores. The GOI will not base approval on manuscripts or camera ready copy.

– Publishers may not purchase, print and market government manuscripts.

– Publishing is not considered an industry, but a trade. Publishers are licensed by the Ministry of Trade rather than Industry. Rates of interest on commercial lending are higher than the interest on industrial loans.

– The publication and distribution of free books, though very limited in number, inhibits commercial consumption.

– The required purchase of books issued by the Education Ministry's printing house, Balai Pustaka, also inhibits commercial consumption.

– Discounts to wholesalers are fixed by decree at 40%. Most publishers would prefer the market to dictate prices.

– The price of paper is highly volatile and government controlled.

2) Policies Constraining Private Sector Involvement

USAID's experience with the education sector, and other sectors in Indonesia, suggests that an unfavorable policy framework is a key constraint to freeing up private sector resources. The fundamental policy which holds that required core textbooks be distributed by government clearly inhibits the growth of a competitive commercial textbook industry. A second constraint consists of a set of regulations which raise the cost of textbook publishing and thus inhibit the production and distribution of textbooks to a wider public. A third constraint is the lack of financing mechanisms that would make books more affordable, for example, loan schemes, installment buying plans or revolving funds. A fourth is lack of financing mechanisms such as loan guarantees that would encourage entrepreneurship in the publishing industry. A fifth constraint is the still narrowly implemented decentralization of the EMIS to the provinces. Information about distribution of learning materials, teacher training and the allocation and distribution of other resources is not yet fully developed.

An entirely different set of problems which are addressed in the section on expected achievements relate to the organizational and financial environment in which education takes place. The PP team will carefully address these problems along with the expected policy development needed to overcome them.

Despite significant improvements in the system for collecting and analyzing information – including activities supported under USAID's Education Policy and Planning Project – the capacity for identifying and monitoring the key changes required in primary education are sorely lacking.

Other examples of policy constraints to be addressed include: (1) the application of value-added taxes to school texts; (2) the processes of text manuscript approval; (3) the placing of text content into public domain; and, (4) the role of GOI book subsidies.

B) Project Goal and Purpose

The Privatization of Educational Support Services Project (PRESS) is a proposed five year effort with Life of Project A.I.D. funding of \$12 million. The PRESS project will encourage a broadening of private participation in the financing and privatization of the delivery of educational services, thereby facilitating further economic growth, equity and regional economic development. By using a social marketing approach, PRESS will demonstrate how the private sector can serve itself and the community by delivering educational goods and services in partnership with the Government. In addition, it will attempt to demonstrate ways by which it can perform more efficiently and effectively than can the Government.

The goal of the PRESS project is to improve primary school student achievement through improvement in management, teacher performance and substantially increased availability of learning materials.

The purpose of the project, is to demonstrate, within selected provinces, replicable models for the private provision of services for primary education.

End of Project Status:

- (A)** A tested and replicable model for producing and distributing low cost instructional materials for students through private channels.
- (B)** As a result of policy research leading to deregulation, the private sector will participate in the delivery of in-service primary level teacher training.
- (C)** As a result of policy studies and applied research, the financing and management of primary education will take into account community and private sector participation.

C) Expected Achievements

PRESS expects to obtain measurable results at the system and school service levels and at the policy level. In all cases PRESS will support interventions that are deemed to be both replicable and sustainable.

1) Privately produced low cost instructional materials

At the present time, all core instructional materials that are used in the primary schools of Indonesia are produced by the national government. The system is inefficient and costly. Since there are more primary school children in Indonesia than there are in the United States (Indonesia's population is smaller but younger), it is analogous to think in terms of controlling the production and distribution of all core textbooks in the United States from Washington, D.C. Even with our relatively superior communication and transportation infrastructure this would be difficult and inefficient.

(System Service Level) The low cost learning component of the PRESS project will help to promote the development and involvement of the private sector in producing and marketing learning materials throughout Indonesia where natural markets make it feasible for the private sector to function profitably with production of low cost products. During the life of the project, it is expected that most production will, in fact, be reproduction of textual matter developed and sanctioned by the GOI. By PACD, however, we expect that the regulatory environment will have improved to the point where commercial production of core instructional materials by private sector Indonesian and offshore publishers is feasible.

