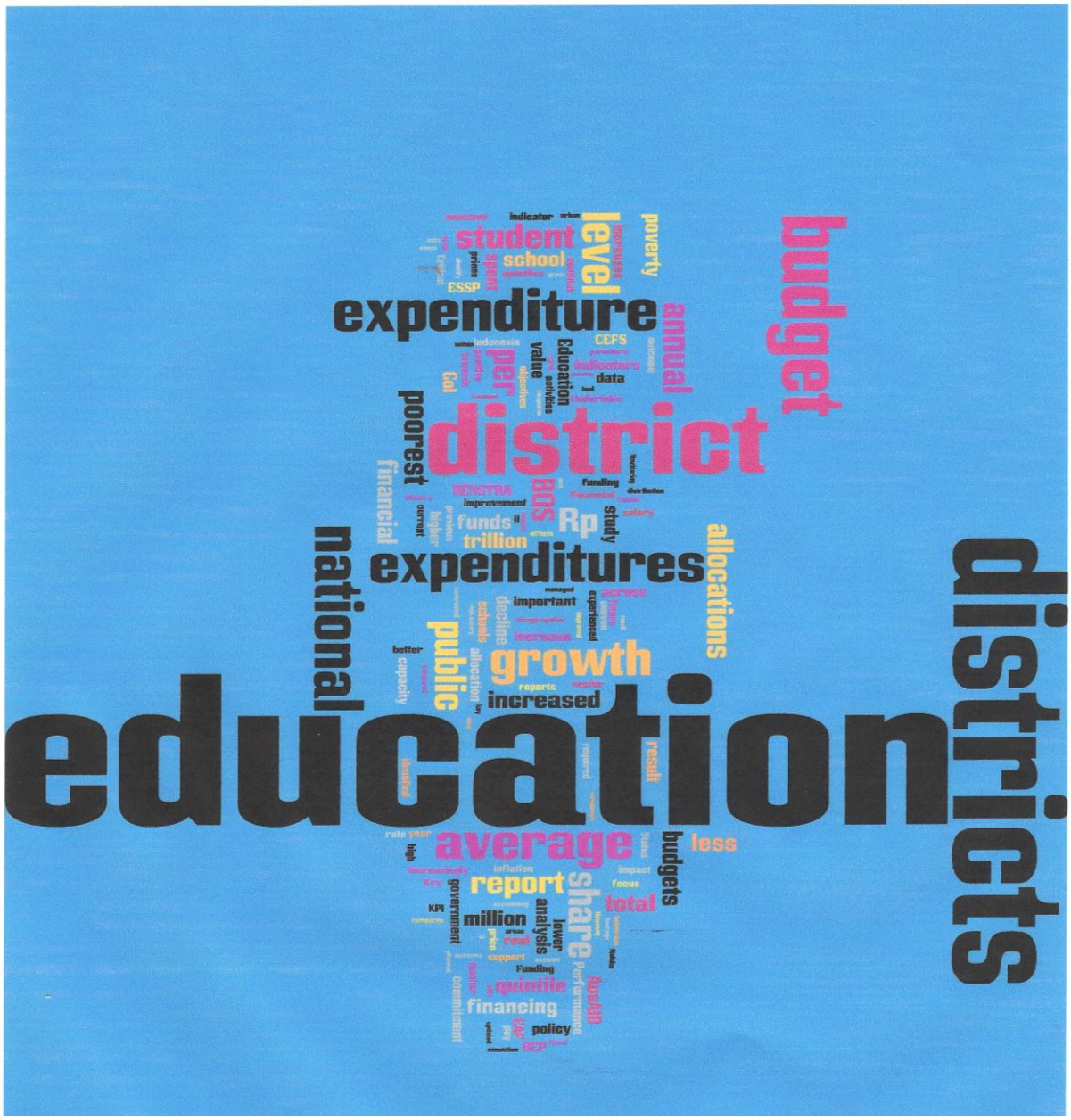
FINANCIAL PERFORMANCE REPORT 2010

Annual Review of Indonesian Education Sector Financing



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PREFACE

This report is intended to provide high level monitoring of national and district trends in education financing. The purpose of the monitoring is to inform AusAID and the GoI as they prepare for the implementation of the Education Sector Support Program (ESSP) that commences in 2011.

This is the fourth Annual Financial Performance Report and is a continuation of a series of three annual reports that were prepared by the same author for the Basic Education Program (BEP) and delivered through the Contractor for Strategic Advisory Services (CSAS). Copies of these reports are held by the AusAID Jakarta post.

The author is Education Resource Facility team member and Education Economist Mr. Adam Rorris who has worked with close collaboration and support from the Ministry of Finance. The consultant acknowledges the support and advice of the many people that contributed to the study. Data analysis support was provided by Mr. Ahmad Evandri. The views and opinions expressed in this report are those of the author and do not necessarily reflect those of MoNE, MoRA, Bappenas or AusAID.

ABBREVIATIONS AND ACRONYMS

Acronym	Bahasa Indonesia	English
ACER		Australian Council for Educational Research
ADB	Bank Pembangunan Asia	Asian Development Bank
APK	Angka Partisipasi Kasar	Gross Enrolment Rate
APM	Angka Partisipasi Murni	Net Enrolment Rate
AusAID	Badan Australia untuk Pembangunan Internasional	Australian Agency for International Development
AWP	Rencana Kerja Tahunan	Annual Work Plan
Balitbang	Badan Penelitian dan Pengembangan	Centre for Research and Development
Bappenas	Badan Perencanaan Pembangunan Nasional	National Development Planning Agency
BEP	Program Pendidikan Dasar Australia-Indonesia	Australia-Indonesia Basic Education Program
BOS	Biaya Operasional Sekolah	School Operational Fund
BOS Buku	Biaya Operasional Sekolah Buku	School Operation Funds for Textbooks
BSNP	Badan Standar Nasional Pendidikan	National Education Standards Board
CCR	Rasio Kelas-Ruang Kelas	Class-Classroom Ratio
CSAS	Kontraktor untuk Layanan Kepenasehatan Strategis	Contractor for Strategic Advisory Services
DG	Direktorat Jendral	Directorate General
EC	Komisi Eropa	European Commission
EFA	Pendidikan untuk Semua	Education for All
ESP	Rencana Strategis Pendidikan	Education Strategic Plan
ESSP	Education Sector Support Program	Education Sector Support Program
ESWG	Kelompok Kerja Sektor Pendidikan	Education Sector Working Group
GDP	Pendapatan Domestik Bruto	Gross Domestic Product
GER	Angka Pendaftaran Kasar	Gross Enrolment Rate
GOI	Pemerintah Indonesia	Government of Indonesia
JSS	Sekolah Menengah Pertama	Junior Secondary School
KPI	Indikator Kunci dari Kunci	Key Performance Indicator
LAKIP	Laporan Akuntabilitas Kinerja Publik	Public Performance Accountability Report
MCPM	Kontraktor Pelaksana untuk Pengelolaan Program	Managing Contractor Program Management
MDA	Kajian Tengah Dekade	Mid-Decade Assessment
MoF	Departemen Keuangan	Ministry of Finance
MONE	Departemen Pendidikan Nasional	Ministry of National Education
MORA	Departemen Agama	Ministry of Religious Affairs
NER	Angka Pendaftaran Murni	Net Enrolment Rate
NFE	Pendidikan Non-formal	Non-Formal Education
PAM	Matriks Aksi Kebijakan	Policy Action Matrix
PCMU	Unit Pengelola dan Koordinasi Program	Program Coordination and Management Unit
PMPTK	Peningkatan Mutu Pendidik dan Tenaga Kependidikan	Quality Improvement of Teachers and Education Personnel

Acronym	Bahasa Indonesia	English
PSC	Komite Pengarah Program	Program Steering Committee
PTP Matrix	Matriks Sasaran dan Kinerja Program	Program Targets and Performance Matrix
PUSLIT	Pusat Penelitian	Center for Research
PUSPENDIK	Pusat Statistik Pendidikan	Center for Education Statistics
Renstra	Rencana Strategis	Strategic Plan
Rp.	Rupiah	Rupiah
SCR	Rasio Siswa Ruang Kelas	Student Classroom Ratio
SD	Sekolah Dasar	Primary School
SIKD	Sistem Informasi Keuangan Daerah	Regional Finance Information system
SMP	Sekolah Menengah Pertama	Junior Secondary School
SMA	Sekolah Menengah Atas	Senior Secondary School
SWAP	Pendekatan Sektor secara Luas	Sector Wide Approach
SPI	Indikator Kinerja Tambahan	Supplementary Performance Indicator
STR	Rasio Siswa Guru	Student Teacher Ratio
SUSENAS	Survei Sosial Ekonomi Nasional	National Socio-Economic Survey
TA	Bantuan Teknis	Technical Assistance
ToR	Kerangka Acuan Kerja	Term of Reference
UN	Perserikatan Bangsa-Bangsa	United Nations
USAID	Badan Amerika Serikat untuk Pembangunan Internasional	United States Agency for International Development

EXECUTIVE SUMMARY

Background

The Financial Performance Report 2010 monitors and reports on trends in education financing in Indonesia. This is the fourth Finance Performance Report and follows a series of reports produced by the same author for the AusAID supported Contractor Strategic Advisory Services (CSAS) team. The report is intended for the use of AusAID and high level government officials and education sector technical experts. It provides succinct analysis and is intended to be an accessible tool for operational planning. The objectives of this report are:

1. To identify trends in the quantum and distribution of education funding in relation to national policy and school needs.
2. To monitor education sector and school resourcing from the standpoint of the key RENSTRA themes of access, quality improvement and improved accountability.
3. To inform AusAID, GoI and other donors of the effectiveness and efficiency of current school funding mechanisms.
4. To support the capacity of GoI institutions to monitor and report on school financing.

The report has a particular focus on district level expenditures. Indonesian district level expenditure patterns are increasingly important as districts have increased responsibility for education management under the Indonesian government decentralisation policy. Monitoring patterns of expenditure by districts will become an increasingly important role for the Ministry of National Education and Ministry of Religious Affairs to ensure that national funding norms and procedures are being implemented appropriately. Financial analysis of education allocations therefore needs to have a district level disaggregation to assess the variability in fiscal capacity and actual allocations for education resourcing.

A wide range in the poverty status of districts, and the importance of education in lifting district populations out of poverty, mean that vulnerable groups stand to benefit most from well targeted education investment. Monitoring and evaluation of district level education financing provides the tools to do so.

Key Performance Indicators and Analysis

The report analysis is framed by a set of Key Performance Indicators (KPI). These KPI focus attention on the main RENSTRA themes and government financial commitment to education. Most of these KPI are reported on at a national level by the GoI as part of its international Education for All (EFA) reporting obligations.

Each of the indicators proposed is described as being either a lead or lag indicator. Lag indicators are summative in nature. They describe the current state of progress toward an expected outcome. Lead indicators are those which capture the rate of movement towards an outcome or have a clear causal relationship to a desired outcome.

A summary of the results and findings for each of the indicators is presented in table format as part of this Executive Summary. This includes a summary assessment of the indicator result being positive, negative or uneven. A `Positive' result indicates it is supportive of RENSTRA objectives and BEP activities; a 'Negative' result suggests it is contradictory to RENSTRA objectives and BEP activities; and an 'Uneven' result indicates large variation between districts.

This report has utilized the Enhanced Analytical Facility (EAF) as a database and warehousing tool. The EAF has brought together education, finance and socio-economic data sets from a very wide range of sources. Greater inter-relational analysis of these data sets and enhanced visualisation capacity from new software adds power and improves readability of the report. The EAF was updated in 2011 for this report with financial and enrolment data for 2010. The updated records were entered onto the EAF that is maintained by Balitbang within MONE.

Key Findings

Continued growth in national public expenditure for education in Indonesia. What is particularly impressive is that the GoI has managed to continue growing national education expenditures during 2009 and 2010 in the wake of the instability generated by the global financial crisis.

The national public expenditure for education (not accounting for price inflation) has increased by more than 530% between 2001 and 2010. The nominal value of public expenditures for education increased from 42 trillion in 2001 to 225 trillion by 2010.

The real value of national public expenditure for education increased by 260% during the period 2001-2010. In 2001 constant prices, national education expenditures increased more than 2.5 times their original 2001 value of Rp. 42 trillion to more than Rp. 109 trillion by 2010. Most of this growth occurred before 2010.

There was only a minor annual increase in the real value of national public expenditure for education in 2010. When accounting for the eroding impact of price inflation during 2009-10, in 2001 constant prices, real expenditure increased by less than 3% from Rp. 106 trillion to Rp. 109 trillion.

Government commitment to meet a 20% target for education expenditure share of the national budget has been met for the second year in a row. The growth in 2010 education expenditures was more modest than 2009 but was sufficient for the GoI to continue meeting its 20% commitment of national public expenditures for education. This suggests that in future years the growth in national public education expenditures may continue to track the growth in the national public budget.

Annual increases in national education expenditure have been uneven. The growth in public expenditure (while still positive) has been uneven in both nominal value terms and 2001 constant prices. The 20% proportional allocation setting is likely to moderate future changes in the annual growth of the education budget towards the lower end of the growth spectrum.

Salary shares of total education expenditure reduced from 84% in 2004 to 78% in 2007 and 2009. This is a positive result indicating more resources available for materials, maintenance and capital improvements. However, there is little room for complacency in this respect. From 2008 onwards there is a rolling increase in salary expenditures due to the fiscal impact of remuneration for teachers attaining teacher certification. Certified teachers will garner pay increases (of at least 100% of current pay) once

they are certified. The cumulative impact of these increases will act to severely cramp future increases in non-salary expenditures. It will be increasingly important for districts and schools to ensure that non-salary expenditures are effective and efficiently distributed.

Continued growth in education shares of district budgets as total district budgets contracted during the period 2009-2010. Average district level education expenditures across Indonesia have increased from 27% of the total district budget (APBD) in 2006 to a 35% share in 2010. The growth in education share of district budgets is consistent for urban and rural areas as well as BEP and non-BEP districts. The key driver for the 2010 increase is that total district expenditures contracted by an average 7% between 2009 and 2010. Meanwhile, average district allocations for education in 2010 only grew by an annual average of 3%.

On average, the poorest districts had a big increase in the education share of district budgets in 2010. The poorest quintile districts (which continually lagged others in education share of budget) closed the gap in 2010. Some of the better annual growth rates in education expenditures were within the poorest districts which expanded their budgets by an average 9% in 2010. This was considerably higher than the 3% national average growth rate. This is a reversal of the earlier trend for poorer districts to be growing their education share of their budget at a slower rate than wealthier districts. Poorest quintile districts in 2010 spent on average 32% of their total budget on education compared with a much lower 27% in 2009. The lowest average share of budget allocation for education is found in Papua and Maluku island groups.

Twenty nine (29) of the poorest districts experienced an annual decline in the dedicated 2010 district budget funds for education. This is an important issue to be further analysed. Meanwhile, nationally and across across all poverty quintiles in 2010, 177 districts (more than one-third of all districts) experienced an annual decline in their district education budget compared with 48 districts experiencing an annual decline in 2009.

District expenditures per student grew strongly between 2006-09 but have stalled in 2010. This means average education expenditure per student has declined in real terms when taking into account the effects of price inflation. Average per student expenditure has been marginally higher in rural districts and reached Rp. 2.1 million per student in 2010. This compares with Rp. 1.9 million per student in the urban areas. Highest allocations per student are found in the poorest districts (quintile 5) at an average Rp. 2.4 million per student. This compares with an average district allocation of Rp. 1.9 to 2.1 million across the other poverty quintiles. The per student allocation is greatly affected by the sparsity of population. More sparsely populated districts (such as those in the eastern region and many of those in the poorest quintile districts) have higher average salary costs. This is because of both lower student/teacher ratios and higher salary related costs associated with remote area allowances.

Critical Education Funding Status (CEFS) districts were identified that appear to be significantly below national norms in their education financing approach. Sixteen (16) districts in 2009 and twelve 12 districts in 2010 met all of the following CEFS criteria (i) low expenditure per student (less than Rp. 2.1 million), (ii) small education share of the district budget (less than 20%), and (iii) weak annual growth in their education budget (less than 20%).Maluku islands account for seven of these districts in 2009 and six in 2010.

In 2007, districts on average spent nearly 100% of their planned education budgets. This was a significant improvement in budget execution on 2006 where only 91% of funds were spent nationally. However, while there is an overall improvement in budget execution, it was generally the poorest quintile

districts that were below average and spent just over 90% of their education budget. The wealthiest districts spent more than their planned budget. No data update was available for this report.

In 2010 the BOS contributed funds directly to public schools equivalent to approximately 13% of total district level education expenditure for public schools. BOS expenditures as a proportion of total district level expenditure have grown since 2008 which reverses a previous trend for declining significance.

Recommendations

1. Future financial analysis of district education expenditures should specifically identify BOS related allocations at the level of each district. Financial analyses should then compare 'with BOS' and 'without BOS' allocations with previous year district budget commitments for education. This will reveal if there is any downsizing of district financial commitment towards education since the distribution of BOS has begun to be channeled through the district level. The disaggregation will also enable time-series comparability with other financial reports.

2. Undertake a study focused on the poorest districts (poverty quintile 5 districts) to examine why some of these districts with high poverty rates are allocating significantly smaller share of resources for education than the national average. Prepare options for a sector response (MoNE and MoRA) and/or a whole of government response as may be required.

3. Undertake a research study to examine (i) why BEP districts have a lower proportionate incidence of declining education budget allocations, (ii) the particularly high incidence of education budget decline in quintiles 2 and 3, and (iii) the prognosis for district education budget allocations in 2011 in those districts that have already experienced a decline in the previous year.

4. Undertake a detailed study of education financing and school provision in districts that present red-flags on the Critical Education Funding Status (CEFS) indicator. These are districts that have:

    - low expenditure per student (less than Rp. 2.1 million)
    - small education share of the district budget (less than 20%)
    - weak annual growth in their education budget (less than 20%).

5. For the AusAID funded ESSP, pay attention to the districts identified in 2010, and especially those identified in both 2009 and 2010, as having Critical Education Funding Status (CEFS). ESSP disbursements managed through the districts should be reviewed to (i) support a change in district education financing policy so that a greater volume and share of districts funds is diverted to education (where that is confirmed to be required), and (ii) mitigate the risk of ESSP driving financial substitution effects at the district level which further weaken existing local allocations for education.

6. A study and policy dialogue with Dinas education offices is required to determine reasons for the under-expenditure of annual education budgets focused on the poorest districts. The study should propose options for improving the uptake of funds that can promote their efficient and effective use for education purposes at the district level.

7. The AusAID funded ESSP should have as one strong focus of its work, improved capacity of school principals to better plan and manage their BOS funds and to help districts better monitor and support the schools in their BOS disbursement activities.

8. AusAID should meet with GoI officials (in particular MoF and Bappenas) to seek clarification on what is driving the decline in global budget expenditures being reported by disticts to the MoF. In particular, there needs to be clarification on whether the decline represents changes in reporting or an actual decline in the availability of global funds at the district level.

Data Resources

This report continues to provide a detailed analysis not only of national level expenditures but also of expenditures at the district level. This analysis has been made possible through the collection of disaggregated district expenditure data collected from the original budget papers prepared and submitted by each district to the MoF. These records are the most authoritative district level account available of actual budget allocations for a year and actual expenditures for the previous year. The initial cooperative arrangement established by CSAS with the MoF in 2007 has continued into 2010 and ideally will be consolidated in 2010-2014 under new program arrangements being agreed between GOI, AusAID and EC.

The report is structured to enable comparisons with the earlier results for the years 2006 -2009. While time series comparisons have been possible at a national level, multiple time series comparisons are being established at the district level over a five year period.

