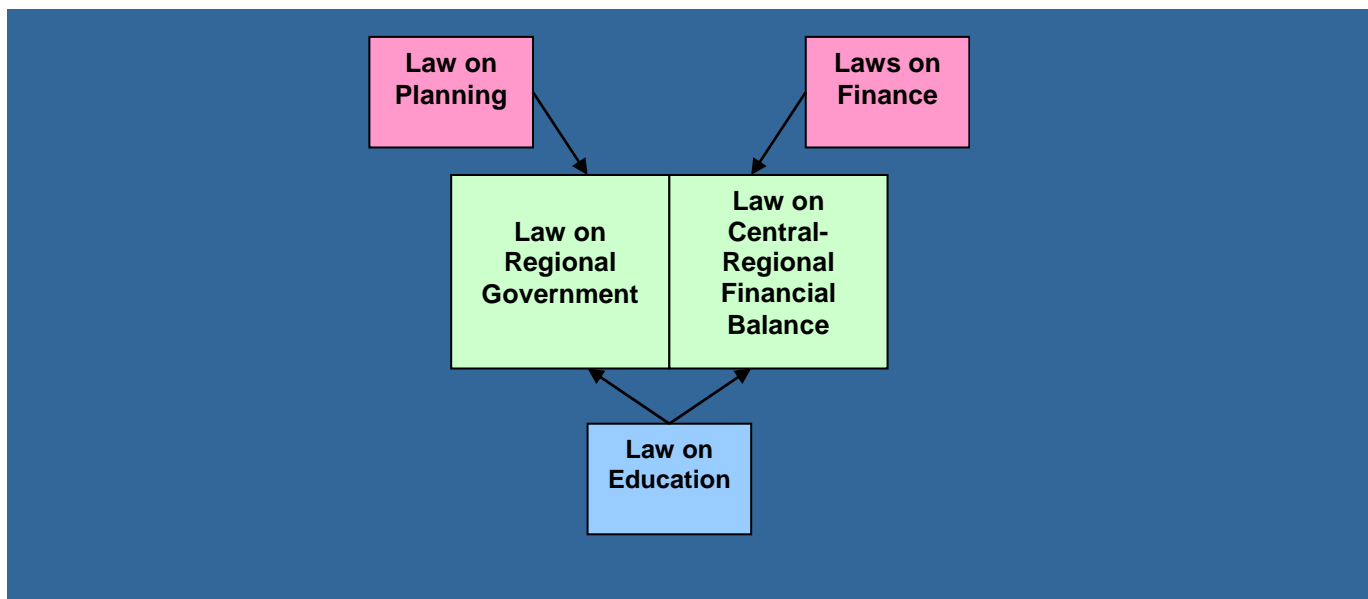




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Decentralized Basic Education 1: Management and Governance

Study of Legal Framework for the Indonesian Basic Education Sector



DBE 1 Special Report

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Study of Legal Framework for the Indonesian Basic Education
Sector

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Study of the Legal Framework for the Indonesian Basic Education Sector

Preface

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

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

The first point is dealt with in the paper. This preface will try to address the second point briefly. In Indonesia, the central government was established by representatives of CSOs (civil society organizations) – primarily youth groups – from various geographical regions of Indonesia. The constitution they wrote says that Indonesia is a unitary country “divided into” (not “composed of”) large and small regions.¹ So decentralization is essentially the central government delegating some of its authority to provinces and districts, which have no inherent authority of their own. The Explanation² to the 1945 Constitution states that regions can be “autonomous or only administrative [divisions]” based on the laws and regulations.³

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

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

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

³ Explanation to para 18.

principle of family-ness and the Explanation to that para states that this is the “basis for democracy”.

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

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

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

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

“What is very important in government and national life is the spirit, the spirit of government actors, the spirit of government leaders. Even though the constitution explicitly states a family-ness¹ character, if the spirit of government actors and government leaders is individualistic, then obviously the constitution is useless in practice.