By PACD, the project will have generated and tested models of delivering low cost privately produced instructional materials (not limited to textbooks) within the pilot provinces. We expect that every child will have access to a full range of textbooks, workbooks and miscellaneous other instructional materials. The significant difference from the current system, is that core textbooks within the project zone will be privately produced and sold. We expect the cost of the average book will be between Rp. 250 and RP. 500 (13–25 cents), depending upon such factors as quality and the dynamics of regional markets.

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(School Service Level) Commercial producers of learning materials will be allowed access to schools and will be permitted to use other means of distribution such as local stores to market their products.

Commercial producers will be encouraged to utilize practical financing schemes such as installment plans. The GOI and local governments will be encouraged to implement credit plans such as revolving funds which will enable commercial producers to utilize financing methods that permit widespread purchase of learning materials.

Technical assistance and training will be provided to government, education system and school personnel as well as to commercial producers to enable them to utilize new financing methods.

(Policy Level) For private textbook printers to have any incentive to set-up production and delivery, there must be a long term commitment to a competitive market. Therefore, as a condition precedent to first disbursement under the project, the GOI will need to formally agree to allow publishers and printers within the pilot provinces to reproduce texts and other instructional materials that are produced by the Government Book Center.

Other expected policy outcomes are:

- By PACD, The GOI will eliminate the value added tax on learning materials.
- By PACD, systems will be in place to enable the GOI to approve textbooks for use in schools based upon manuscripts or camera ready copy.
- By PACD, the GOI will be prepared to make available for commercial publication all Book Center products for primary schools.
- By PACD the GOI will substantially confine government distribution of primary school learning materials to underserved schools.

In summary, PRESS will make an important educational contribution, while at the same time increasing private employment related to book production, sales and distribution.

2) Policy Initiatives

PRESS will provide the GOI with national and provincial level policy studies on issues related to deregulation. These studies will explore replicable and sustainable ways to stimulate private provision of services, with quality control regulated through local and private participation in the financing and management process. PRESS will further the development and acceptance of private sector responses to recognized needs in the education sector. As part of the policy component, it is possible that limited research and

development activities will be undertaken. The aim of these will be to develop concrete examples, such as the textbook pilot experiment described in Annex 2, which can be used to generate understanding of and commitment to proposed policy changes. Following are examples of possible areas of focus under this component:

(Organization and finance) A critical requirement in fostering a market-oriented education system is devolution of the management of education by the Education Ministry in Jakarta to provincial and district governments and to local communities and individuals, namely those in closer proximity to the teaching and learning process, i.e., parents, teachers, school directors, students, and community groups. Policy changes in this area are required to build accountability and relevance into the system, and to improve the effectiveness of successful public and private partnerships operating in the markets at the regional and district levels.

Privatization cannot take place without less reliance on central control of inputs. Private sales of educational goods or services must be targeted toward demand. If the demand is at the national level, supply will be targeted only to that level, which we have already determined is managerially inefficient. PRESS will fund a series of policy studies that provide the necessary basis for policy decisions that enable and support development of public/private partnerships. Illustrative examples of the policy studies to be funded include:

- Development of private sector sources of revenue for school financing.
- Investment strategies for secondary and higher education based upon updating of market signals.
- Local data based-decision making to enable analysis of cost/effectiveness.
- Barriers to the provision of private educational services including in-service teacher training.
- More objective resource allocation formulas.

(Privately delivered in-service teacher training). The GOI is not yet capable of meeting its own in-service teacher training targets. By the end of this project, it is possible private institutions will be recognized by the GOI as licensed providers of in-service teacher training that is conducted within government regulations. To do so, a number of policy related studies will be undertaken. It is possible that the Government of Indonesia will agree to sell at cost and/or allow reproduction of Government-produced teacher training modules within the target provinces.

Other expected policy outcomes regarding in-service teacher training may include:

– By PACD, the GOI will have developed a system for provisional and permanent certification of private teacher training schools.

– By PACD, in-service training provided by the GOI will be performed on a fee-for-service basis, with at least partial cost recovery from teachers.