Table 1 Summary Findings – Financial Performance at National/District Levels

Indicator	Description	Gov't Level/ Related Goal	Comment
KPI 1 Share of public expenditure	Public expenditure on education as percentage of total public expenditure	***National*** Gov't commitment	**Result = Positive** Significant growth in allocations as proportion of national expenditure since 2001 (12%) to 20% by 2010.
KPI 2 Share of GNP	Public expenditure on education as percentage of GDP	***National*** Gov't commitment	**Result = Positive** Education expenditure as a percentage of GDP has risen from 2.5% in 2001 to 3.8% by 2010. Future growth in allocations for education may become harder in the future.
KPI 3 Share of non-salary resources	% share of education budget spending on non-salary costs.	***National*** Quality	**Result = Positive** Non-salary related items with 22% of expenditure in both 2007 and 2009, have grown from a 16% share of total expenditure in 2004.
KPI 4 National commitment for non-formal learning	Public expenditure on literacy and NFE as percentage of public expenditure on education	***National*** Equity/access	**Result= Negative** NFE expenditure is approximately 1% of total expenditure for education. Key advantage of NFE is its cost-effectiveness; increased levels of investment are needed to maximise possible economic and social returns.
KPI 5 Commitment to Basic education relative to national wealth	Public recurrent expenditure on basic education per pupil as percentage of GNP per capita	***National*** Equity/access	**Result = Positive** In 2004 basic education accounts for approximately 70% of education expenditure. More recent analysis of central level expenditures shows basic education share to be maintaining high levels
KPI 6 District commitment to education	Education as % of total public expenditures	***District*** Gov't commitment Equity/access	**Result = Positive** Average district level education expenditures in Indonesia increased from 27% of total district budget in 2006 to 35% share in 2010.
KPI 7 Annual growth in spending for the poorest districts	Annual % change in public expenditures for education in lowest quintile districts compared to national % change in public expenditure for education	***District*** Equity/access	**Result = Uneven** Annual growth in 2010 education budgets of the poorest districts (8%) was the highest of all poverty quintiles. However a 29 poorest quintile districts experienced an annual decline in their dedicated annual education budget allocation.
KPI 8 Average District Expenditure per student	Public expenditure from APBD divided by total number of school students	***District*** Gov't commitment Quality	**Result = Negative** Average expenditure per student across the country grew strongly during the period 2006-09, but has largely stalled in 2010. This means average education expenditure per student has declined in real terms when taking into account the effects of price inflation.
KPI 9 Actual education expenditure as % of planned expenditure	Realised APBD for education as % of planned APBD for education	***District*** Gov't commitment	**Result = Positive** Districts in 2007 managed to spend nearly 100% of their planned budget. This was a significant improvement on 2006 where only 91% of funds were spent nationally.
SPI 1 Discretionary school funds as % of total district school expenditure	Estimated BOS expenditure as % of total school expenditure	***District*** Quality	**Result = Positive** In 2009 and 2010 BOS contributed funds directly to public schools equivalent to approximately 13% of total district level education expenditure for public schools. The BOS grants to district schools offer a vital source of discretionary funds to schools.

* KPI – Key Performance Indicator, SPI – Supplementary Performance Indicator.

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I. INTRODUCTION

This is the fourth Finance Performance Report and continues an analytical series begun by the CSAS team working for the AusAID funded BEP diring the period 2006-2010. Thia report assesses the trends in education funding at national and district level in Indonesia between 2006 and 2010.

This report has been prepared for the attention of AusAID as well as the senior level officials within relevant GoI agencies and other donor agencies.

A. Objectives of the Financial Performance Report

The objectives of the report are:

1. To identify trends in the quantum and distribution of education funding in relation to national policy and school needs
2. To monitor education sector and school resourcing addressing the key RENSTRA themes of access, quality improvement and improved accountability
3. To inform AusAID, GoI and other donors of the effectiveness and efficiency of current school funding mechanisms
4. To support the capacity of GoI institutions to monitor and report on school financing

B. Scope of Analysis

District Level Disaggregation

The district level of government has an increasing importance in education provision under the GoI decentralisation policy. Financial analysis of education allocations therefore needs to have a district level disaggregation to assess the variability in fiscal capacity and actual allocations for education resourcing.

Key Performance Indicators

The Key Performance Indicators (KPI) focus on the three main RENSTRA themes and government financial commitment to education.

Two Supplementary Performance Indicators (SPI) sit below the KPI. The SPI offer a more nuanced perspective across the three RENSTRA themes assessing education expenditure at a district level. SPI have been chosen based on available data against the three RENSTRA themes.

Lead and Lag Indicators

Each of the indicators proposed are described as being either a lead or lag indicator[1].

[1] Conceptually, "lead and lag indicators" have originated in the development of performance scorecards for use by business analysts. They are adapted here for use within the education sector.

Lag indicators are summative in nature. They describe the current state of progress toward an expected outcome. For example, a lag indicator measuring government financial commitment towards education is the percentage of total public expenditure allocated towards education.

Lead indicators are those which capture the rate of movement towards an outcome or have a clear causal relationship to a desired outcome. For example, a lead indicator of government commitment towards financial commitment towards education might be annual percentage real increase in the education share of total public expenditure.

Selection of Indicators

The indicators used have been drawn from a number of sources. One group of Key Performance Indicators is used by GoI as part of its EFA reporting obligations.

Another set of indicators focuses mainly on the district level of analysis. These have been selected to be of use for the Indonesian government and the Basic Education Program (BEP) in promoting development of the basic education sector across Indonesia. These indicators can be of use at the district level for planning and budgeting purposes.

C. Approach and Methodology

Phased Approach – Over 3 Years

The financial performance monitoring of the education sector began in 2007. The annual Financial Performance Report has built on each successive year as additional data becomes available and as the indicators become better known. Financial performance monitoring begins with what is available now and works towards future improvement.

Data Sources and Collections: Financial Data

National level financial data -This report has been able to update some of the historical data used in previous reports. Data for the period 2001-2005 remains unchanged but there have been revisions for the period 2006-2008. The government compiled comprehensive multi-year data on national and sub-national expenditures towards education in its submission to the Supreme Court case on its legal obligation to allocate at least 20% of the national budget towards education (Supreme Court Decision Number 13/PUU-VI/2008). This data has replaced the previous estimates generated by the World Bank 2006 and 2007 and CSAS for 2008.

Detailed financial data for 2009 and 2010 has been collected from from Financial Note and Indonesian Revised Budget 2010, section III-2, (published by MoF, 2010).

District level financial data has been collected from the Ministry of Finance (MoF) Regional Financial Information System (SIKD). The SIKD collects in hard copy format the budget and actual expenditures of all districts and provinces. The author worked with the Officers of the SIKD section to be given access to the available SIKD records. A painstaking process of manually sorting through the paper financial records of all districts and provinces was undertaken. Near complete financial records for all districts and provinces were obtained for 2007 and for approximately 78% of all districts in 2006. Data collection for 2008, 2009 and 2010 has been direct from the electronic records within the SIKD section of the MoF. There have been some changes in the records for years prior to 2010 and these have been incorporated into the database.

Data Sources and Collections: Non-Financial Data

Education: The student, teacher and school facilities data is derived from the statistical collection of the Education Census conducted by MORA and MONE. This education data has been collected and stored in the BEP Education Sector Database. This database has been built from available government statistical collections and represents authoritative government sanctioned data. The database includes population data collected from the Bureau of Central Statistics (BPS).

Poverty: Poverty is an important analytical filter for the Financial Performance Report. Financial data analysis includes an examination of poverty by segregating districts into poverty quintiles. This analysis is consistent with the analysis applied in the CSAS Annual Sector Monitoring Report. The Poverty quintiles are based on the "P0" poverty scale developed by Survei Sosial Ekonomi Nasional (SUSENAS). This scale captures the incidence of poverty (the proportion of people living below the poverty line).

Incorporate Into Existing Reporting Systems

The Financial Performance Report indicators and analysis are available to be used and incorporated within existing mandatory reports of MONE and MORA.

The data underpinning most of the indicators at the district level is sourced from GoI statistical collections. This should mean the indicators will be able to be reported within other regular reports. At the district level, these indicators will be useful and could be incorporated within their reporting systems.

D. Report Structure

Financial Performance - National Level

The Financial Performance Statement presents an analysis of the nationally available financial performance indicators for education. These are presented according to the key RENSTRA themes of Access, Quality and Governance/Accountability.

Financial Performance – District Level

Two additional Financial Performance KPIs and one SPI have been identified for the district level to assess district level allocations to basic education.

II. FINANCIAL PERFORMANCE – NATIONAL LEVEL

A. Overview and National Data Sources

Table 2 National Level Education Financing Data 2001-2010

Item	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Nominal National Education Expenditures (Rp trillion) (1)	42.3	53.1	64.8	63.1	78.6	122.99	142.2	154	207.41	225.2
Annual Inflation Rate (2) (3)	100.0 %	10.0%	5.1%	6.4%	17.1%	6.6%	6.6%	11.1%	0.2%	5.3%
National Education Expenditures (Rp trillion 2001 prices)	42.3	47.8	55.4	50.4	52.1	76.1	82.2	79.2	106.4	109.4
Education Exp. (% Total National Exp.)	12.0%	15.8%	16.0%	14.2%	13.9%	17.6%	18.9%	15.6%	20.0%	20.0%
National Education Exp. (% GDP)	2.5%	2.8%	3.2%	2.8%	2.9%	3.7%	3.6%	3.1%	3.7%	3.8%
Total Nominal National Expenditures (Rp trillion)	352.8	336.5	405.4	445.3	565.1	699.1	752.4	989.5	1037.1	1126.2
GDP at Current Prices (4) (Rp trillion)	1684.0	1897.8	2013.6	2273.1	2729.7	3339.2	3949.3	4954.0	5613.4	5944.591
Total Real National Expenditures (Rp. Trillion,2001 prices)	352.8	302.7	346.3	356.0	374.5	432.7	435.0	508.8	532.2	547.3

1. Financial data for 2005-2008 from (CC : Constitutional Court Decision PUU-13/2008) where Government of Indonesia provided a detailed breakdown of expenditure allocations. Data for 2001-2004 collected by World Bank and presented in its publication *Investing in Indonesia's Education* (WB, 2007).
2. Inflation data for 2001-2006 from BPS Key Indicators of Indonesia Table 5.2 Inflation Rate Year on Year 2002-2007 Statistic http://dds.bps.go.id/eng/download_file/Booklet_indikatorkunci.pdf
3. Inflation rate for 2007-2009 from BPS Statistical Yearbook 2009 Table 12.5 Composite Inflation Rate 2006-2009
4. GDP at current prices from Bureau of Statistics 2001-2009, 2010 - CSAS estimate based on MoF initial estimates and projections for growth in 2010
5. For 2009 and 2010, education finance data is from *Financial Note and Indonesian Revised Budget 2010*, section III-2, (published by MoF, 2010)

Public funding for education in Indonesia is provided mostly by the central and provincial levels of government with the provincial level providing a smaller share. National level analysis of aggregate public expenditure is complicated because of these different sources of funding and the subsidisation of salaries and services provided by the central level of government.

The national trends in the public financing of education are analysed in this section. Key Performance Indicators (KPI) provide a macro level assessment of government commitment towards education. Each KPI has been assigned a ranking that indicates (neutral, positive, negative).

This report has adopted the historical data presented in the 2009 FPR. For the period 2001-2005 this report relies on data collected by the World Bank and presented in its publication *Investing in Indonesia's Education (*World Bank, 2007). For the period 2006-2008, the GoI compiled comprehensive multi-year data on national and sub-national expenditures towards education in its submission to the Supreme Court case on its legal obligation to allocate at least 20% of the national budget towards education (Supreme Court Decision Number 13/PUU-VI/2008).

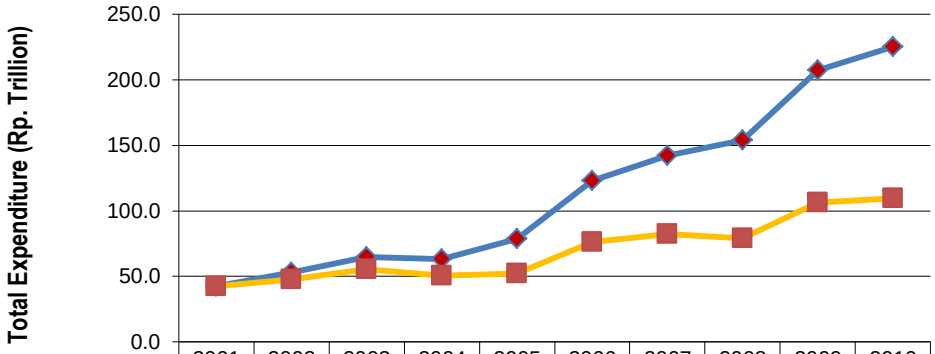
Detailed finance data for 2009 and 2010 has been collected from *the Financial Note and Indonesian Revised Budget 2010*, section III-2, (published by MoF, 2010). This has provided a minor downward revision on the total national budget for 2009 from what was reported in the FPR 2009.

B. Trends in Education Funding

Continued growth in national public expenditure for education in Indonesia. What is particularly impressive is that the GoI has managed to continue growing education expenditures during 2009 and 2010 in the wake of the instability generated global financial crisis.

There has been a sustained upward trend in public expenditure for education. Consistent funding increases have been attained in nominal value terms for all years except for 2004. When accounting for the eroding impact of price inflation over time, the real increase in funding for education is more modest. The periods 2003-2005 and 2007-2008 saw a virtual pause (or even a slight decline) in real education expenditures. The year of 2005 was hit hard by a particularly high inflation rate of 17% that was driven by the removal of the oil price subsidy.

Figure 1: National Public Expenditure on Education, Rp. Trillion 2001-2010



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Nominal National Education Expenditures	42.3	53.1	64.8	63.1	78.6	123.0	142.2	154.0	207.4	225.2
National Education Expenditures (constant 2001 prices)	42.3	47.8	55.4	50.4	52.1	76.1	82.2	79.2	106.4	109.4

The public expenditure for education (not accounting for price inflation) has increased by more than 530% between 2001 and 2010. The nominal value of public expenditures for education increased from 42 trillion in 2001 to 225 trillion by 2010.

The real value of public expenditure for education increased by 260% during the period 2001-2010. In 2001 constant prices, national education expenditures increased more than 2.5 times their original 2001 value of Rp. 42 trillion to more than Rp. 109 trillion by 2010.

Government commitment to meet a 20% target for education expenditure share of national budget has been met for the second year in a row. The national expenditures for education in 2009 showed a very strong increase rising by more than Rp. 50 trillion in nominal value and more than Rp. 27 trillion in 2001 constant prices. This followed the decision of the government in 2008 to meet the constitutional target of a minimum of 20% allocation of the public budget towards

education. The final education expenditure figure in 2010 was also driven by the 20% expenditure target as made clear in the MoF report explaining the fiscal strategy of the government:

> *The Education budget in APBN-P 2010 …. Rp225,229.3 billion,(represented)an increase of Rp15,691.7 billion or 7.5 percent higher than the [original] education budget allocation in the APBN 2010 amounting to Rp209,537.6 billion. The increase of education budget allocation in the APBN-P 2010, was in line with the mandate of the 1945 Constitution Article 31 Verse 4 "The Government prioritizes the education budget to amount at least 20 percent of the APBN and APBD to meet the requirement of national education*".[2]

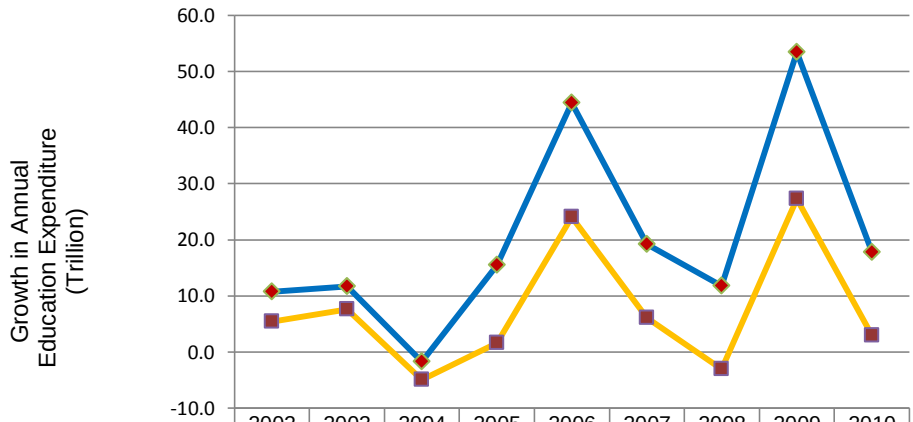
The growth in 2010 education expenditures was more modest than 2009 but was sufficient for the GoI to continue meeting its 20% commitment of national public expenditures for education. This suggests that in future years the growth in national public education expenditures may continue to track the growth in the national public budget.

Adherence to a proportional budget allocation for education should enhance the ability of the education sector to anticipate future allocations and plan accordingly by creating a more stable financing framework. The proportional allocation approach toward education financing (i.e. 20% of available national public budget) will enhance predictability and steady growth of the education budget. The exception to this will be in the case of an economic downturn that depresses GoI revenues or where there is a change government fiscal policy settings leading to reduced public expenditure as a proportion gross domestic product.

Annual increases in national education expenditure have been uneven. The growth in public expenditure (while still positive) has been uneven in its nominal value and 2001 constant prices. Sharp increases in public expenditure for education in the years 2003 and 2006 were followed by contractions in 2004 and 2008.

The 20% proportional allocation setting is likely to moderate the changes in annual growth of the education budget towards the lower end of the growth spectrum.

Figure 2: Annual Growth in Education Expenditure(Rp. trillion), 2001-2010

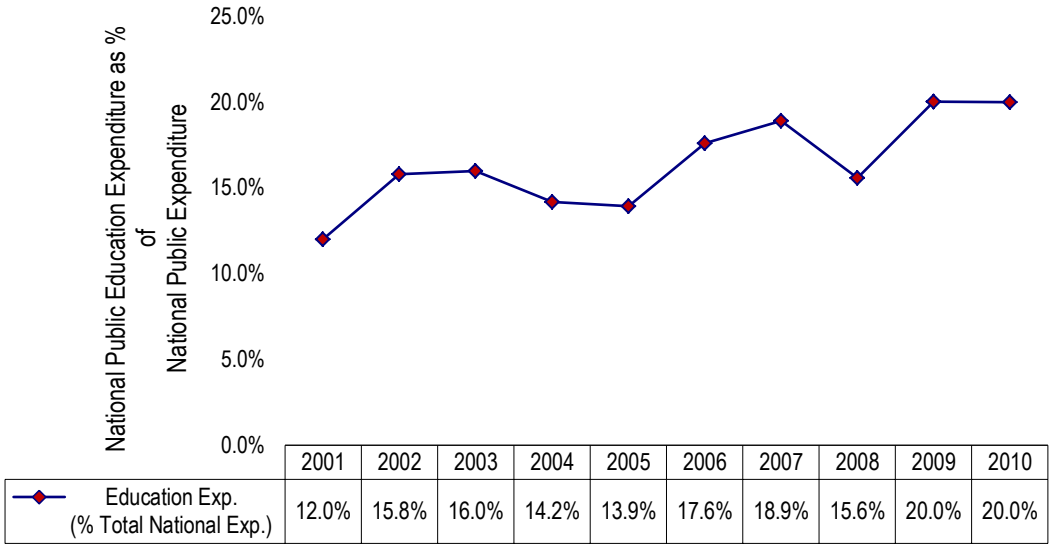


	2002	2003	2004	2005	2006	2007	2008	2009	2010
Annual growth (nominal value)	10.8	11.7	-1.7	15.5	44.4	19.2	11.8	53.4	17.8
Annual real growth (2001 prices)	5.5	7.6	-4.9	1.6	24.0	6.1	-3.0	27.2	3.0

[2] *Financial Note and Indonesian Revised Budget 2010*, section III-12

KPI 1: Education Expenditure as Proportion of Total Public Expenditure

Figure 3: Education Expenditure as Proportion of Total National Public Expenditure, 2001-2010



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Education Exp. (% Total National Exp.)	12.0%	15.8%	16.0%	14.2%	13.9%	17.6%	18.9%	15.6%	20.0%	20.0%

Result:	Positive
Data Availability:	Full
Comment:	The GoI has now met its target of committing at least 20% of national public expenditure towards education for the last two years in a row (2009 and 2010). Achieving this target has been made possible through significant growth in education expenditure allocations as a proportion of national expenditure since 2001. Education's share has grown from 12% in 2001 to 20% by 2010. Declines in the share of education expenditures occurred in 2004, 2005 and 2008. The 2004 fall was related to the fuel subsidy crisis and the fiscal squeeze encountered by the central government. The larger decline in budget share in 2008 reflects a faster rate of growth in the national budget than a decline in nominal value terms in the education budget. There was a substantial nominal growth in expenditure for education (see previous section), however particularly strong government revenues in 2008 facilitated a large growth in public expenditures. In contrast, the relative decline in education expenditure during 2004 was affected through a decline in mostly development expenditures.
Future Analysis:	Annual. Will require establishment of national level education finance database

Policy Implications: The 2010 public expenditure figures and the Financial Note 2010 released by the MoF make it clear there is now a continuing GoI commitment to meet the constitutionally mandated 20% target for education expenditure.

A key policy announcement made by the GoI in 2008 concerned its funding targets for education. The President of the Republic announced in 2008 that the government was committing itself to

increasing its share of expenditure so that the national level of education expenditure from all levels of government would reach at least 20% of total public expenditures. While this has been a constitutional requirement it is the first time any government has committed itself to actually realizing the budget target.

Subsequent to this announcement the MoF released supplementary documentation in August 2008 to its initial planned budget papers. The supplement papers (Dokument Tambahan 2009) showed how this 20% expenditure target was to be met. The initial target of the planned national budget (RAPBN) was for central level education expenditures of about Rp. 77 trillion out of a total Rp. 188 trillion. In order to meet the 20% target, central level expenditures for non-salary items were to be supplemented by an additional Rp. 46 trillion in 2009. This would take total education expenditure to Rp. 224 trillion and approximately 20% of total public expenditures of Rp 1,122 trillion (from all levels of government).

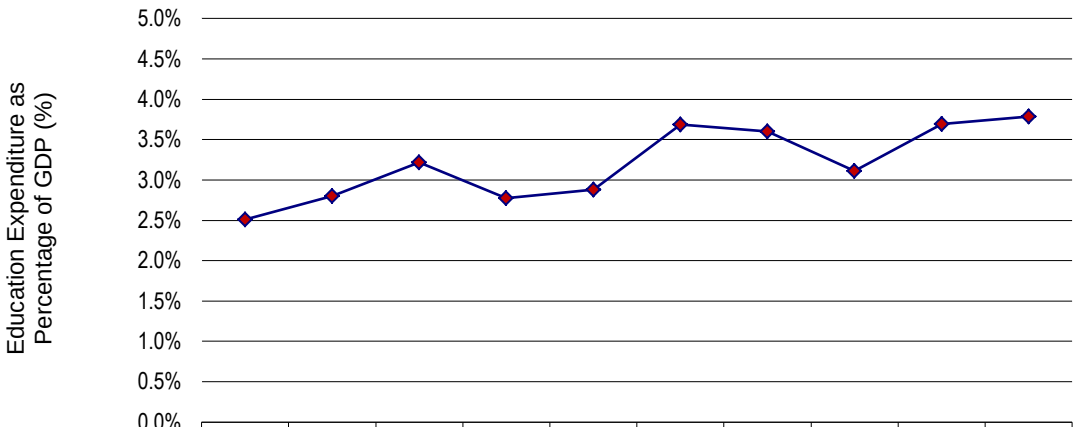
The final budget papers for 2009 revised downwards the total allocation for education to Rp 207 trillion in line with the forecasted slowdown in economic growth and government revenues. This would still allow the government to meet the 20% target for education. This demonstrates that even with such a tight funding policy commitment there can be considerable volatility in the public allocations for the education sector.

The impact of the global financial crisis on the Indonesian economy in 2009 was milder than expected. The relatively light impact of the crisis meant there was a relatively mild impact on government revenues alongside reduced welfare allocations to stabilize the most vulnerable sections of society.

In 2010 the GoI revised upwards its initial allocation for education from approx. Rp 210 trillion to more than Rp. 225 trillion in order to meet the 20% target through its national budget.

KPI 2: Education Expenditure as Proportion of GDP

Figure 4: Education Expenditure as Proportion of GDP, 2001-2010



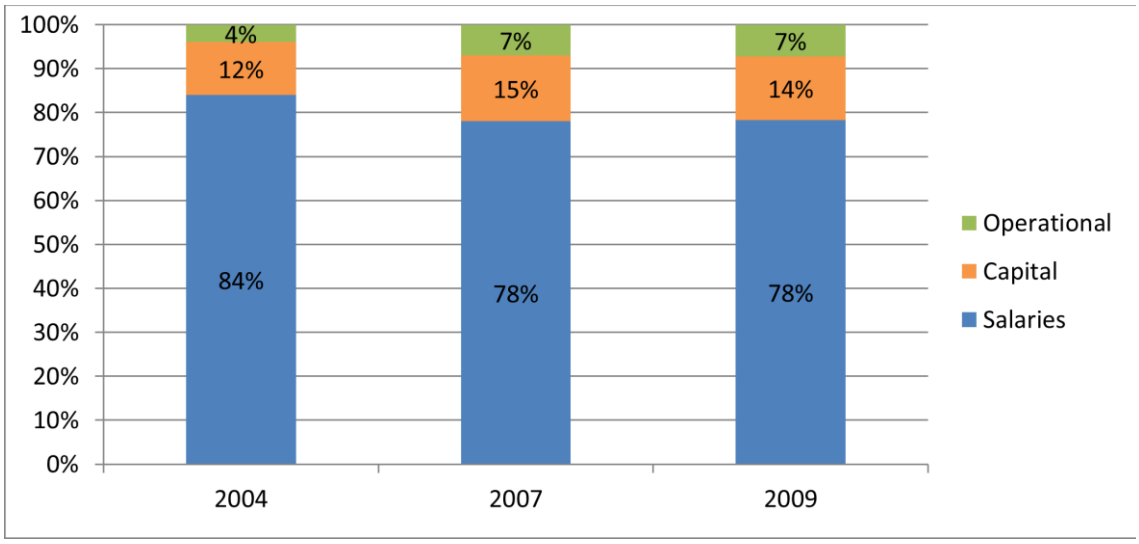
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
National Education Exp. (% GDP)	2.5%	2.8%	3.2%	2.8%	2.9%	3.7%	3.6%	3.1%	3.7%	3.8%

Result:	Positive
Data Availability:	Partial – CSAS estimates for 2010 GDP
Comment:	This indicator captures the national public commitment towards education in relation to the economic wealth being generated. By mapping education expenditure with GDP it avoids comparison problems with other countries (see table for UNESCO comparisons) which may have different sized public sectors. The indicator is also useful for comparing expenditure trends in a country which has altered the size of its public sector across time. Generally, this indicator is used in tandem with education share of public expenditure. In Indonesia, there has been significant growth in education expenditure as a proportion of GDP. Education as a percentage of GDP rose from 2.5% in 2001 to 3.8% by 2010. In 2007 when the latest comparison figures are available, Indonesian education expenditure as a share of GDP (3.6%) was equal to the East Asia regional average. This reflects growth in public revenues and the concomitant growth in public expenditures. This effect is compounded by an increasing share of public expenditures set aside for education which leads to the very strong growth in education expenditure as a proportion of GDP between 2005 and 2009.
Future Analysis:	Annual.

Policy Implications: Expressed as a percentage of GDP, future growth in public allocations will become contingent on an increase the public expenditures as a proportion of GDP. Education expenditure as a percentage of GDP may decline if (i) tight fiscal settings reduce public expenditures as a proportion of GDP, and (ii) the government does not exceed the 20% target for education as a proportion of total public expenditure.

KPI 3: Education Non-salary Expenditure as Share of Total Expenditure

Figure 5: Aggregate District Expenditure, Years 2004, 2007 and 2009

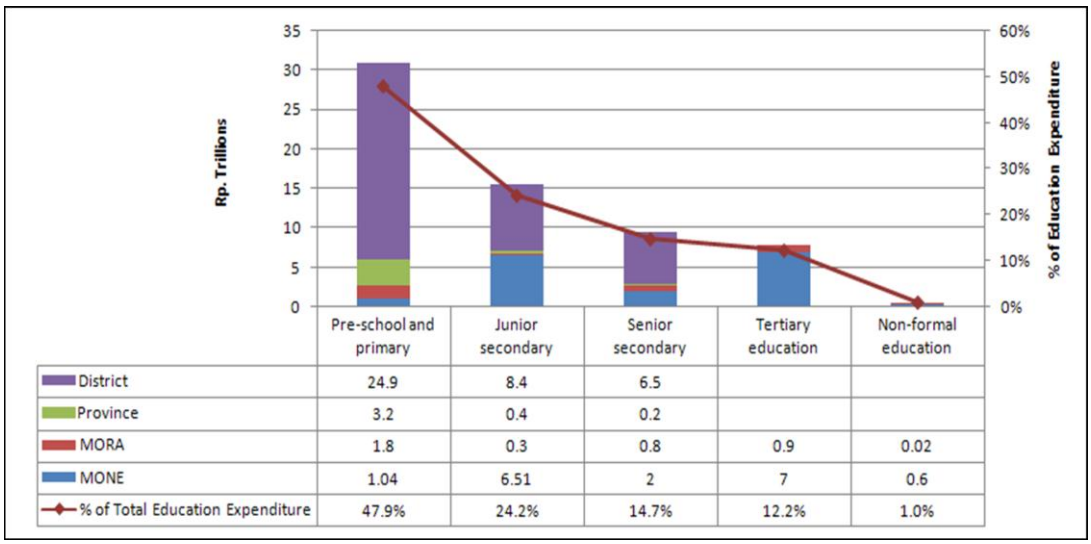


Result:	Positive
Data Availability:	Limited to 2004, 2007 with 2009 data (collected in 2011) only covering the district level expenditures of only some districts. Breakdown of data is difficult because of their composition from three tiers of government. The 2004 figures are derived from WB calculations of the salary composition of routine expenditures.
Comment:	School systems require a substantial share of non-salary related expenditures to (i) provide a full range of resources (apart from teachers) to schools, and (ii) maintain buildings and provide for additional capital and equipment needs. For the period 2004-2007, the available data show a significant improvement in nationwide district allocations towards non-salary items (operational and capital). As a proportion of total education expenditure at the district level (recurrent plus capital) non-salary items increased from 16% in 2004 to 22% in 2007. Salary shares of total education expenditure reduced from 84% in 2004 to 78% in 2007. However, salary shares may be higher than these figures where a portion of operational expenditures may include salaries. The 2009 data are incomplete and do not cover all districts. However, these data show a halt in the growth of non-salary expenditures which by 2009 were 21% of total district education expenditures. Overall, during the period 2004-07 a positive trend towards a better balance in the resourcing of schools by improved financing for the improvement of facilities and providing other non-teaching resources to schools and districts. This upward trend in non-salary related expenditures appears to have stalled.
Future Analysis:	To be updated annually.

Policy Implications: For the period 2004-07 there was a significant improvement in the share of resources being allocated for non-salary expenses within the education budget. Unfortunately there is little room for complacency in this respect and the data for 2009 show that trend has stopped. This might be related to the increase in salary expenditures due to the fiscal impact of remuneration for teachers attaining teacher certification. Certified teachers will garner at least 100% pay increases once they are certified. The cumulative impact of these increases will act to severely cramp future increases in non-salary expenditures. It will be increasingly important for districts and schools to ensure that non-salary expenditures are effective and efficiently distributed.

KPI 4: Expenditure on Basic Education as % of All Education Expenditure & KPI 5: Expenditure on Non Formal Education as % of All Education Expenditure

Figure 6: Education Expenditure by Sub-Sector, 2004

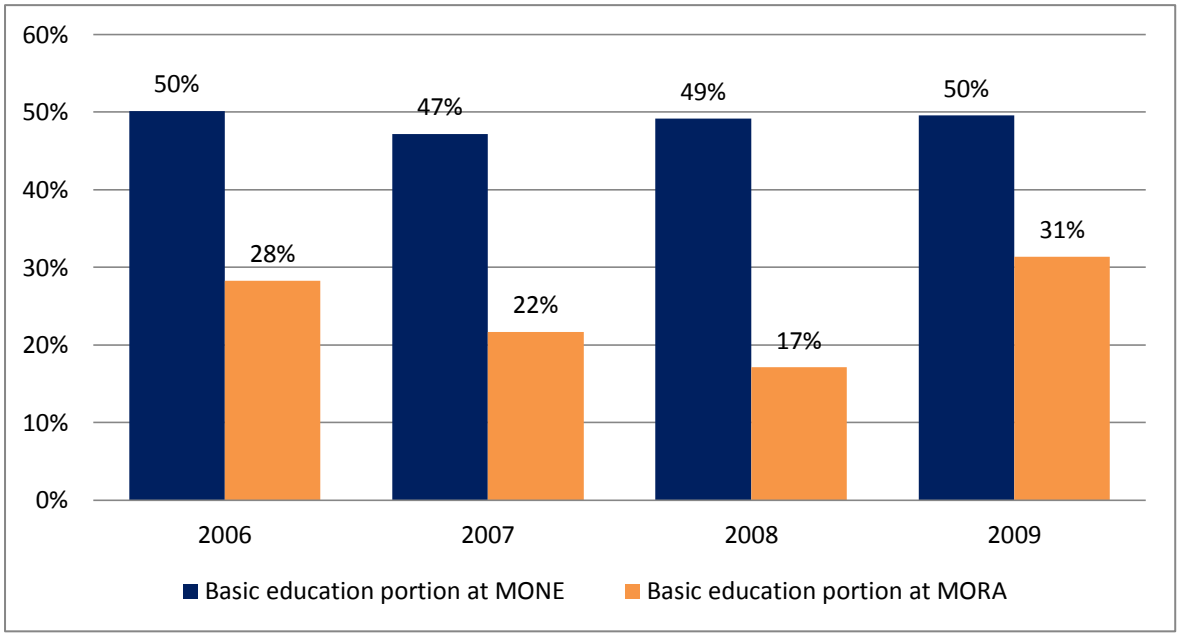


Source: World Bank, Investing in Indonesia's Education, 2007

Result:	Positive for Basic Education, Negative for Non Formal Education
Data Availability:	National analysis limited to 2004. Breakdown of data is difficult because of its composition from 3 tiers of government. Analysis of central level expenditures for basic education is provided to give some idea of resourcing trends since 2004.
Comment:	Basic education accounts for approximately 70% of total funding, with nearly 50% for pre-school and primary. Senior secondary will begin to make a stronger resource claim in future as universalisation policy expands access. Districts are carrying the bulk of expenditure for basic education and therefore remain a key site for interventions. The central share is likely to have increased since 2004 with the introduction of BOS grants that are paid directly to schools. Analysis of central level expenditures for the period 2006-2009 shows commitment to Basic Education is holding firm within MoNE at around 50%. Within MoRA there was greater fluctuation with basic education dropping

	to as low as 17% of education expenditure in 2008 before climbing again in 2009 to 31%. It is unclear what has been driving the fluctuations in basic education share of MoRA expenditures. The financial allocations for non-formal education are very low at 1% of total sector expenditure.
Future Analysis:	Uncertain. Current data collected at SIKD does not disaggregate between levels of education expenditure at the district level. Liaison with MONE, MORA, Bappenas and World Bank staff to see if periodic update is possible.

Figure 7: Basic Education Share of Central Level Expenditures for MoNE and MoRA, 2006-2009



Policy Implications: Maintaining the share of basic education will be important even as access to secondary education is expanded. Investment in basic education builds a strong base in literacy and numeracy and economic development suffers when basic education expenditure is neglected in favor of investment at higher levels.

NFE expenditure was approximately 1% of total expenditure for education in 2004. While a key advantage of NFE is its cost-effectiveness, increased levels of investment are needed to maximise the possible economic and social returns.

III. TRENDS IN DISTRICT EDUCATION FUNDING

Background

District level expenditure patterns are increasingly important as districts have increased responsibility for education management under decentralisation. Monitoring patterns of expenditure by districts will become an increasingly important role for MONE and MORA to ensure that national funding norms and procedures are being implemented appropriately. The wide range of districts' poverty status and the importance of education in lifting district populations out of poverty also mean that vulnerable groups stand to benefit most from well-targeted investments in education. Monitoring and evaluation of district level education financing provides the tools to do so.

This section provides - comparisons of district level education expenditures for 2006-2010. The year 2006 is a useful benchmark to identify the nature and extent of education spending at the district level before the commencement of the BEP expenditures.

The district level analysis provides comparisons in district expenditures between (i) rural and urban districts, (ii) BEP and non-BEP districts, (ii) districts sorted into poverty quintile rankings, (iv) provinces, and (v) island groups.

Data availability

The Financial Performance Report 2010 is based on the most complete data set for analysis since this series commenced in 2006. The district level financial data presented here has been collected by CSAS directly from the SIKD section of MoF. Data have been collected electronically from the MoF as for the previous FPR 2008 and the FPR 2009.

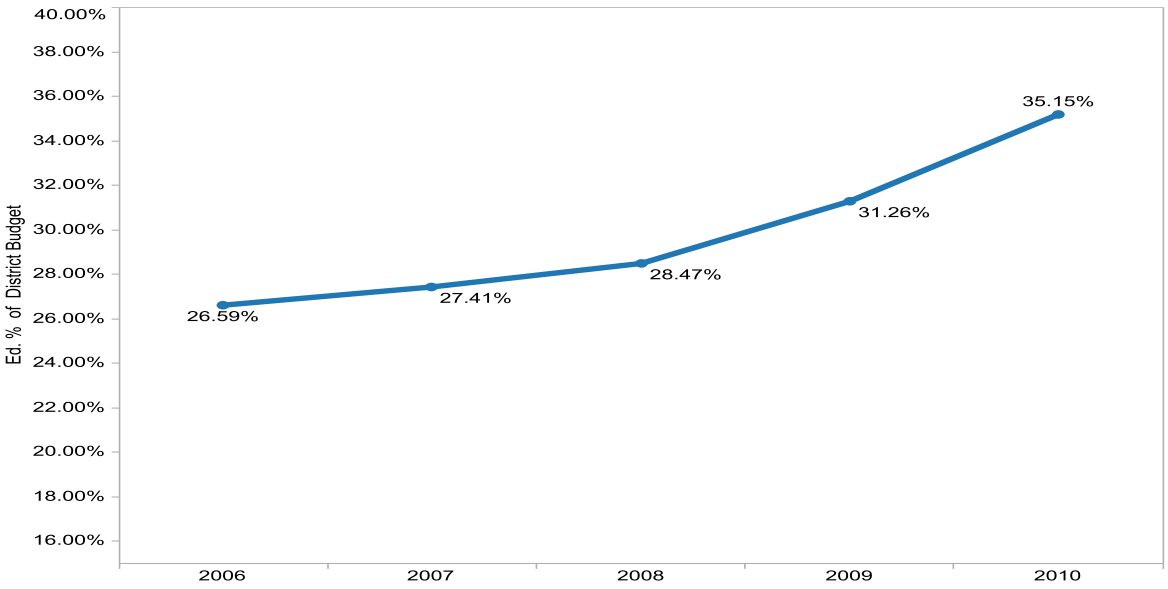
The SIKD collects in hard copy format the budget and actual expenditures of all districts and provinces. CSAS arranged with the Officers of the SIKD section to be given access to the available SIKD records.

It is important to note that the data provided by the MoF is subjected to logic tests and assessed for it completeness. The data provided by the MoF is seen to be improving in its completeness and in its quality.

There has been a substantial addition of data for 2008 in particular, but also for 2007. A detailed table in Annex 1 shows the status of data collected from all districts during the period 2006-10.