D) Monitoring, Evaluation and Dissemination

At the present time, Indonesia has no formal system of subject matter oriented achievement testing. Since the evaluative mechanism of the PRESS project will be a significant development contribution in its own right, more than the normal level of resources will be budgeted for project evaluation activities. In addition to providing funds for mid term and final project evaluation, this component will provide the means for various GOI ministries to assess the relative benefits provided by private and public education and to monitor and redress potential negative effects of the either program. Information on success of policy changes and research and development activities to expand availability of instructional materials will be essential for dissemination of results beyond the pilot provinces.

At the present time, for example, Indonesia has no functional instrument to measure student achievement on a grade by grade basis. There is however a national test at grade 6, as the student leaves primary school. Several tests are under design within the testing unit of the Research and Development Office of the Ministry of Education and Culture. PRESS will accelerate the development of the MOEC tests and administer baseline tests which compare the achievement of students within the target and control groups. Through appropriate statistical analyses, it is possible to reach conclusions on the effectiveness of project interventions. Collaborative efforts with MOEC staff will permit tests introduced to Indonesia to be adapted to local conditions.

Through baseline and periodic achievement testing throughout the life of the project, PRESS will assess project impact via standardized testing and will disseminate results. While it is reasonable to measure the efficiency of the private delivery systems that are being developed under the project, it is equally important to know how these privatized systems compare with other areas outside of the pilot provinces with respect to student attainment. The testing program will confine itself to mathematics, basic sciences and language skills attainment.

An important part of monitoring and evaluation activities will include continuation of limited support for the Education Ministry's Educational Management Information System (EMIS). Developed in part with assistance provided by USAID's EPP project, EMIS capacity will be expanded downward through the system from the regional and district level to the lower levels within the pilot provinces. It will provide a basic aspect of the infrastructure needed for monitoring and evaluating progress with public/private partnerships and improvement of the efficiency and timeliness of data-based decision making at the regional and local levels.

E) Project Outline: How It Will Work

The project will have similarities with a number of USAID projects which successfully promote policy change and implementation at the national and regional levels, with priority emphasis placed on freeing up and stimulating private sector resources to help provide public services.

The project will have two components. Major inputs of the project will be long and short term technical assistance, training, and funding for studies, research and development activities and pilot programs with interested private sector firms. Minimal commodities – computer hardware and software – will be provided. It is foreseen that a technical assistance team funded under a USAID direct contract will be selected on a competitive basis to implement project activities in close collaboration with Ministry of Education and private sector counterparts.

1) Component 1, the Private Provision of Instructional Materials, will build on experience already gained in USAID's EPP project. Annex 2 briefly describes the activities and results of this experience. A key aspect of this component will be the linking of studies, pilot private sector research and development activities with policy dialogue to support and implement policy change. Dissemination of results of the successful research and development, and social marketing activities will be an important means for promoting a replication of successful activities country-wide.

Activities will be implemented in a number of target provinces: These are expected to include East Java (population 33.5 million), South Sulawesi (7.0 million), West Nusa Tenggara (3.5 million), and North Sumatra (10.5 million). Three of these provinces were pilots under the EPP project, and have comparatively well developed managerial capacities and a superior EMIS. The selected provinces will represent a wide variety of conditions in Indonesia: heavily urban in two provinces (including the cities of Surabaya and Medan), of widely varying size, complexity and ethnic makeup, and different overall levels of social-economic achievement (two are the historically poorer region of Eastern Indonesia).

An important element of assistance to the pilot provinces will be development of the capacity of provincial government personnel to create and sustain public/private partnerships. For example, in school text book production and distribution. A related element will be developing the means by which private sector activities can be monitored and guided at the provincial and local levels. Training of provincial staff will be an important input to develop that capability. An additional main area of focus will be conducting studies and research and development activities essential to inform persuasive policy dialogue.

A revolving fund to stimulate entrepreneurship will be established under the project. These funds could be used, for example, for partial loan guarantees, seed money for private book production trials, or to stimulate joint ventures with U.S. textbook manufactureres. Although the fund is cited as a revolving loan fund in the budget, and an

entrepreneurial fund in the logframe, the PP team needs to focus carefully upon what this fund is to actually accomplish and how it will be managed.