KPI 6: District Financial Commitment to Education

Figure 8: Education Expenditure as % of Total District Budget (APBD 2006-2010)

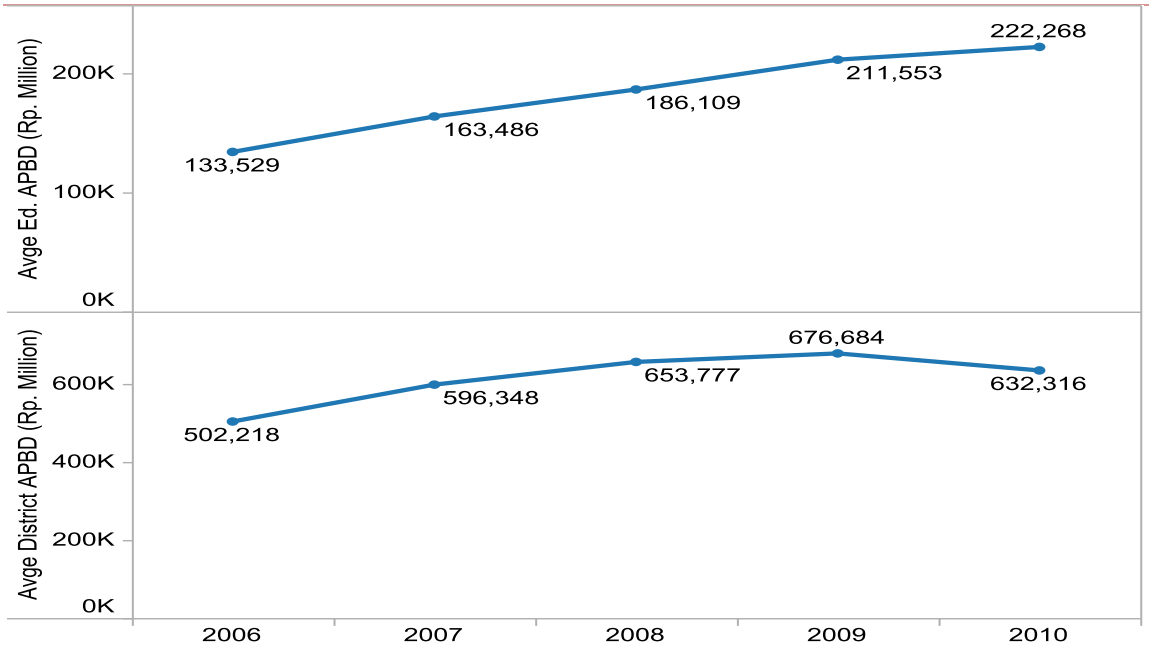


Result:	Positive
Data Quality and Availability:	Financial data is for approximately 80% of all districts for 2006, more than 90% for the years 2007, 2008, 2009. Financial data for 2010 was only available for 396 districts and enrolment data for 430 districts
General Comment:	Average district level education expenditures across Indonesia have increased from 27% of the total district budget (APBD) in 2006 to a 35% share in 2010. The strong increase in 2010 is largely due to a small 5% annual increase in average district allocations for education matched with a surprisingly strong (7%) decline in the average total district budget (APBD) during the period 2009-2010. The increased share of education expenditures at the district level demonstrates that districts on average maintained their commitment toward education spending during the period 2006-2010. In 2009, there was a substantial increase in the share of education spending to 32% from 29% in 2008. This was repeated in 2010 with districts on average spending more than 35% of their budgets on education services The growth in share of allocations towards education is consistent for urban and rural areas. Rural areas on average allocate 36% of their district budgets towards education compared with 33% in urban zones. While these averages show maintenance of financial commitment to education, it does disguise some variation between districts. Comparison of the fluctuations of individual districts may not be useful as their expenditure may be significantly affected by one-off large annual investments.

	A recent World Bank study found education share of district expenditure declining from 38% in 2001 down to 34% by 2004. The 2006 data from this study show a further decline down to 27%. But data from 2007, 2008, 2009 and 2010 show consistent increases in the share of district budgets being allocated towards education. This slide in district level financial commitment towards education has been reversed and districts are spending more than 35% on education .
BEP Districts:	The updated data show both BEP and non-BEP districts' growing their education share of district budgets during the period 2006-2010. By 2010 BEP districts had increased their education expenditure to 35% of total district budgets, which is identical to the average for non-BEP districts. In 2006, BEP districts on average allocated 26% of their APBD for education in 2006 compared to 27% share of other districts
Future Analysis:	Annual update of 2011 data once available from MoF

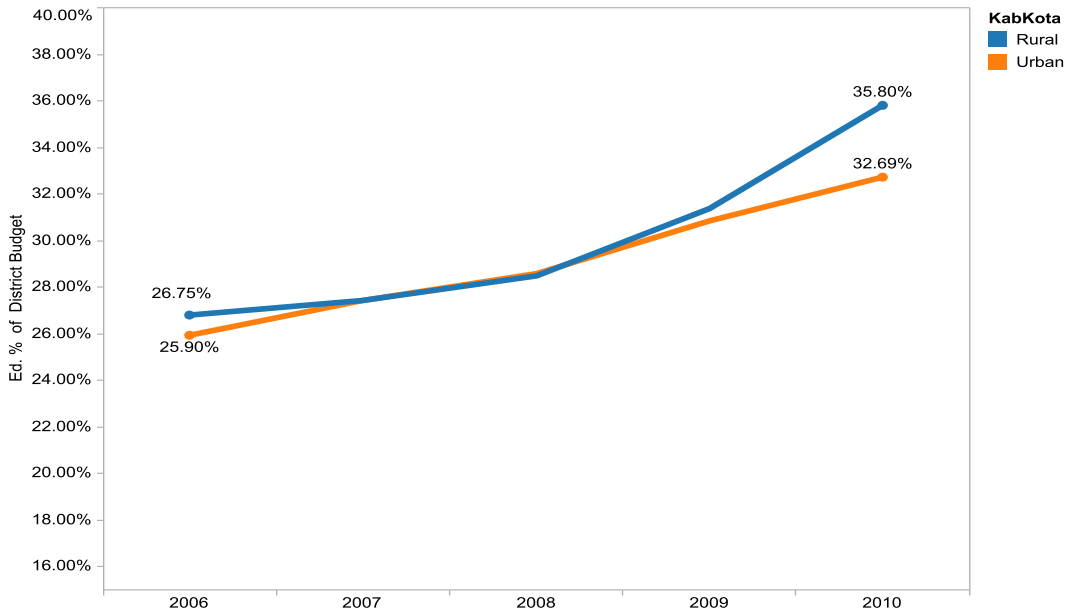
A surprising finding of this report is that on average the total value of district budget has declined by 7% in 2010 (Rp. 632 billion) from their previous average (Rp. 677 billion) in 2009. This financial data has been confirmed with the the SIKD section of MoF. A reduced district data set for 2010 (396 districts compared with 473 in 2009) may explain some of the variation. However the same data set shows *district education allocations* to be increasing during this period, suggesting that there has been a decline in average expenditures for these districts during this period.

Figure 9: Total District APBD and APBD for Education, 2006-2010



Both urban and rural districts have increased share of total district funds for education, although rural areas with a 36% commitment of district budgets for education are above the urban districts (33%).

Figure 10: Rural and Urban District Education Expenditure as % of Total District Budget (APBD 2006-2010)

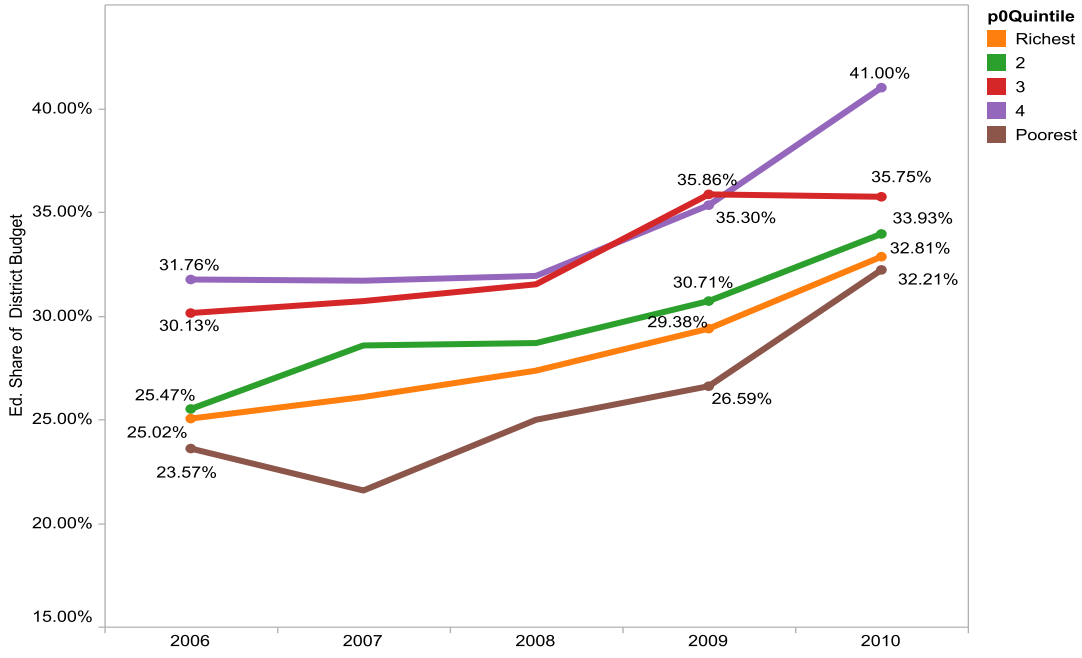


Districts in all poverty quintiles have been increasing their average allocation share for education between 2006 and 2010, with the single exception of quintile 3 which had a single flat line year in 2010.

Further poverty quintile status shows that the poorest districts have consistently committed the lowest proportion of their budget towards education during the period 2006-2009.

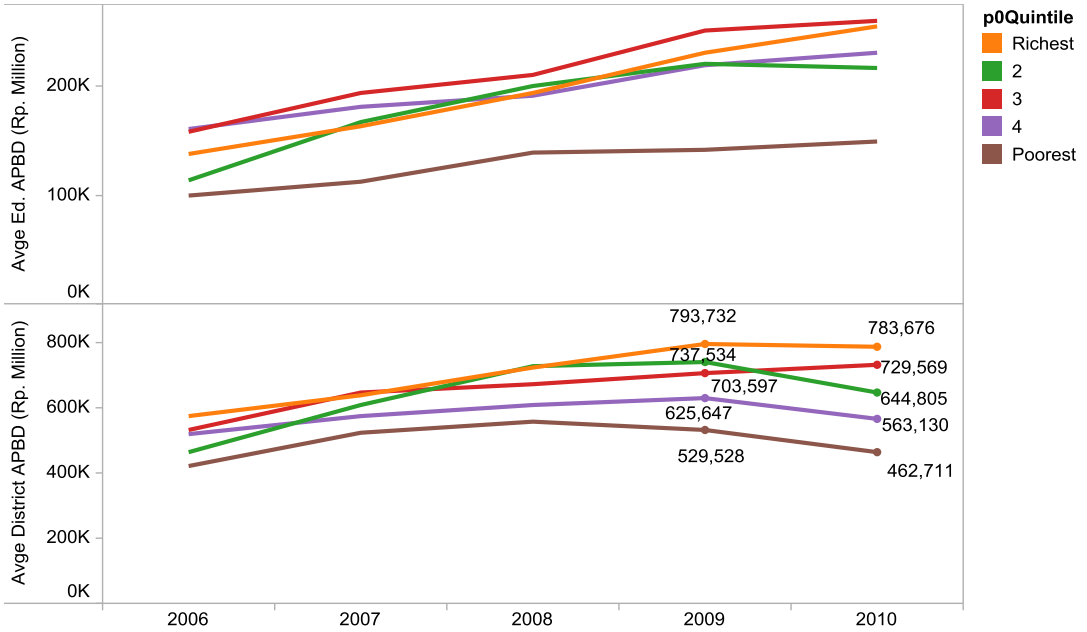
However, by 2010 the poorest districts (quintile 5) have bridged the gap with other poverty quintiles in their proportionate financial commitment towards education.

Figure 11: Education Expenditure as % of Total District Expenditure by Districts according to Poverty Quintile, (APBD 2006-2010)



The growth in education expenditure as a proportion of total district budget (APBD) within the poorest quintile districts is partially to do with mild increases in education budgets as shown in the figure below. However, the more significant driver is the average decline in total district budgets within the poorest quintile districts.

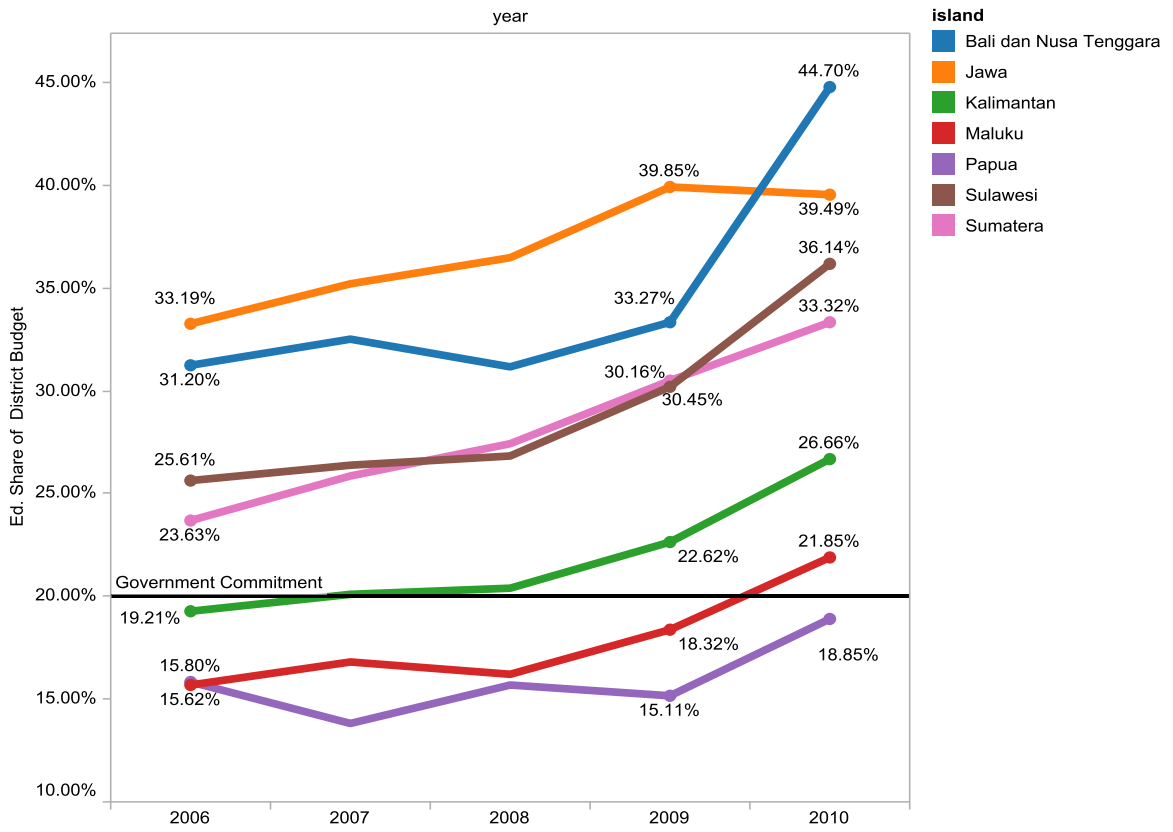
Figure 12: Total District APBD and APBD for Education, by poverty quintile 2006-2010



In 2010, the island group of Bali and Nusa Tengarra shows a big jump with education share of district budgets increasing from 33% in 2009 to 45% in 2010.

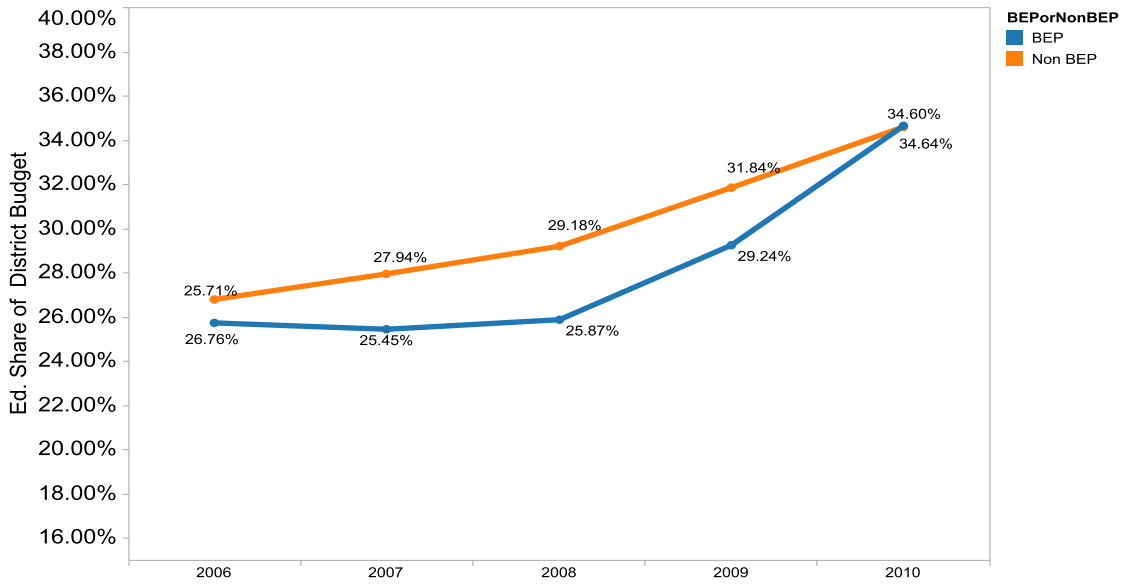
The lowest average share of budget allocation for education was found in Papua and Maluku island groups. Both of these islands recorded less than 20% average share for education with little increase during the period 2006-2009.

Figure 13: Education Expenditure as % of Total District Expenditure by Island Grouping (APBD 2006-2010)



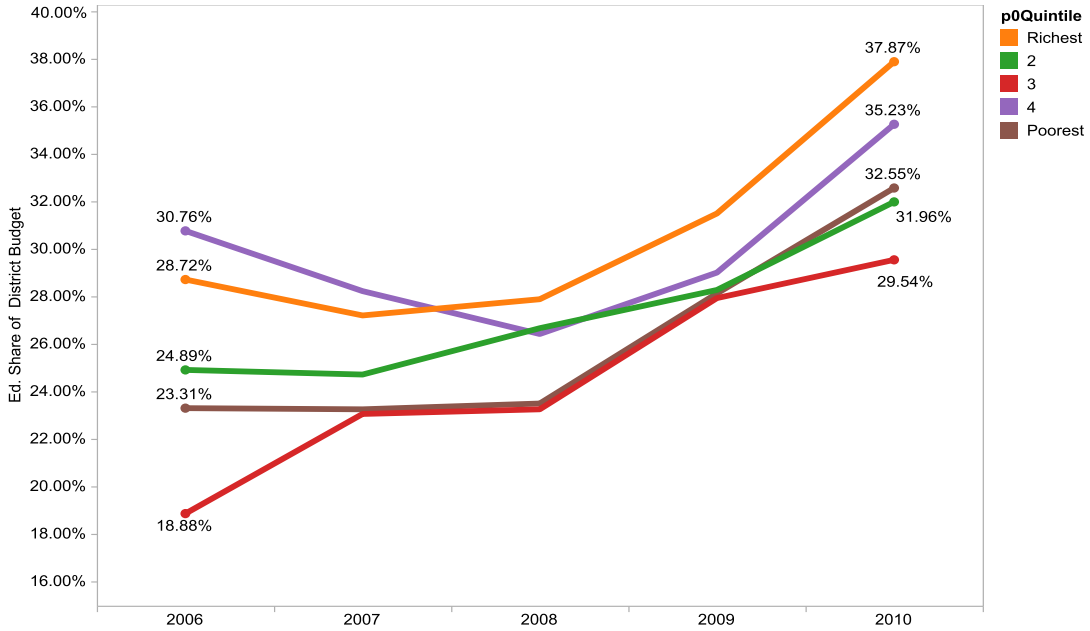
BEP districts increased their share of expenditure for education to 35% in 2010 from 26% in 2006. This strong growth has now brought BEP districts onto parity with the non-BEP districts.

Figure 14: APBD Education Expenditure as % of Total district Expenditure in BEP and Non-BEP Supported Districts (APBD 2006-2010)



A more detailed analysis of expenditure share patterns in BEP districts by their poverty quintile ranking reveals a positive story of sustained improvement in the poorest quintile districts. The poorest BEP districts have increased their education share of expenditures from 23% in 2006 to 33% by 2010. The range of average poverty quintile education expenditure shares in BEP districts in 2010 was compressed to between 30%-38%.

Figure 15: BEP Districts Only - Education Expenditure as % of Total District Expenditure by District Poverty Quintile (APBD 2006-2010)

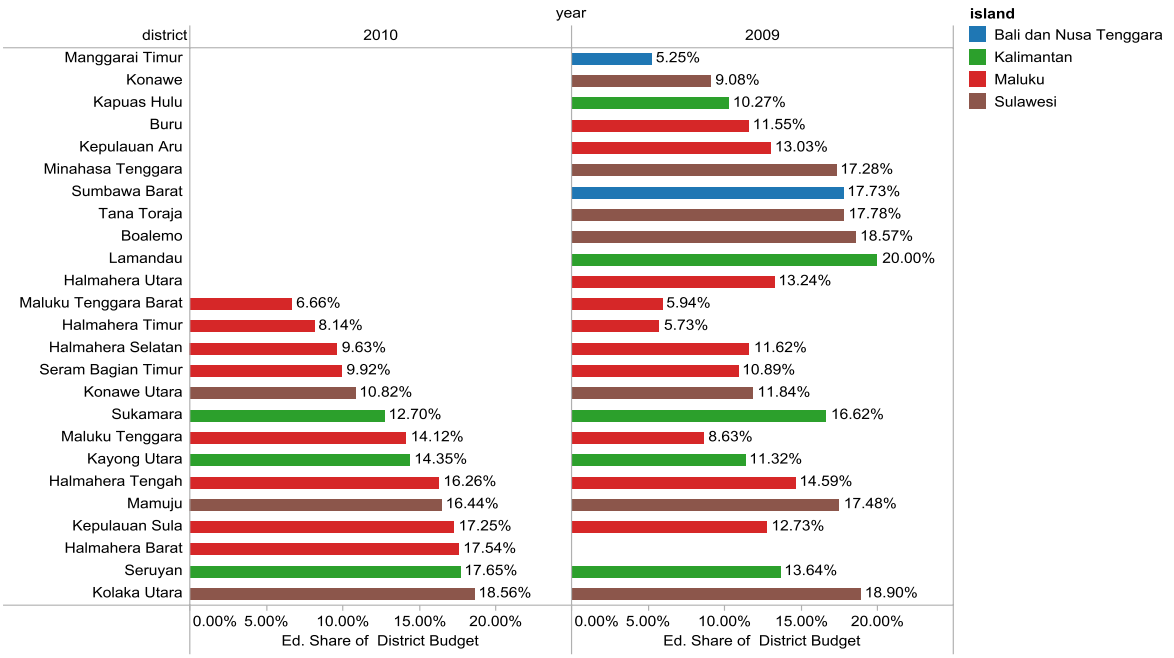


While BEP districts have committed a share of their district budget that is broadly in line with the national average, there are some BEP districts that have spent considerably less.

This report presents results from 2009 and 2010 showing there have been 13 districts which have been repeat offenders in providing less than 20% of their budget towards education.

Most of the districts that report spending less than 20% of their budget on education in both 2009 and 2010 are located on Maluku. While some of the low figures may be due to poor reporting, the persistence of these low allocations shares in consecutive years suggest there are other factors involved.

Figure 16: BEP Districts with low financial share for education (less than 20% of APBD Expenditure) 2009 and 2010



* Districts that are blank for one year have exceeded the benchmark for that year

Nationally, there are 25 districts which spent less than 15% of their total district budget (APBD) on education in both 2009 and 2010. It would be useful to understand why education budget share is so low in these districts and to what extent they represent policy related or demand side factors as well as possible misreporting to the MoF.

Policy Implications:

The average contraction in total district budgets (on average a 7% decline during the period 2009-2010) coupled with an average 5% in education allocations is driving the increased share of district expenditure for education. a key driver for the increased share of district expenditure being for education. The annual contraction in district budgets in 2010 is a negative factor that will constrain the fiscal space for future growth in education spending if it continues into future years.

The distribution of BOS money from 2011 onwards through district budgets will significantly increase the amount of money being spent by districts on education. If district governments added the BOS supplement to their present level financing the education share of total district expenditures would increase substantially. A significant danger for schools is that district governments might be inclined to reduce their existing financial commitments as an offset to the 'new' BOS money that is channeled through the districts. The net effect for schools, will be a reduction in total available government funding.

Districts that have high poverty rates and are persistently allocating a significantly smaller share of resources for education than the national average are at great disadvantage to the rest of the country. This disadvantage is likely to be compounded each year as other, wealthier districts spend higher amounts on education.

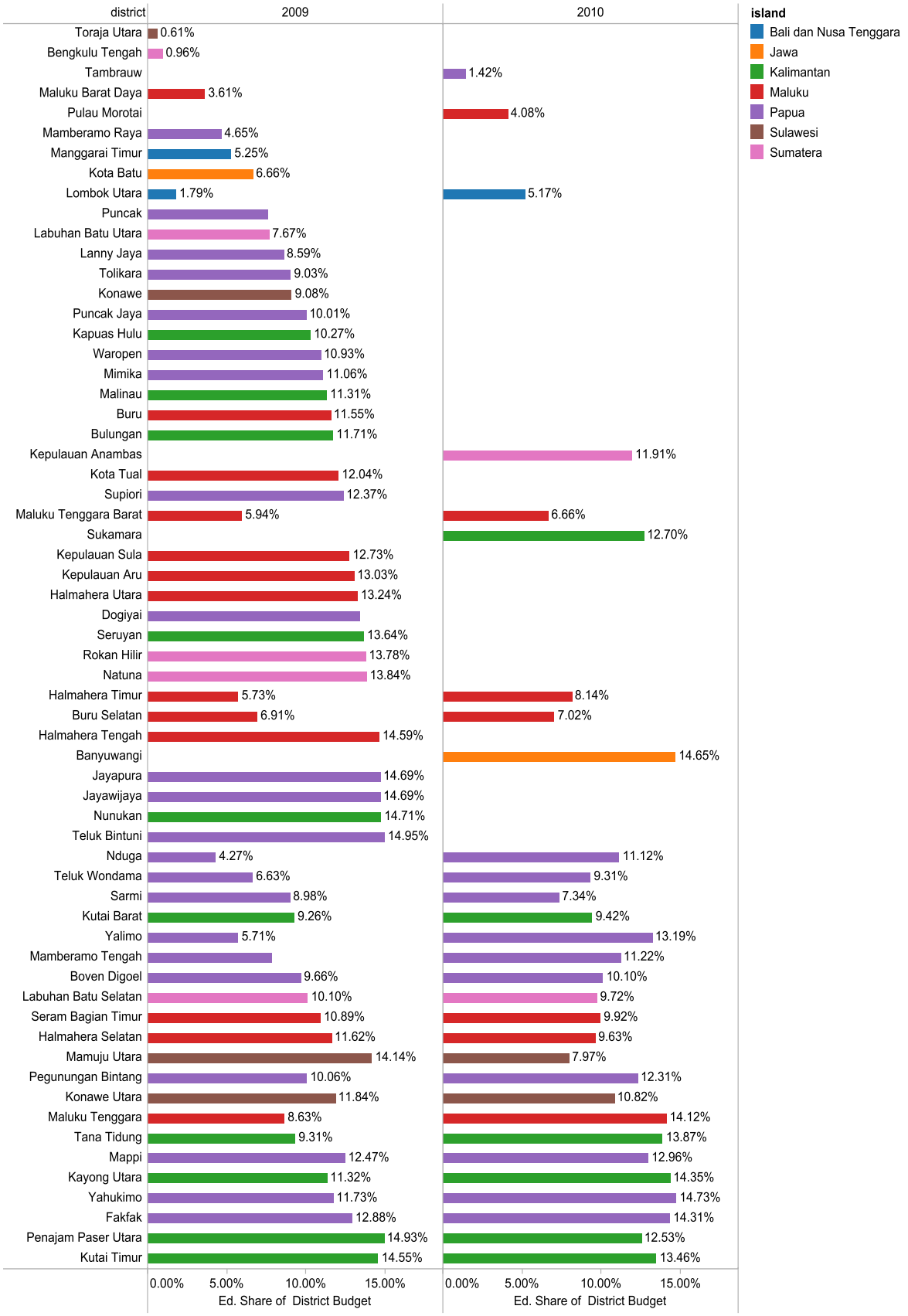
Recommendation:

AusAID should meet with GoI officials (in particular MoF and Bappenas) to seek clarification on what is driving the decline in global budget expenditures being reported by disticts to the MoF. In particular, there needs to be clarification on whether the decline represents some changes in reporting or actual decline in the availability of global funds at the district level.

Future financial analysis of district education expenditures should specifically identify BOS related allocations at the level of each district. Financial analyses should then compare 'with BOS' and 'without BOS' allocations with previous year district budget commitments for education.

MoNE should consider undertaking a detailed study focused on the poorest districts (poverty quintile 5 districts) to examine why some of these districts with high poverty rates are allocating significantly smaller share of resources for education than the national average.

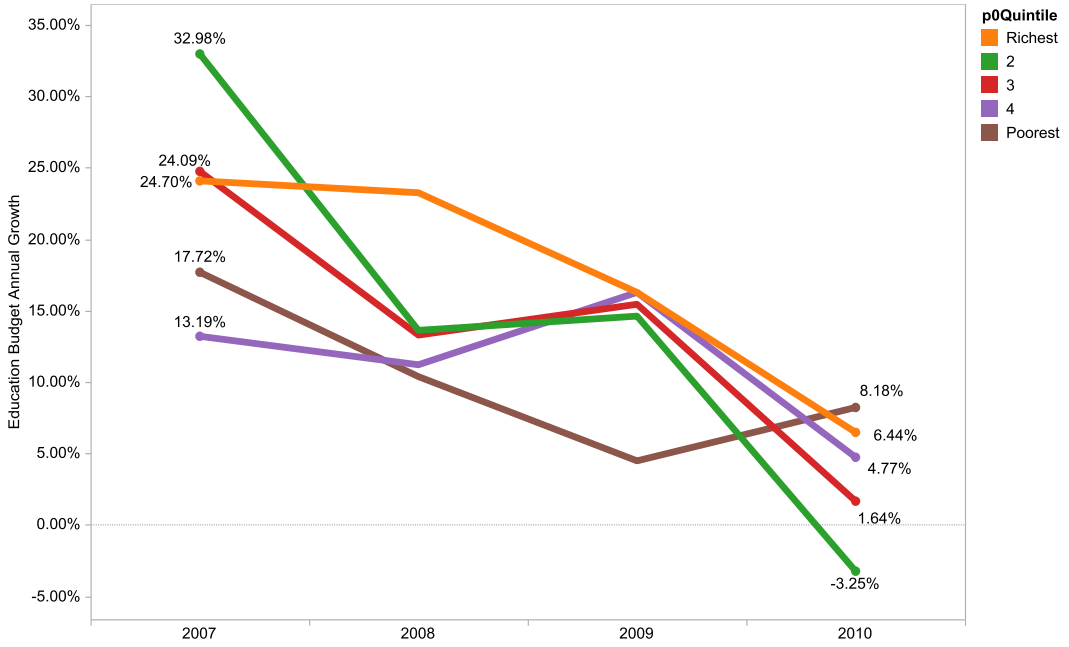
Figure 17: Districts with very low financial share for education (less than 15% of APBD Expenditure) 2009 &2010



* Districts that are blank for one year have exceeded the benchmark for that year

KPI 7: Annual Growth in Education Spending for the Poorest Districts

Figure 18: Annual Growth in APBD Education Expenditure, 2007 -2010, by Poverty Quintile

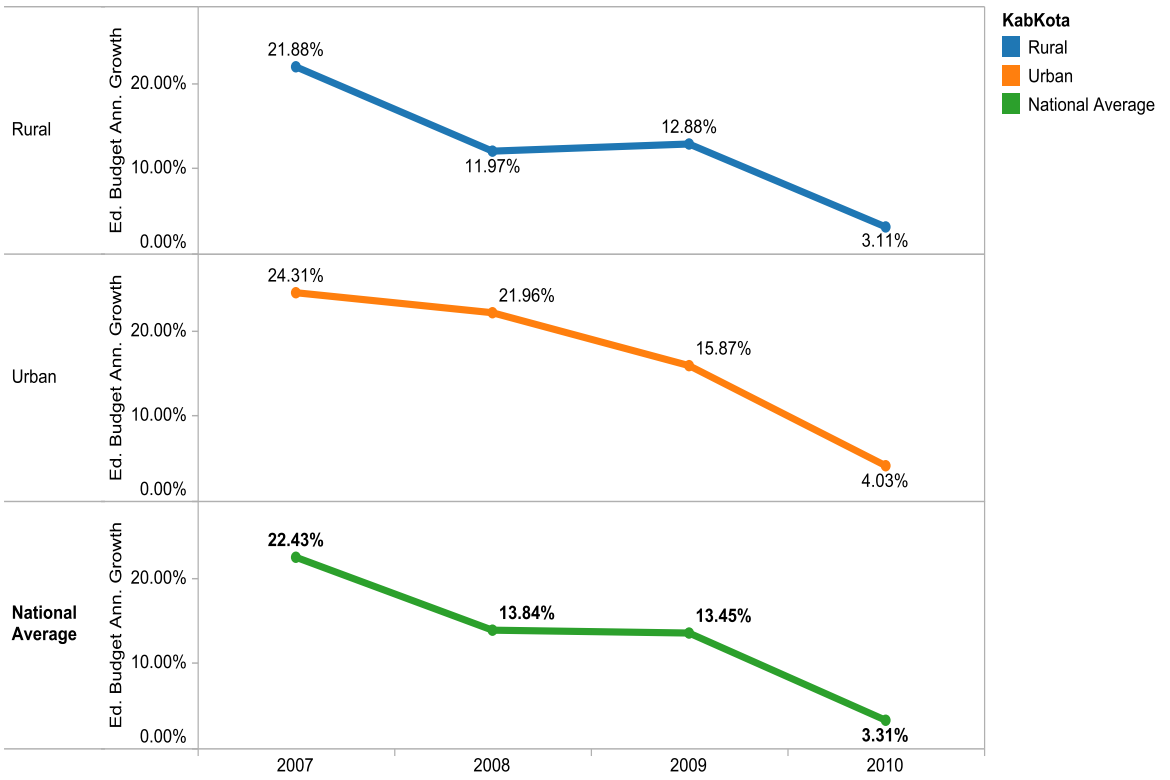


Result:	Uneven
Data Quality and Availability:	As per KPI 6
General Comment:	Poorest districts (bottom quintile) recorded an 8% annual growth in their 2010 education budget on the previous year. This follows a 10% and 5% annual growth between 2007-08 and 2008-09 budgets. This is a positive result for the poorest districts as they have managed the highest average percentage increase in the education of all the poverty quintiles. The continued strong growth of education budgets within the poorest districts is tempered by the cost of inflation which in real terms means that the actual is less than 2%. A total of 29 **poorest quintile** districts experienced a decline in the dedicated 2010 district budget funds for education compared with the 2009 district budget allocations. In 2010, more than one-third of all districts experienced a decline in their district education budget compared to their 2009 budget allocation. In 2010, 177 districts experienced a decline in annual education budget allocation compared with 48 districts experiencing annual decline in 2009. For the remaining districts, their increases will only partially offset the price of inflation. So in real terms, the value of their education expenditures is likely to have declined. Urban and rural analysis shows average district education expenditure grew at an annual rate in 2010 at around 3%.

BEP Districts:	BEP districts showed strong positive commitment to education with 20% annual growth in education funds in 2008-09 but falling to less than 4% in 2009-10. Non-BEP districts also displayed solid growth in their education expenditures in 2008-09 (11%) but this dropped away to less than 2% in 2009-10.
Future Analysis:	Trend series can be updated beyond 2009-10.

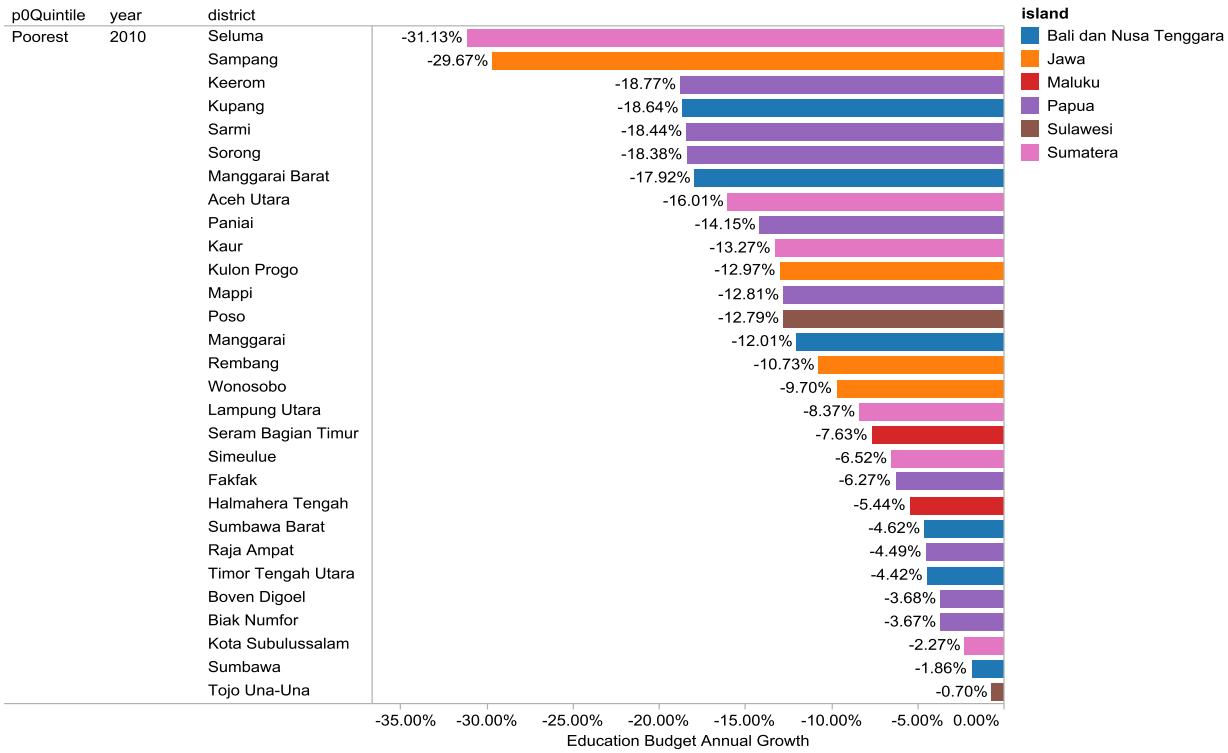
The average growth rate of rural district education budgets declined in 2010 to 3% from previous rates of 13% and 14% in 2008 and 2009. This may reflect some impact of the global financial crisis. The annual growth rate in urban districts was 4% in 2010 compared to 16% in 2009 and a 22% growth rate in 2008.

Figure 19: Annual Growth in District Education Expenditure, (APBD 2007-2010)



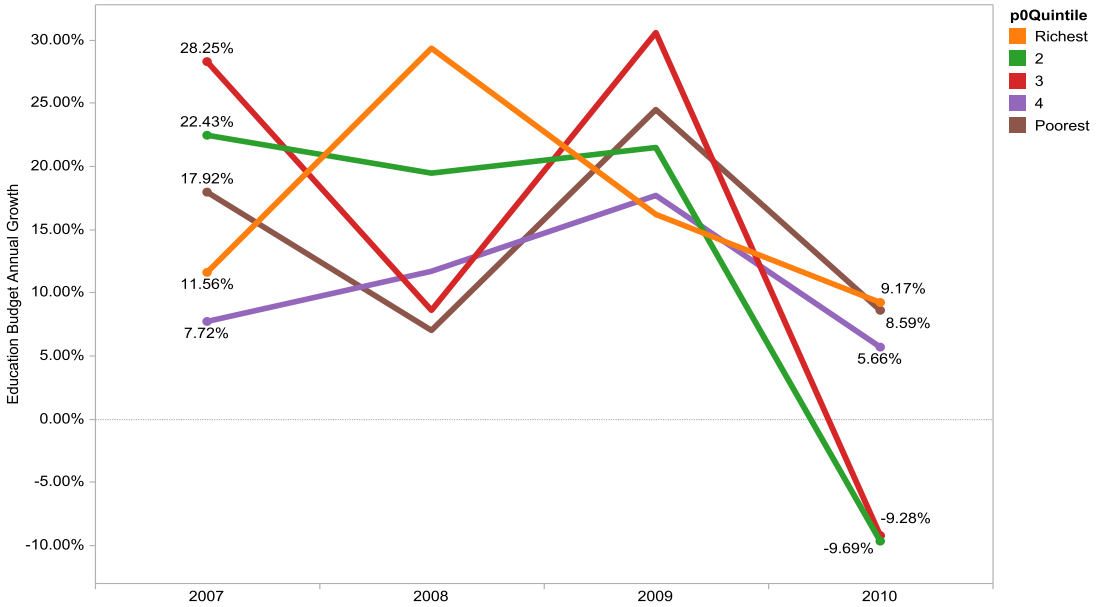
Focusing on the poorest districts, a total of 29 poorest quintile districts experienced a decline in the dedicated 2010 district budget funds for education compared with the 2009 district budget allocations. These districts are identified in the table below.