2) **Component 2, Policy Initiatives**, will focus on an agenda of policy development activities aimed at promoting increased responsible private sector involvement in primary education, with special emphasis placed on the pilot provinces. The agenda for the first year or two will be proposed by the PP team and incorporated in the PP. It will include a prioritized set of activities selected for maximum and early success and impact. A project Steering Committee will be responsible for monitoring progress on the project agenda, and setting the agenda on an annual basis in the outer years. To maximize project impact, this committee will include members working closely with other donor activities in primary education.

The implementation of the two components will be closely coordinated, as it is essential that project activities are successful in demonstrating to the fullest extent possible not only the high potential of the private sector for improving and increasing primary education services, but also the potential impact these improvements will have on raising the performance of primary students.

Given the project emphasis on policy change and research and development as a means to stimulate and guide private sector involvement, the **monitoring, evaluation and dissemination function** will be an especially important adjunct to project activities.

F) **Estimated Costs and Financing**

The PRESS project will be financed with an A.I.D. grant of \$12.0 million with \$4.0 million in host country/private sector contribution of in-kind and other services, for a total budget of \$16 million. The estimated distribution of funding requirements is as follows:

	(USD 000's)	
	USG	HC/Private
Technical Assistance		
- Long term	3,984	1,000
- Short term	3,180	800
Training	1,080	600
Commodities	750	275
Project Evaluation/Audit/Contingency	2,000	1,250
Revolving Credit Fund	1,000	--
Total	11,994	3,925

G) Support Requirements, USAID and Government

USAID/Indonesia's Office of Human and Participatory Development (HPD) will be responsible for project implementation, with assistance from other USAID offices as required. The Project Officer for the project will be a USDH in the HPD.

BALITBANG DIKBUD will be the primary interlocutor on the part of the GOI in the implementation of PRESS. It is anticipated that other elements in the Ministry of Education will become involved in project implementation through BALITBANG DIKBUD. These will include, the MOEC Planning Bureau which is located in the Secretary General's Office, the Director of Primary Education, and the Director of Teacher Training.

IV. Factors Affecting Project Selection and Further Development

A) Feasibility – Social and Institutional Considerations

The project appears socially and institutionally sound based on a number of factors. These include experience with pilot privatization efforts funded under Amendment 3 of the Educational Policy Planning Project, the demonstrated commitment to privatization demonstrated by senior officials of the Indonesian Government, especially in the Ministry of Education, and USAID's recent successful experience with similar privatization activities in key related social sectors, such as family planning and health care.

Priority topics to be investigated in the PP include analysis of the roles of stakeholders involved in the provision of primary education (especially those with vested interests in the current system who may lack incentives to support the proposed changes), families of primary school children who provide passive support (reinforced by the historical experience of a dominant Indonesian Government role), and teachers who will be willing to improve their skills if incentives are adequate. The rationale for selecting three to four provinces – including East Java, South Sulawesi, NTB, and North Sumatra (covering a total population of 54.5 million people, or 30% of total population) – will be assessed as well.

B) Economic Considerations

A carefully measured experiment in the private production of low cost instructional materials was undertaken in South Sulawesi under the ongoing Educational Policy and Planning. The results are spectacular. Despite a late arrival, 97 percent of parents bought a low cost text/booklet/broadsheet at market prices which approximated 1/4 to 1/3 the cost of comparable texts provided by the government or the government parastatal organization. It is difficult to assess the overall economic impact of these low cost books because at the present time the students are grossly underserved, i.e., few books are available at any cost. The economist on the PP team will be expected,

however, to compare the cost of supplying the entire school population with privately produced books, vs. books that are produced and distributed by the government.

C) Design Strategy

The PP design will be the responsibility of the USAID Education and Human Resources Office with assistance from the Program and Project Support Offices, and other USAID offices. The technical assistance team will comprise a:

1) Project Development Officer (6-10) Weeks. PSC.

PP design will require approximately six weeks. The PDO will remain beyond this period, through the approval process. S/he will be a highly experienced PDO, possibly a retired DH. This person is responsible for preparing a draft project paper. S/he will also have responsibility for composing the budget. Indonesian experience is not required, but experience with similar projects which address the privatization of social sectors is an advantage.

The PDO will spend three days in Washington prior to coming to Indonesia to get up to date on World Bank assistance to Indonesia's education sector. Also while in Washington, the PDO will research similar A.I.D. efforts to privatize aspects of textbook production, meeting with appropriate officials in the geographic bureaus and R&D.ED.