Figure 20: Poorest Districts (Quintile 5) with Negative Annual Growth in District Education Expenditure, (APBD 2009-2010)



Detailed poverty quintile analysis of BEP districts for 2010 shows all quintiles experienced an average decline in the annual growth of their education expenditures. Some of the better annual growth rates in education expenditures were within the poorest districts which expanded their budgets by an average 9% in 2010. This was considerably higher than the 3% national average growth rate. There is some real concern however in districts within quintile 2 and 3 which experienced average declines of approximately 10% in their education budget in 2010 compared with 2009.

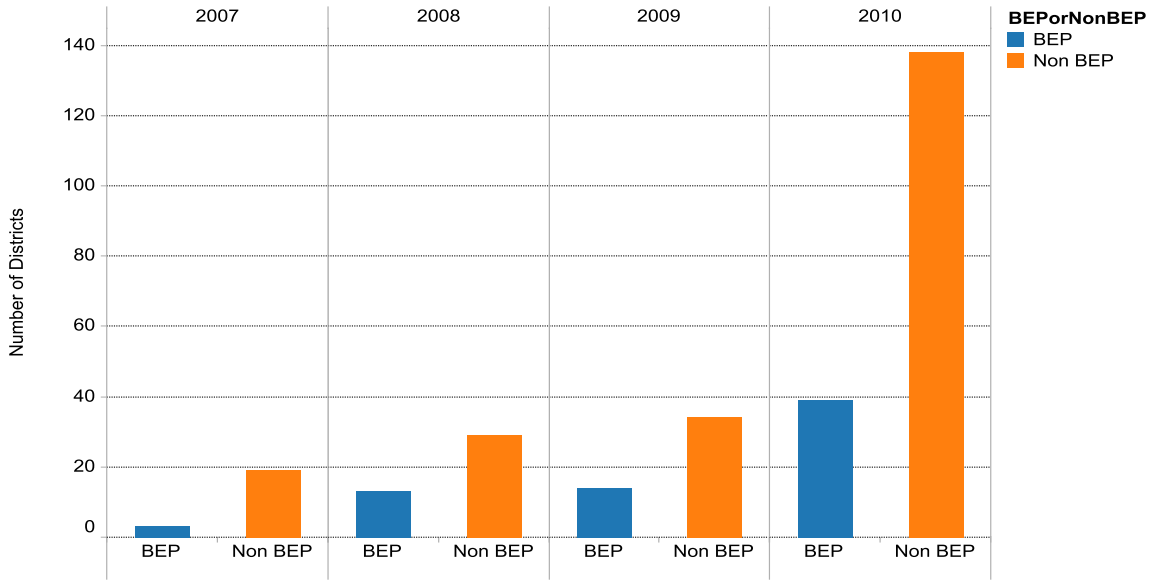
Figure 21: BEP Districts Only - Annual Growth in District Education Expenditure, (APBD 2007-2010)



In 2010, 177 districts experienced a decline in annual education budget allocation compared with 48 districts experiencing annual decline in 2009. This translates to approximately one-third of all districts experienced a decline in their district education budget compared to their 2009 budget allocation. The

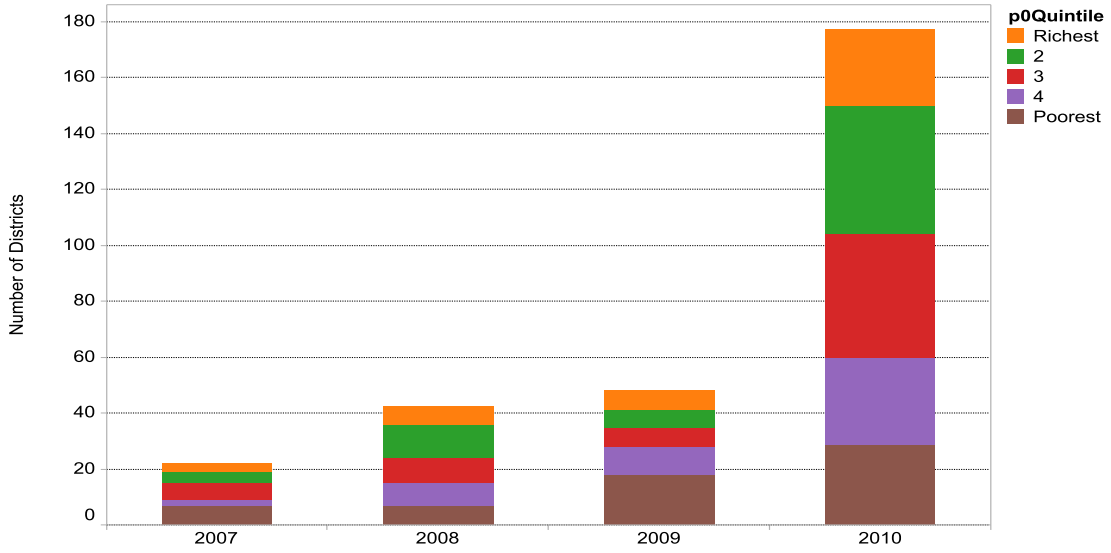
There were 39 BEP districts and 138 non-BEP experiencing a decline in their district education budget compared to their 2009 budget. An additional 99 non-BEP districts in 2010 experienced a decline in their district budget allocations for education. The number of BEP districts with an annual decline in education went from 14 districts in 2009 to 39 districts in 2010.

Figure 22: Number of Districts, with Negative Annual Growth in 2010 APBD Education Expenditure



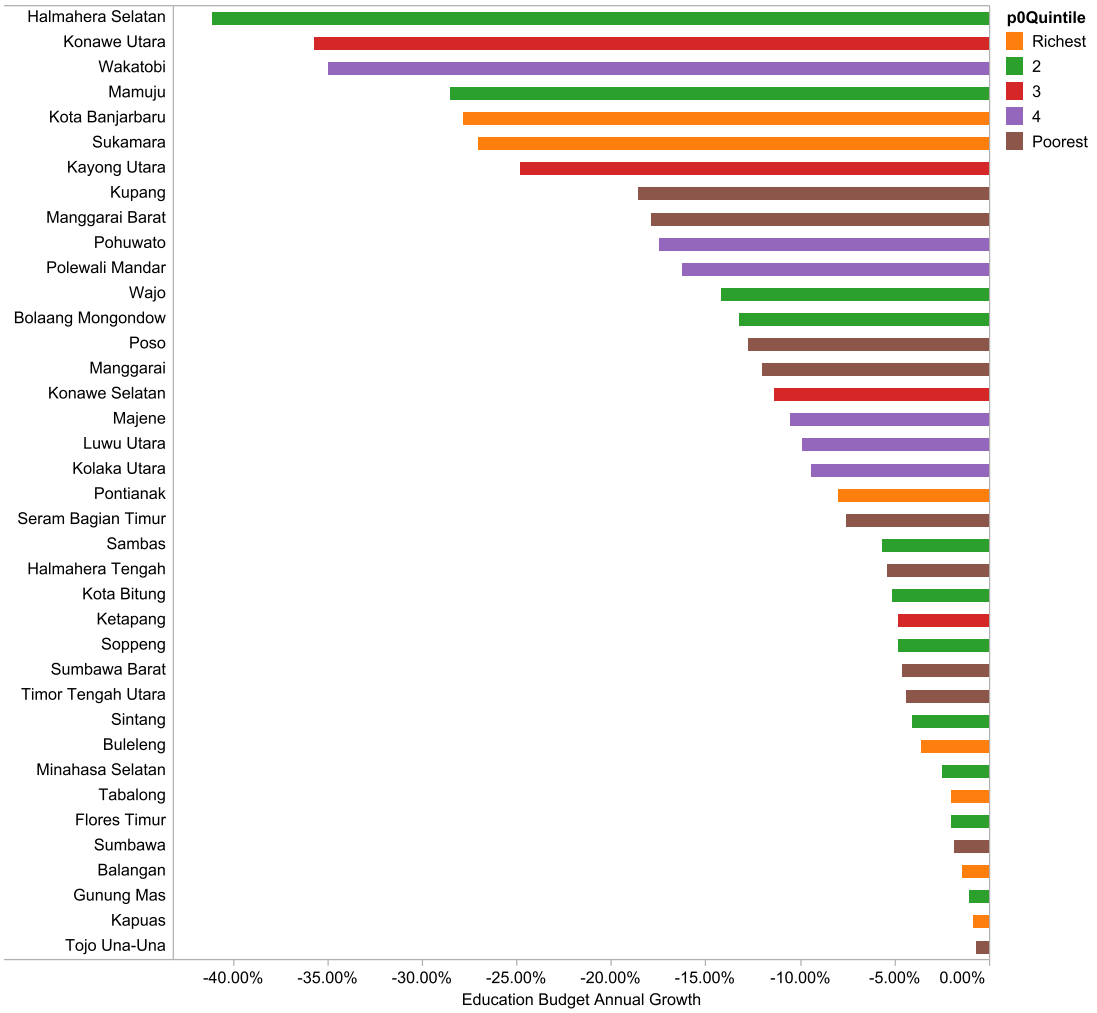
Poverty quintile analysis of declines in education budget allocations shows them to be distributed across all quintiles. A proportionately higher number of districts in the middle ranking quintiles (2 and 3) have experienced a decline. In comparison, the poorest quintile had 29 districts in 2010 with declining allocations compared to 18 in 2009. However, middle ranking quintile 2 had 46 districts in decline in 2010 compared to just 6 districts in 2009.

Figure 23: Total Number of Districts, with Negative Annual Growth in APBD Education Expenditure, 2007 -2010



The BEP districts with negative annual growth in district expenditure are shown in the figure below.

Figure 24: BEP Districts Only – Districts with Negative Annual Growth in District Education Expenditure, (APBD 2009-2010)

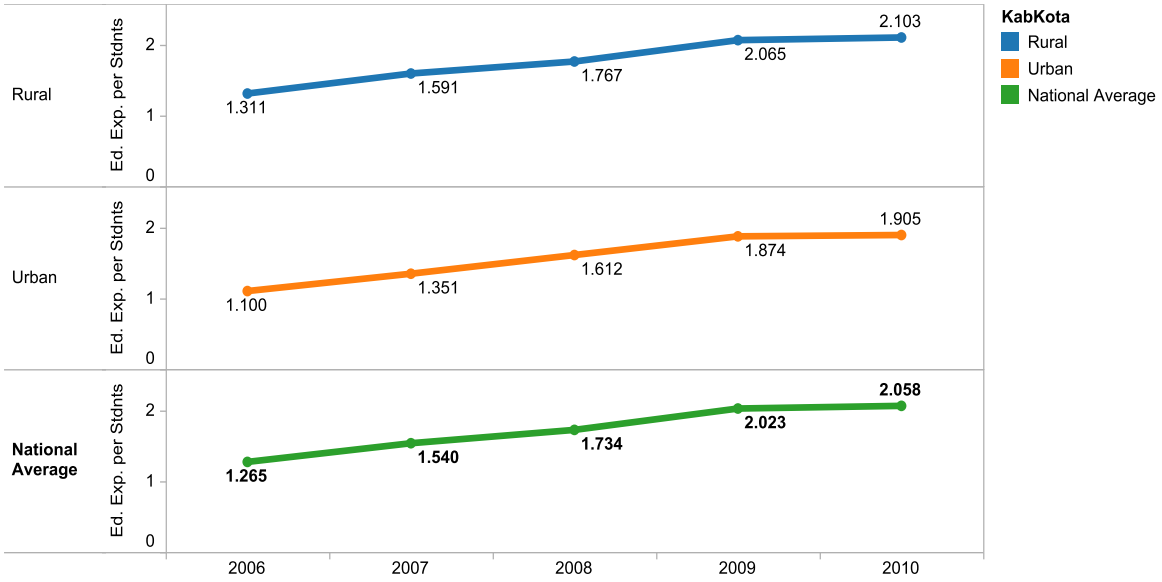


Policy Implications: Growth in year to year education expenditure has become very uneven across the country in 2010. Overall figures are positive with soft growth in education expenditure which is on average stronger for the poorest districts. Below this picture of averages, declining overall district budgets are also putting pressure on district education allocations. More than one-third of all districts experienced an annual decline in education budget allocations in 2010. It is notable that BEP districts have fared better than non-BEP districts.

Recommendation: Further research is required to understand (i) why BEP districts have a lower proportionate incidence of declining education budget allocations, (ii) the particularly high incidence of education budget decline in quintiles 2 and 3, and (iii) the prognosis for district education budget allocations in 2011 in those districts that have already experienced a decline in the previous year.

KPI 8: Average District Expenditure per Student

Figure 25: Average District Education Expenditure per all Students, 2006-2010 (Rp millions.)

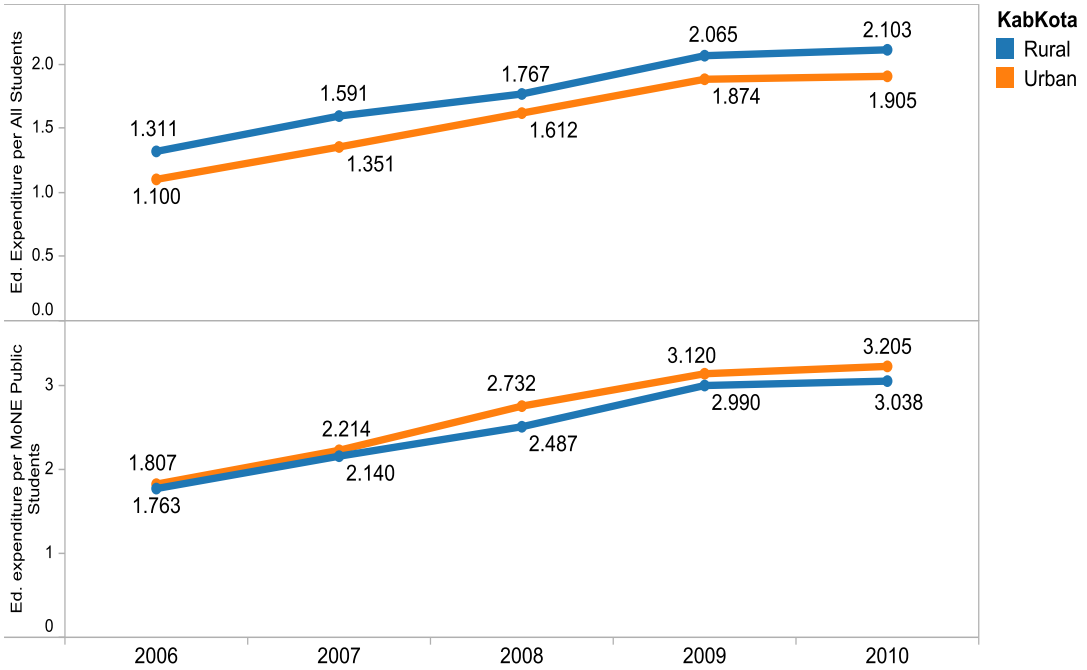


Result:	Negative
Data Quality and Availability:	As per KPI 6
General Comment:	Average expenditure per student across the country grew strongly during the period 2006-09, but has largely stalled in 2010. This means average education expenditure per student has declined in real terms when taking into account the effects of price inflation. Average per student expenditure has been marginally higher in rural districts and reached Rp. 2.1 million per student in 2010. This compares with Rp. 1.9 million per student in the urban areas. Highest allocations per student are found in the poorest districts (quintile 5) at an average Rp. 2.4 million per student. This compares with an average district allocation of Rp. 1.9 to 2.1 million across the other poverty quintiles. The per student allocation is greatly affected by the sparsity of population. More sparsely populated districts (such as those in the eastern region and many of those in the poorest quintile districts) have higher average salary costs. This is because of both lower student/teacher ratios and higher salary related costs associated with remote area allowances.
BEP Districts:	BEP districts have a higher than national average per student allocation across all five years. The higher expenditure of BEP districts is in part related to the fact that 90% of BEP districts are located in the Eastern region of the country. Unit costs are higher in the eastern region due to sparsity factors. Growth in education expenditure per student has largely stalled in BEP districts, and has declined in real terms when taking into account the effects of price inflation.
Future Analysis:	Annual update

A more nuanced analysis of per student education expenditure looks at district expenditures per public MoNE school students. This provides a more accurate measure because districts are only responsible for teacher salaries and other operational expenses of MoNE public schools. By excluding private school students from per student calculations it is possible to remove the bias of different rates of enrolment in private schools across districts.

The national average education expenditure per public students is Rp. 3 million per student with urban districts (Rp. 3.2 million) overtaking rural districts (Rp. 2.9 million). Because there are proportionately greater numbers of private school students in urban areas, this indicator reverses the trend of the broader indicator *expenditure per all students* and shows urban areas to be spending more than rural districts.

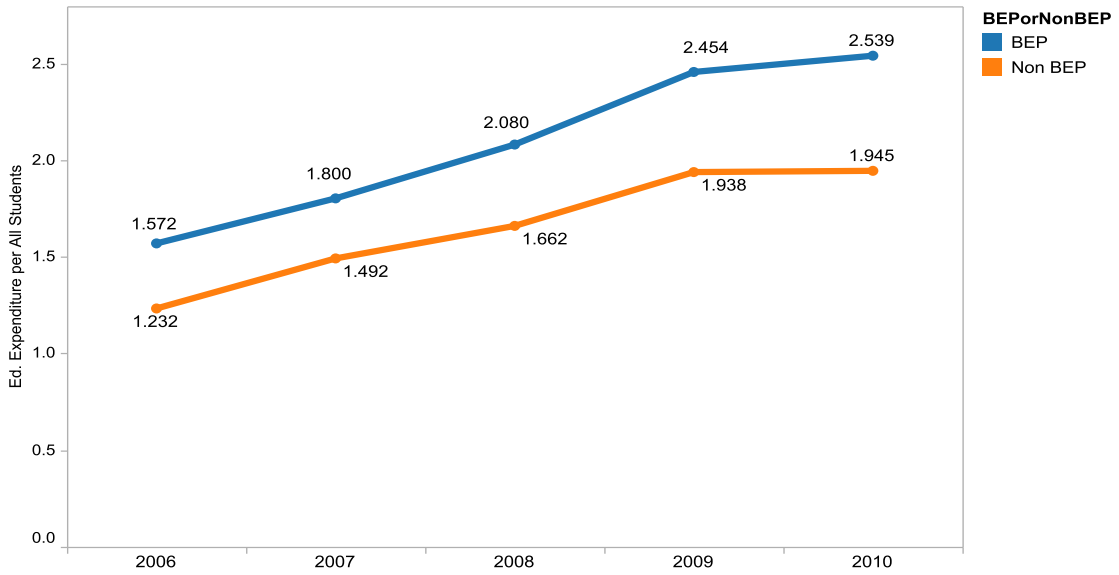
Figure 26: Comparison - Expenditure per All Students vs. Expenditure per Public Students, (Rp. millions)



BEP districts reflect a similar trend to other districts with steady increases in per student expenditure until 2009. In 2010, average per student expenditure showed no real growth on 2009, meaning that when taking into account the effects of price inflation, there was an average real decline expenditure per student in BEP districts.

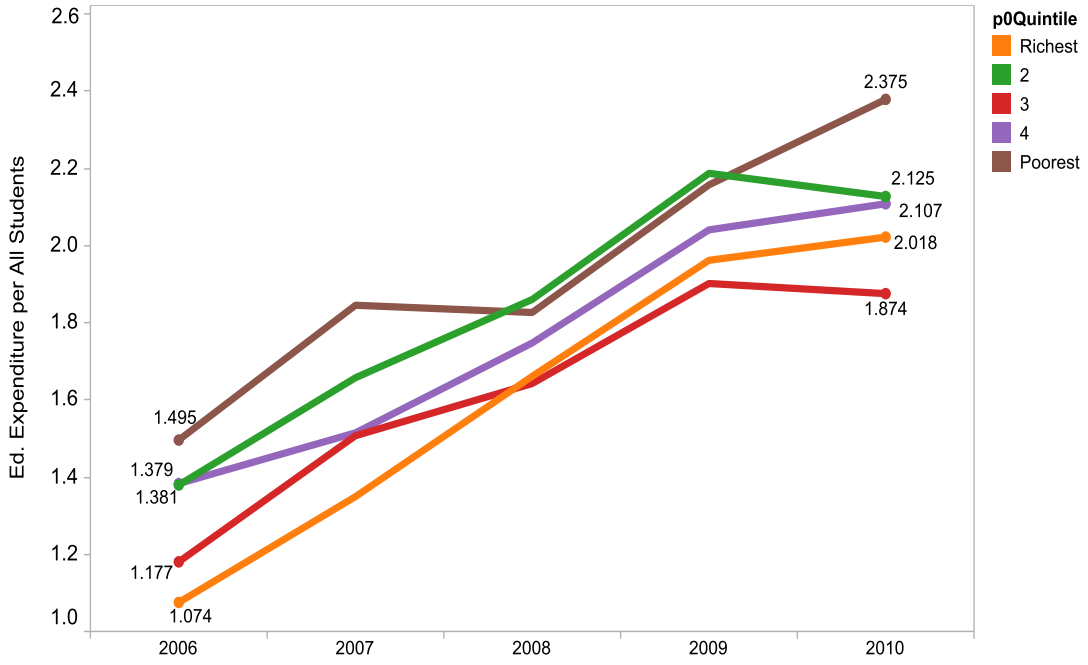
BEP districts spent Rp. 2.54 million per all students compared to the other districts average of Rp 1.95 million in 2010. Non-BEP districts at Rp. 1.9 million per student are spending less than average expenditure in BEP districts.

Figure 27: Average APBD Education Expenditure per Student (Rp), BEP and Non-BEP Districts



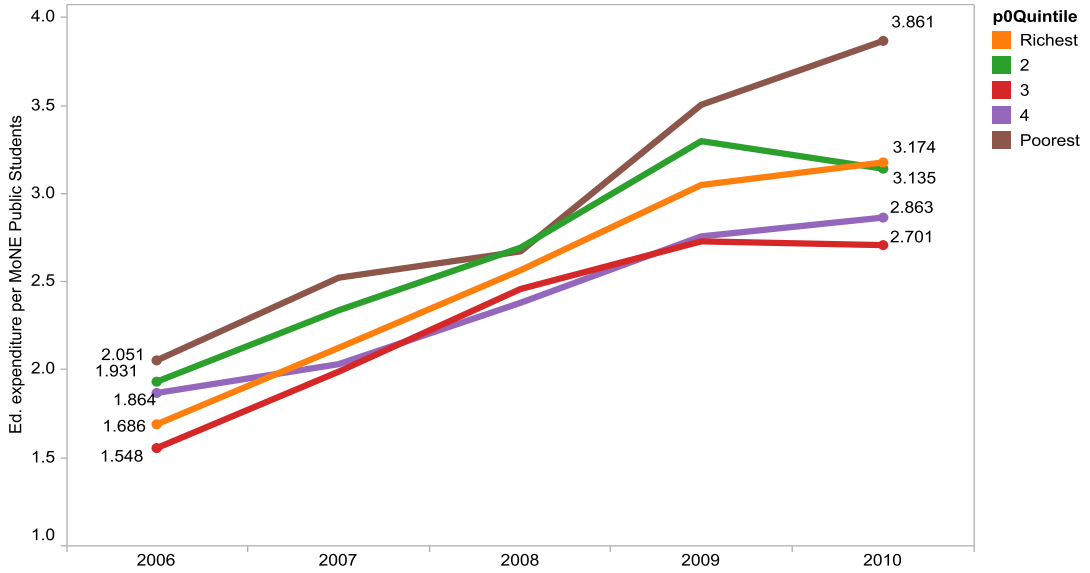
Poverty quintile analysis of average expenditures per student shows the poorest districts by 2010 to be spending the greatest amount per student (Rp. 2.4 milllion). This compares with the richest districts which spend Rp. 2 million. The poorest districts are spending on average 6% more per student than the richest. The quintile group with lowest average annual spending per student (Rp. 1.9 million) is the middle ranking poverty quintile 3.

Figure 28: Average APBD Education Expenditure per Student (Rp. Million), by Poverty Quintile Districts



Average expenditures per public student show the two richest quintile districts to be spending more than Rp. 3.1 million per student in 2010. The poorest quintile districts spend Rp. 3.86 million per public student. The relatively high per public student expenditure in the poorest districts is a positive indicator.

Figure 29: Average APBD Education Expenditure per Public Student (Rp. Million), by Poverty Quintile Districts

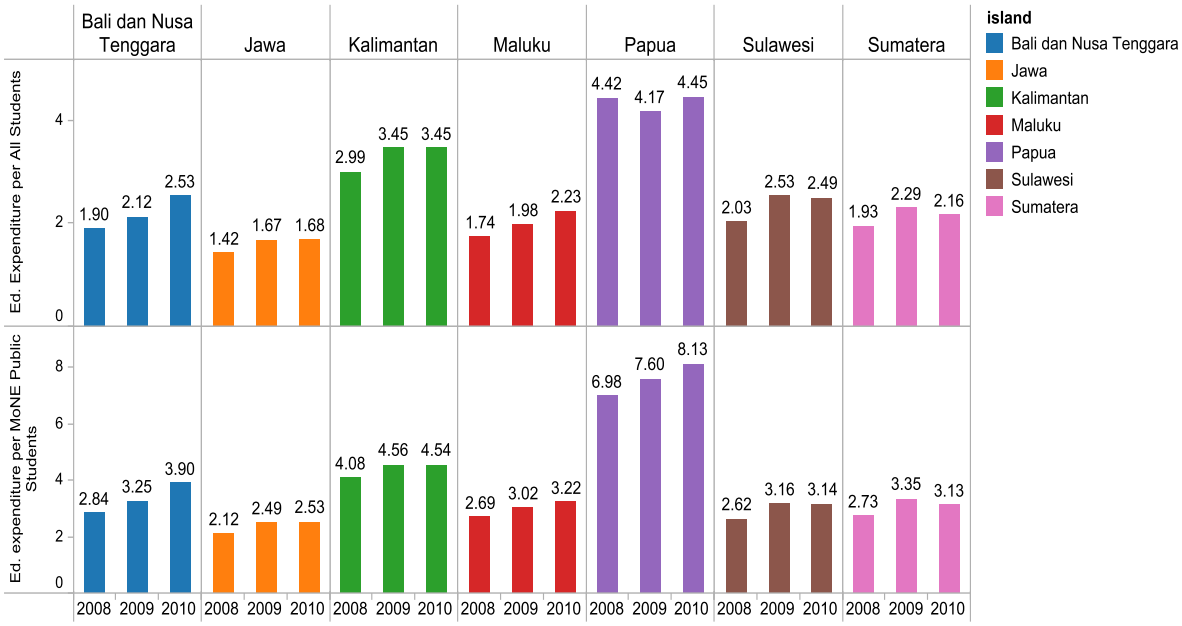


At the same districts in the far eastern regions of the country should have significantly higher costs per student than districts in the western region because of the lower density of populations. This has an impact on the unit cost of salaries (through the cost of allowances related to isolation) and the lower student/teacher ratio that drives up the per student unit cost of teacher salaries.

Average expenditure per student in 2010 was highest in the island groups of Papua (Rp. 4.5 million) and Kalimantan (Rp. 3.5 million). Lowest expenditure by a considerable margin is found on Java with Rp. 1.7 million per student.

Education expenditure per public student shows Papua reaching Rp. 8.1 million in 2010 compared to the next highest Kalimantan (Rp. 4.5 million) and Java as the lowest island expenditure per public student (Rp. 2.5 million).

Figure 30: Average APBD Education Expenditure per Student (Rp), by Island



Policy Implications:

Unit cost calculations are greatly affected by the sparsity of populations and care needs to be taken when comparing districts. Care should be taken to compare like with like districts in order to get a true feel for the district government commitment and possible impact on quality.

Reasonable distribution of public education funds should generally provide greater funding per student to the poorest areas. This weighted distribution of government funds can enable the poorest communities to overcome a financial inability to pay for services. It also helps to cover the higher cost of servicing poor communities that are also in remote or difficult to reach areas.

The relatively flat distribution of district education funding per student across poverty quintiles is good in so far that it does not show greater per student amounts being allocated in the richest districts. This achievement should not be taken for granted. It reflects government policies that have been successful in preventing a larger share of resources being sequestered by richer districts.

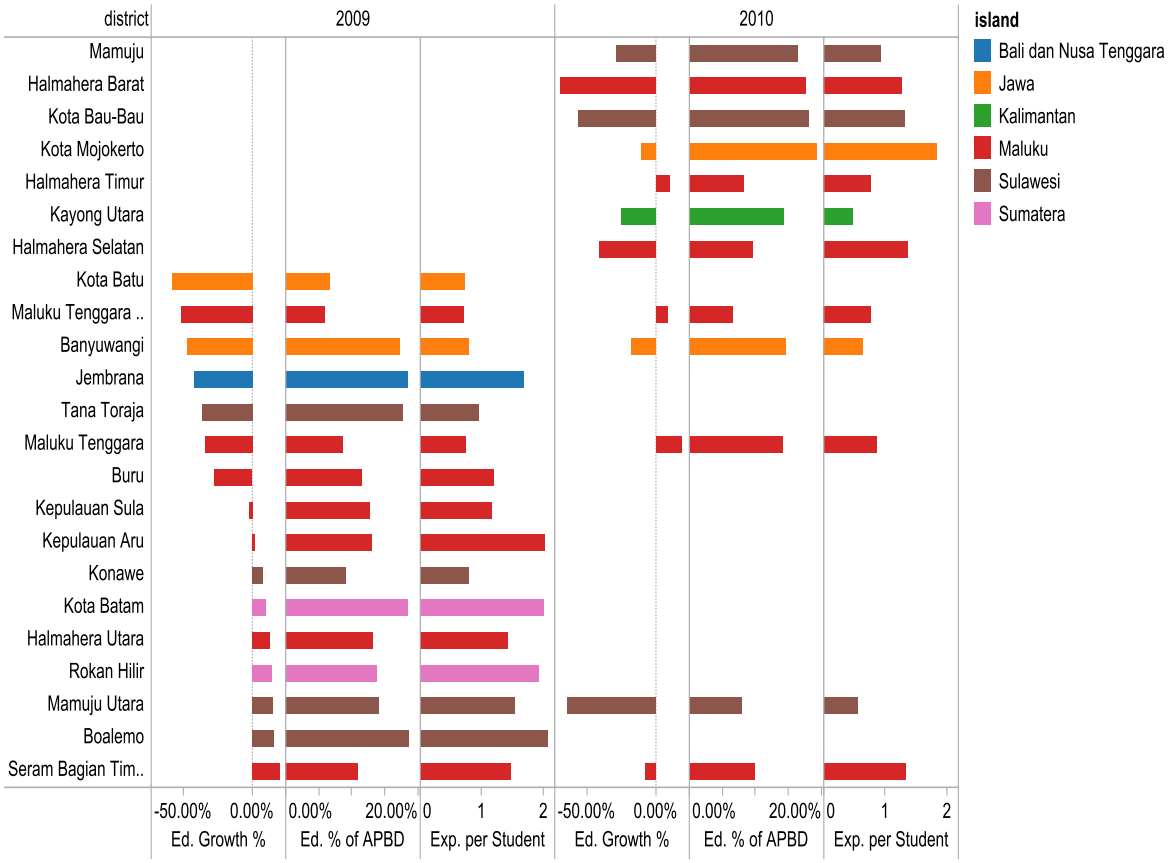
The limitation of the 'flat line achievement' is that such a distribution across poverty groupings is not sufficient to promote more equitable services and learning attainment across the country. To achieve these types of outcomes, government will need to put an 'equity slope' in its funding distribution. This means per student funding increasing significantly across poverty groupings from the richest to the poorest.

A *Critical Education Funding Status* (CEFS) diagnostic tool is based on three Key Performance Indicators from this District level analysis (KPI's 6, 7, and 8). The CEFS diagnostic tool identifies critical districts that have:

- low expenditure per student (less than Rp. 2.1 million)
- small education share of the district budget (less than 20%)
- weak annual growth in their education budget (less than 20%).

The table below highlights sixteen (16) districts meeting these criteria in 2009 and twelve 12 districts meeting the CEFS criteria in 2010. Five (5) districts were identified in both 2009 and 2010. Maluku island accounts for seven (7) of the districts in 2009 and six (6) in 2010.

Figure 31: Critical Education Funding Status (CEFS) Districts – Districts with low growth in education budget, low share of district budget and low expenditure per student, 2009 & 2010



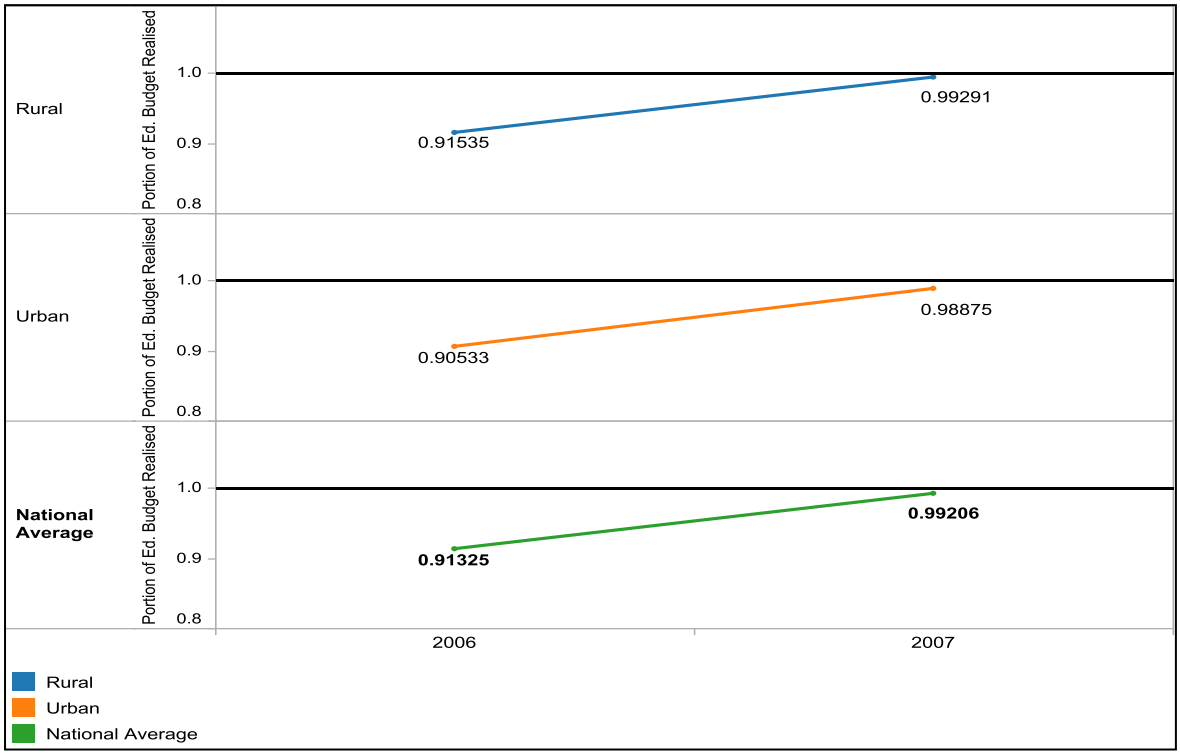
Recommendations:

1. For the AusAID funded ESSP, pay attention to the districts identified in 2010, and especially those were identified in both 2009 and 2010, as having Critical Education Funding Status (CEFS). ESSP disbursements managed through the districts should be reviewed to (i) support a change in district education financing policy so that a greater volume and share of districts funds is diverted to education (where that is confirmed to be required), and (ii) mitigate the risk of ESSP driving financial substitution effects at the district level which further weaken existing local allocations for education.
2. Undertake a detailed study of education financing and school provision in districts that present red-flags on the Critical Education Funding Status indicator. These are districts that have:

   - low expenditure per student (less than Rp. 2.1 million)
   - small education share of the district budget (less than 20%)
   - weak annual growth in their education budget (less than 20%).

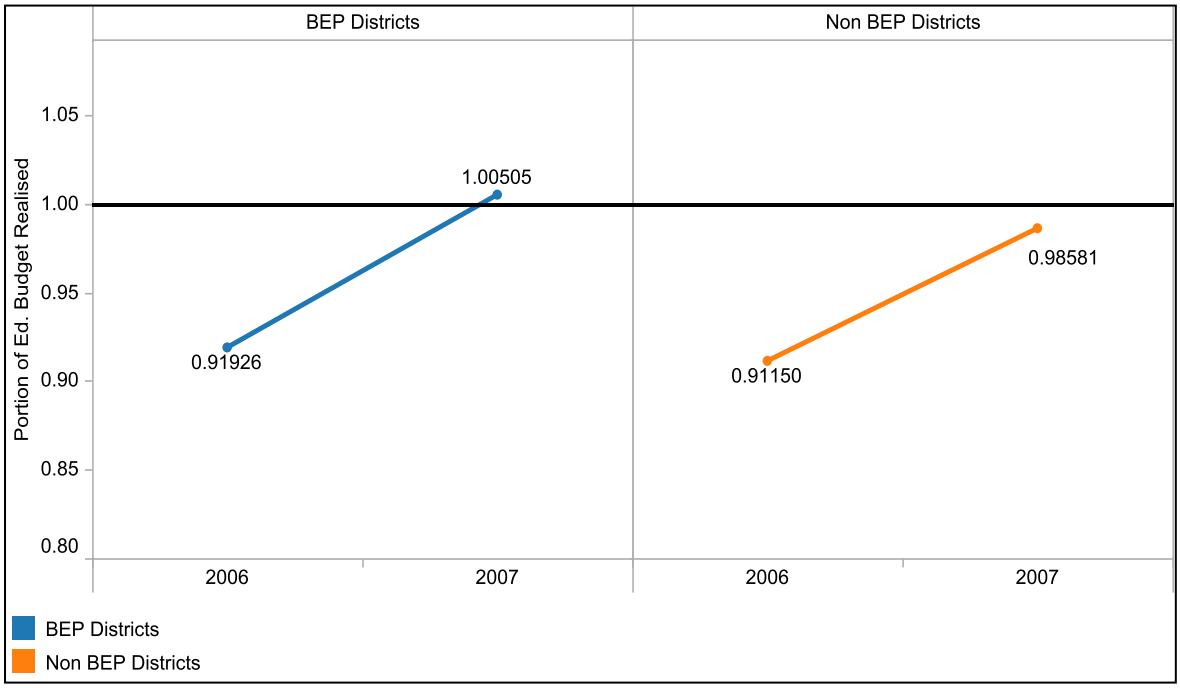
KPI 9: Actual district education expenditure as % of planned education expenditure

Figure 32: Realised Education Expenditure as % of Planned Expenditure 2006 and 2007



Result:	Positive
Data Quality and Availability:	Budget data for 2006 is from the 'final revised budget' documents and reflect the final allocation. Revised budget data for 2007 was not available. Data collected is from the 'planned budget' documents which reflect a bid by the district education office for funds. This budget may then be revised downwards in the 'revised final budget'. The 2007 financial data is therefore not from identical planning documents and may be responsible for an upwards shift in percentage of budget realized as actual expenditure. No new data was available for 2008 to update this analysis from previous report.
General Comment:	Districts in 2007 managed to spend nearly 100% of their planned budget. This was a significant improvement on 2006 where only 91% of funds were spent nationally.
BEP Districts:	The average BEP district increased its actual expenditure to 100% of budgeted allocations in 2007. This was up from a 92% expenditure in 2006. Non-BEP districts also increased their actual expenditure to nearly 100% of budgeted allocations in 2007.
Future Analysis:	Update 2008 data once collected. Trend series to continue with realized budget data for 2007 to be collected

Figure 33: Realised Education Expenditure as % of Planned Expenditure 2006-07, BEP and Non-BEP districts



Poverty quintile analysis shows that the top two poverty quintile districts on average overspent their planned education budget in 2007. The lowest average rate of realisation was with the poorest quintile districts that only spent 91% of their planned budget.