2) Education economist. (4 weeks).

This person is responsible for writing the financial and economic analyses, and assisting in developing the policy agenda. A knowledge of the Indonesian educational system is preferred as is experience with similar projects and/or Indonesian experience. Required qualifications: A.I.D. design experience plus appropriate academic experience, in economics and education.

3) Education specialist/institutional analyst. (4 weeks).

This person is responsible for writing the relevant sections on the privatization of instructional materials, and the social and institutional analyses. This expert will also be responsible for writing the section on monitoring and evaluation. Experience with private sector instructional materials or a specialist in publishing, printing and textbook distribution with third world experience is required. A knowledge of the Indonesian educational system is preferred.

D) Recommended Environmental Threshold Decision

The activities of this project meet the criteria for categorical exclusion in accordance with 22 CFR Part 216.2(c) (2) (i). See Annex 3.

E) Gray Amendment

At least ten percent of the value of the direct institutional technical assistance contract will be set aside as a sub-contract for Gray Amendment firms. Small businesses, particularly Gray Amendment Firms will be solicited to undertake project evaluation.

F) Issues

1. As the GOI aims to recover development costs of instructional materials, some sort of "royalties" agreement on the privately produced materials is needed. Currently, the GOI is reluctant to allow commercial publishers to issue texts for the schools. Resolution may be difficult.

2. The World Bank is in the process of designing two projects that may overlap with or be redundant to what PRESS seeks to accomplish. The PP team needs to coordinate closely with the Bank in Washington D.C., and in the field to assure maximum complementarity and minimal redundancy.

3. Is the present design the most cost effective way to deliver required inputs such as instructional materials and teacher training through the private sector? How effective are various types of low-cost materials; how effective are the different forms of teacher training that might be privatized? The PP team should consider various alternatives and assess whether the project itself is cost effective.

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>GOAL: To improve primary school student achievement through improvement in management and teacher performance and substantially increased availability of learning materials.</p>	<ul style="list-style-type: none"> o Increased student achievement scores. o Improved access to learning materials. o Improved teaching processes. o Improved access to and use of resources available to education. o Increased promotion rates. o Decreased drop-out rates. 	<ul style="list-style-type: none"> o Student performance on standardized tests. o Monitoring of key school based data verses baseline data. o Project evaluation and impact assessment activities. o Monitoring of routine GOI indicators of quality and efficiency. o Testing and evaluation of resource acquisition and allocation models. 	<ul style="list-style-type: none"> o GOI will maintain high priority given to improving quality and relevance of basic education. o GOI will adjust policies related to: <ul style="list-style-type: none"> - taxes and levies that impact on text production - resource acquisition and allocation - in-service teacher training o GOI will support the development of standardized achievement testing.
<p>PURPOSES: To demonstrate within selected provinces replicable models for the private provision of goods and services for primary education.</p>	<p>End of Project Status:</p> <ul style="list-style-type: none"> o A set of tested, replicable models for the producing and distributing low cost instructional materials for students through private channels. o The use of private sector resources measurably increase the availability of education goods and services. o Replicable models of GOI/private sector partnerships that encourage operation of sustainable, market-oriented, equitable, school-based resource allocation strategies at provincial and district levels. 	<ul style="list-style-type: none"> o Project monitoring of key institutional data verses baseline data. o Project evaluations and impact assessment activities. o GOI/MOEC education policy inputs (Rakanas). o GOI/MOEC/Bappanas/Bappeda development plans (Repelita). o Replication of PRESS models. o Impact on donor activity in the sector. 	<ul style="list-style-type: none"> o GOI/MOEC remain receptive to non-traditional, donor-financed interventions in: <ul style="list-style-type: none"> - materials production and distribution - educational finance - in-service teacher education o GOI continue to support establishment of GOI/private sector partnerships for the delivery of services. o GOI adjust policies and guidelines to permit completion of project activities in selected provinces.