Figure 34: Realised Education Expenditure as % of Planned Expenditure 2006 and 2007, by Poverty Quintile

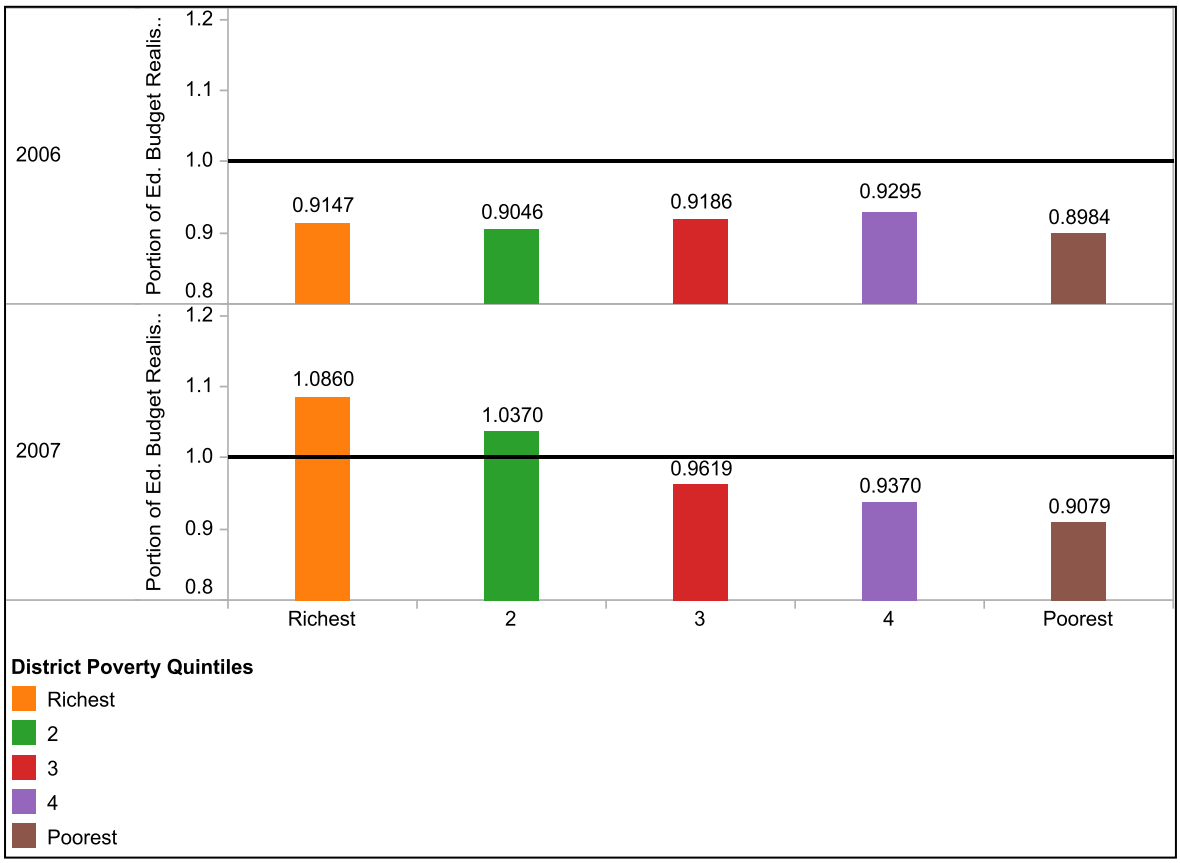
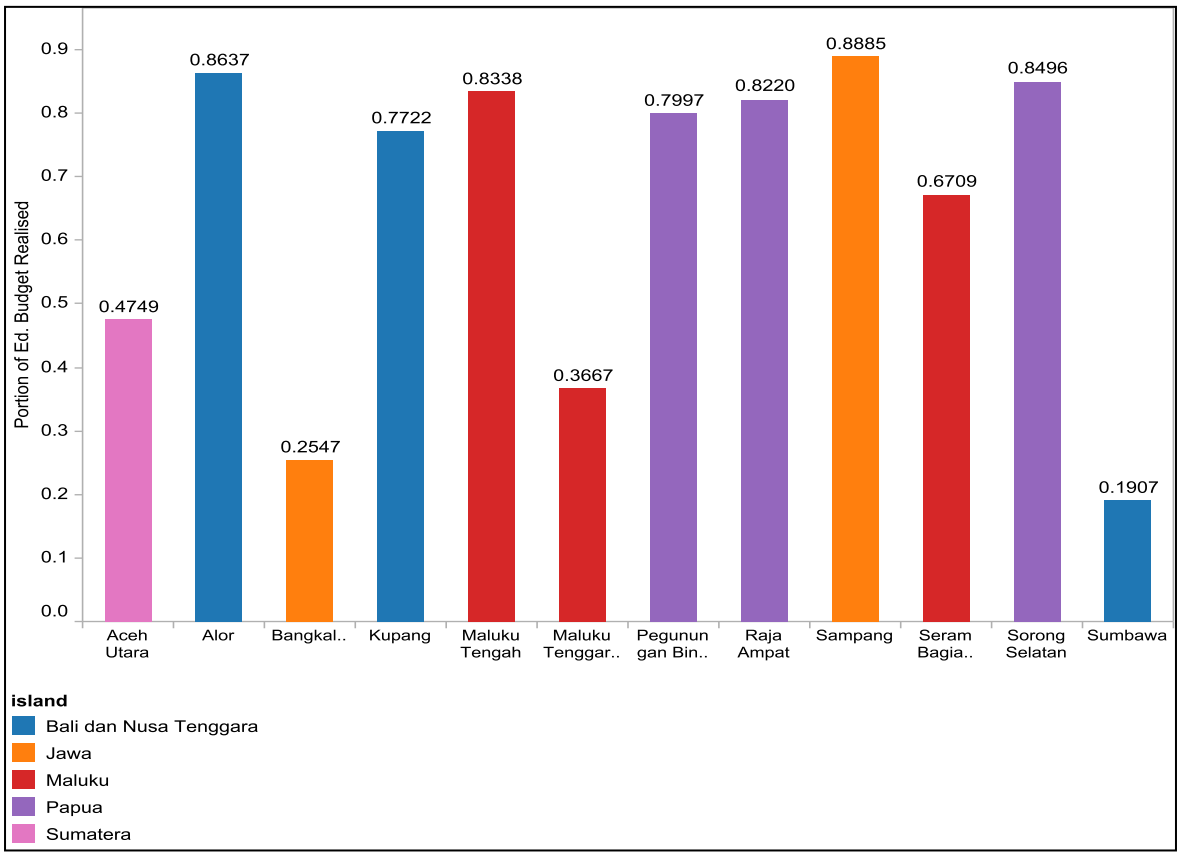


Figure 35: Poorest Quintile Districts that realised less than 90% of Education Budget 2007

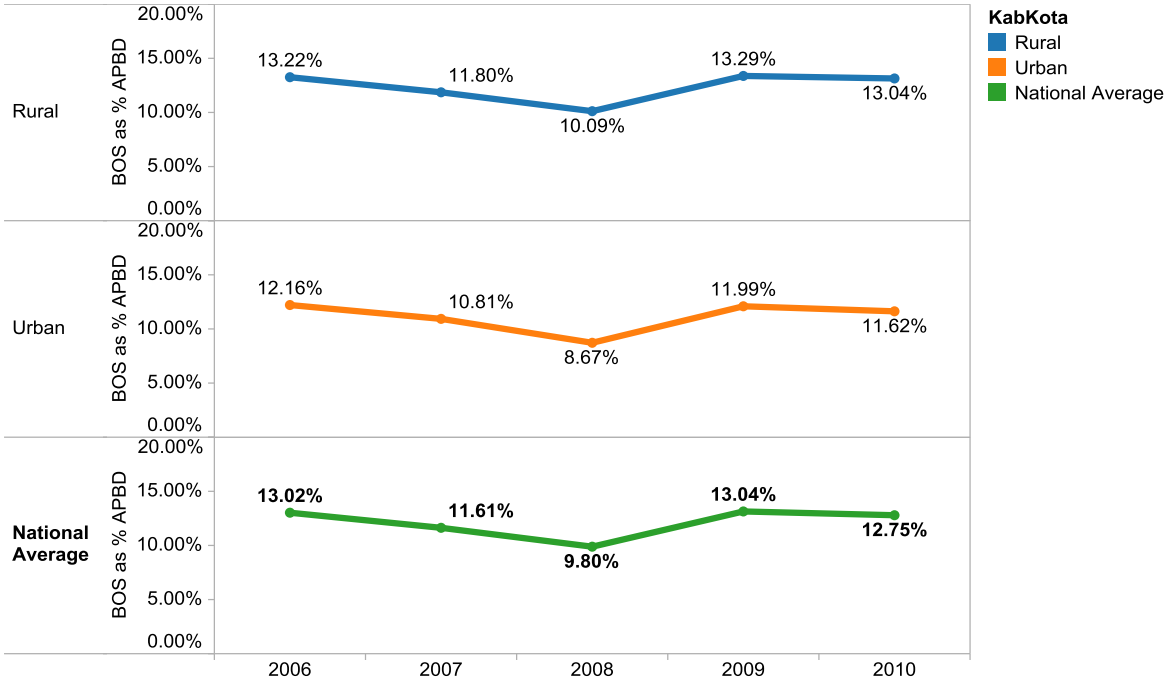


Policy Implications: Too many districts may be failing to expend their allocated annual education budgets. The difficulty of the poorest districts in expending their budgets is of a particular concern given the access and quality problems in these districts. The quantum of funds may not be the greatest problem facing some districts, and/or there may be other problems related to disbursement restrictions and reporting or planning requirements.

Recommendation: A study and policy dialogue with Dinas education offices is required to determine reasons for the under-expenditure of annual education budgets focused on the poorest districts. The study should propose options for improving the uptake of funds that can promote their efficient and effective use for education purposes at the district level.

SPI : Discretionary School Expenditure as Percentage of Total Education Expenditure

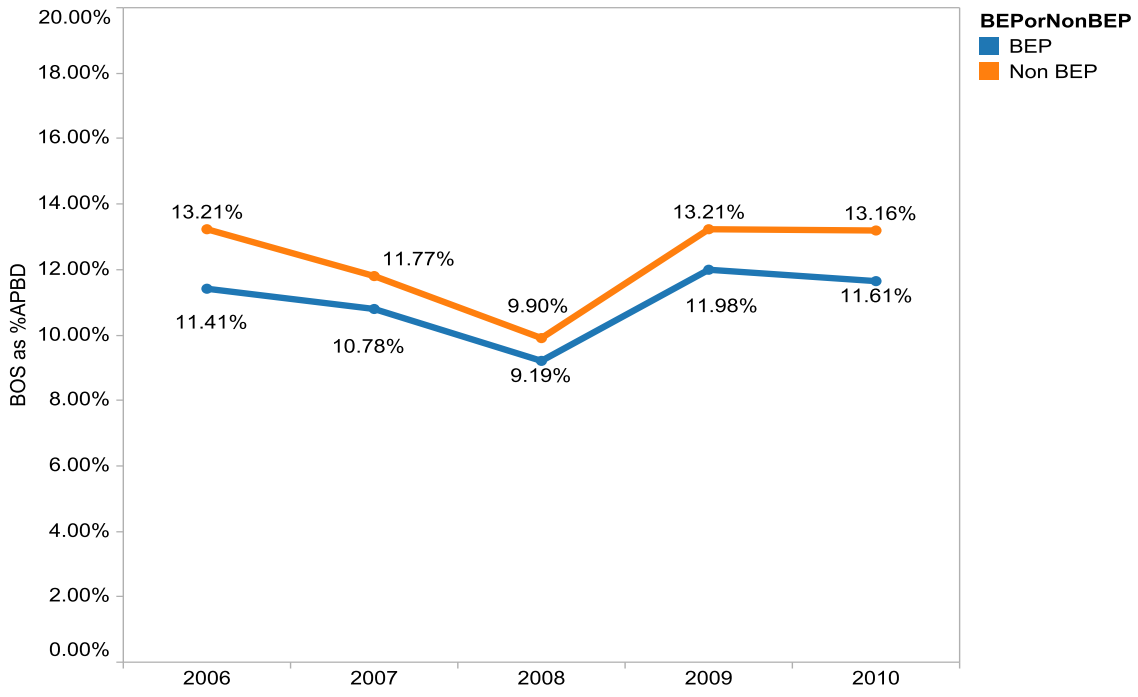
Figure 36: BOS Grants as % of Education & Culture Budget 2006-2010 (public schools only)



Meaning of the Indicator:	Discretionary expenditure is a key variable at the school level to enable schools to provide materials for classrooms and other activities.
Result:	Positive
Data Quality:	BOS grants are used as a proxy variable for discretionary expenditure. The BOS funds are distributed directly to schools from the central government via MoNE. Schools will also collect other funds from parents and/or the district level of government. These other amounts are not reported on at a national level. The BOS grants indicate the average minimum discretionary funds available to schools. This report (and the previous 2008, 2009 reports) calculates the value of BOS grants distributed to public schools. They do not include BOS grants distributed by MoRA to madrasah in the district. The2007 report calculated the value of BOS grants distributed by the central government through MoRA and the district to all schools/madrasah.

General Comment:	The BOS grants distributed by districts provide a key source of discretionary funds available to schools under their own management. They have injected a dramatic new dimension to school resourcing. Direct payment to schools minimizes the opportunities for leakage before the funds reach the school. BOS grants offer great potential for funding innovative and securely resourced interventions at schools that have an ongoing recurrent funding base. This allows school principals to plan around these allocations instead of pursuing submission based grant models. In 2009 and 2010 BOS contributed funds directly to public schools equivalent to approximately 13% of total district level education expenditure for public schools. The BOS per capita rates in 2010 have remained the same as for 2009. In the absence of any significant change in nominal value of total district education funding, BOS shares of total district expenditure in 2010 are very close to 2009 levels. The growth in BOS expenditures as a proportion of total district level expenditure in 2009 reversed a previous declining trend. This reflected the big annual jump in the value of the BOS grant in 2009. BOS grants for primary level students rose from Rp. 276,000 per student in 2008 to Rp. 400,000 per student. For junior secondary students, the BOS grant rose from Rp.354,500 per student in 2008 to Rp. 570,000 per student.
BEP Districts:	BOS grants in BEP districts have remained steady at 12% of budget in 2009 and 2010. This compares with non-BEP districts where BOS grants amounted to 13% in 2009 and 2010.
Future Analysis:	Update with 2011 data

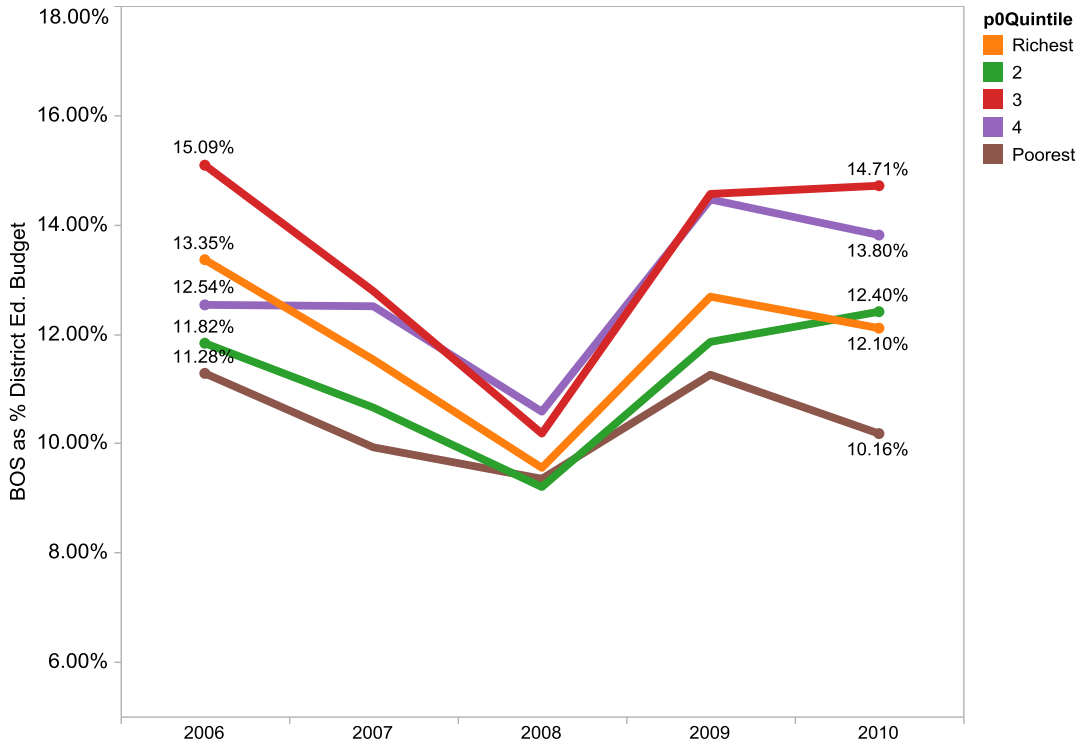
Figure 37: BEP and Non-BEP Districts - BOS Grants as % of Education & Culture Budget 2006-2010



BOS grants as a percentage of total education expenditure are affected by the share of students progressing to secondary education. The per capita BOS grants for junior secondary students are 35% higher in value than grants for primary students. Districts with higher proportionate enrolment at secondary level have an increased proportionate weight in their BOS grants. As a consequence, inter-poverty quintile comparisons are distorted by differences secondary level enrolment rates.

The significance of the BOS expenditures in comparison with total district expenditures declined for districts across all poverty quintiles between 2007 and 2008. This reflected the expanding outlays for education being made by the district levels of government during this period. However by 2009 and with the impact of the increase in the size of the per capita grants, the BOS had again risen in significance to 2006 levels.

Figure 38: BOS Grants as % of Education & Culture Budget 2006-2010, by Poverty Quintile



Policy Implications: BOS grants provide a critical injection of funds at the school level. It is important that these funds are utilised as effectively as possible. Their importance is even greater in BEP districts where they stand as a greater than average proportion of total funds available to education. Planning and management of BOS funds should be a key planning priority for schools in BEP districts. Capacity building activities for principals and socialisation amongst parents are two obvious intervention points.

From 2010 onwards, BOS grants are being distributed to the district level of government which will then make payments to schools. This changed flow of funding is designed to reflect the function and responsibilities of local government towards education under the decentralization policy. It will provide districts with significantly greater non-salary related resources to distribute amongst their schools. This can help to strengthen the relevance and importance of district monitoring and support teams for schools within their jurisdiction.

The policy will also increase the pressure and expectations of schools upon the efficiency and effectiveness of the district offices. Delays and errors in the distribution of BOS funding will be seen as a failure at the local rather than central level.

The policy also poses some financial risk as some district governments could be tempted to lower existing district budget allocations for education. The additional flow of BOS grants for schools entering the district coffers and appearing as an education related budget line item could disguise cuts to existing allocations.

Recommendation: The AusAID funded ESSP should have as one strong focus of its work, improved capacity of school principals to better plan and manage their BOS funds and to help districts better monitor and support the schools in their disbursement activities.

Future analyses of district level expenditures will need to disaggregate the BOS component from the remainder of district level education expenditures. This will reveal if there is any downsizing of district financial commitment towards education since the distribution of BOS through the district level. The disaggregation will also be needed to enable time-series comparability with the analysis of this and other financial reports.