PRESS - Logical Framework (PID page 22)

Narrative Summary	Objectively Verifiable Indicators			Means of Verification	Important Assumptions
INPUTS:					
	USG	(\$000's) HC/Private	Total	o Project documentation	o Qualified organizations and individuals can be identified and contracts negotiated
A. Technical Assistance	3,984	1,000	4,984	o Project review	
- Long term	3,180	800	3,980	o TA commentary	o Financial resources are provide as planned.
- Short term					
B. Training	1,080	600	1,680		
C. Commodities	750	275	1,025		
D. Evaluation/Audit/ Contingency	2,000	1,250	3,250		
E. Entrepreneurial Fund	1,000	—	1,000		
Project Totals	11,994	3,925	15,919		

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**Education Policy and Planning Project
Research and Development Experience**

Private Production and Distribution of Low Cost Instructional Materials

In the final years of the Education Policy and Planning (EPP #497-0344) project, a feasibility study and experiment in South Sulawesi was mounted to test whether there is capacity and demand for inexpensive instructional materials. The feasibility study indicated that there appears to be high capacity on the part of newspaper printers and high popular demand for such materials.

The experiment was very successful. A large percentage of the 12,000 books printed were sold, at a cost of 14-20 cents. Indications were that demand for similar books is high. Due to the small size of the "run" the cost of the materials were partly subsidized. It is expected that the efficiencies gained in large volume production will enable sales at or close to the levels of the pilot run.

The experiment was not without problems relating to production, distribution, marketing and sales. For this experience to be replicated on a larger scale, technical assistance will be needed and provided to address various issues relating to both production and distribution. Specific levels of effort will be elaborated in the PP.

It is important to note that in order for the private provision of instructional materials component to get off the ground, the Indonesian Government will need to formally agree to allow local printers within the project zones to reproduce texts and other instructional materials that are produced by the Government Book Center. The 1989 National Education Law (Article 34) explicitly allows textbooks to be published by either the government or by private publishers. However, regulations currently allow only the government's agencies to print textbooks in the core subjects such as mathematics and language. At the present time, only Balai Pustaka is permitted reproduction rights. Reaching agreement on this issue is not as simple as it appears, since there are various related problems concerning authorship and the payment of royalties. This is flagged as a PID level issue to be resolved in the process of project paper design.

PRESS - Logical Framework (PID page 22)

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Research and Development Experience**

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**INITIAL ENVIRONMENTAL EXAMINATION
PRIVATIZATION OF EDUCATION SUPPORT SERVICES**

**I. Examination of Nature, Scope and Magnitude
of Environmental Impact**

A. Project Description

The proposed project will provide assistance for research and development connected with private participation in the development of Indonesia's education system. Only indirectly will this project affect curriculum development. Never the less, the Project Paper team will investigate whether there is any opportunity to introduce environmentally appropriate themes to the curriculum in the target area.

B. Identification and Evaluation of Environmental Impacts

As a project that funds technical assistance for research and training, the proposed activity will have no direct impact upon the environment and does not require a detailed environmental assessment. USAID recognizes, however, that as more, better and less expensive instructional materials are developed privately, opportunities may arise to sensitize the youth of Indonesia on issues affecting the preservation of the environment. We expect that the PP team will incorporate sufficient contingency funds within the project to exploit such targets of opportunity, to the extent that they can be generated.

II. Recommendation for Environmental Action

A categorical exclusion from A.I.D.'s Initial Environmental Examination, Environmental Assessment and Environmental Impact Summary requirements is recommended. This recommendation is in accordance with A.I.D. 22CFR Part 216.2 (c)(2)(i) which excludes education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc.). The project will have no direct impact on the environment and does not involve construction.

**INITIAL ENVIRONMENTAL EXAMINATION
PRIVATIZATION OF EDUCATION SUPPORT SERVICES**

- (A) Program Country: Indonesia
- (B) Activity: Privatization of Education Support Services
- (C) Funding: \$11,994,000
- (D) Period of Funding: 1992-1997
- (E) Statement Prepared by: Norman Rifkin
- (F) Environmental Action Recommended: Categorical Exclusion under AID 22FCR Part Section 216.2 (c)(2)(i)

(G) Environmental Officer Clearance: *Jerry Bisson*
 Jerry Bisson, Mission Environmental Officer
 USAID/Indonesia

(H) Decision of USAID/Indonesia Director

Approved: *[Signature]*

Disapproved: _____

Date: 2/6/92

(I) Decision of Asia Environmental Officer

Approved: _____

Disapproved: _____

Date: _____