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

So the most important thing is spirit.”

GENERAL EXPLANATION, POINT IV

¹ Note, again, the emphasis on family-ness.

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

It should be noted that the information in this document is complete and accurate up to the date of printing. As new regulations are being issued continuously, it should not be considered final after that date.

A. Introduction

1. This document contains a description and analysis of relevant laws and regulations related to the Indonesian basic education sector, focusing on the decentralized provision of basic education including funding for basic education. The study concludes that the currently existing laws and regulations provide a workable framework to support increasing democratic interaction in education governance, rationalizing and increasing local funding for basic education and increasing transparency and accountability in the education sector. However success of the legal framework will be dependent upon proper implementation.
2. The following two issues are often cited as hampering decentralized basic education in Indonesia:
 - relevant laws and regulations are in some cases unclearly written/defined
 - relevant laws and regulations are mandated without provision for resources to properly implement the regulations.

Deeper analysis of the current regulatory framework related to basic education concludes that while the first issue above is still relevant, government has made substantial progress in improving earlier versions and so these issues seem to apply more to the earlier (1999) versions of the regional autonomy laws and the old (pre-2004) budget system and have been largely resolved in the current laws and regulations. The issue of unfunded mandates is being addressed by allowing implementation in stages and explicitly tying implementation to the availability of resources. In other words, Indonesia is making substantial progress in implementing and institutionalizing decentralization.

3. This document is meant to supplement a more substantial DBE1 report: *Study and Analysis of Issues Related to Education Governance and Finance* (DBE1, September 2007). The present document describes and analyzes the legal and regulatory framework in decentralized Indonesia as a contextual background for strengthening basic education management, finance and governance. Analysis is limited to relevance to the basic education sector in the context of decentralization and democratization. Appendix 1 contains a summary of relevant sections of laws related to decentralizing education and comments regarding implementation of the laws through subsequent regulations. The appendix is intended as a handy reference for education policy makers and managers.

Section B provides a short introduction to the Indonesian educational system, while Section C describes the framework and process in which laws and regulations are made and implemented. The description of the legislation process provides a background to better understand the analyses that follow. Section D describes three sets of laws and regulations that relate to decentralized education: laws related to decentralization or regional autonomy, finance and planning, and education. An understanding of how these various laws and regulations affect the education sector is critical for education decision makers and managers. Analysis in Section E identifies key issues related to increasing democratic interaction in education governance, rationalizing and increasing local funding for basic education, and increasing transparency and accountability in the education sector. Section E draws the conclusion that the legal and regulatory framework does support the basis for improving education through decentralization, and also identifies key issues that must be addressed to implement policies intended by the relevant laws.

4. In addition to Appendix 1 which serves as a reference guide to laws related to decentralized education, Appendix 2 presents a summary of sections of the law on national planning (Law 17/2007) that relate to the place of education in the national Long Term Development Plan (2005-2025.) Appendix 3 reviews the new School Operational Fund (BOS) program which provides substantial increases in school funding and hence is having a dramatic impact on increasing access to and improving the quality of basic education. Appendix 4 is a glossary of terms.

B. Introduction to the Indonesian Educational System

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

6. The Indonesian education system carries a heavy burden of social and political expectations. The Preamble to the Constitution¹ states that one of the four reasons for establishing Indonesia as an independent nation is to “make national life smarter”² which has always been interpreted as the basic mandate for a national commitment to education. The Guidelines for National Direction³ 1999 – 2004 blamed the educational system for the “intolerance of diversity” which was seen as lying behind the violence of 1998 and the on-going communal violence.⁴ The current Long Term Development Plan (2005 – 2025) contains eight national missions, including moving towards a society which is: of good character, moral, ethical, cultured and civilized; globally competitive; and democratic⁵ – all of which are to be achieved via education.

7. The National Education System Law (Law 20/2003), after quoting the Preamble to the Constitution, defines the goal of the national education system as: developing the full potential of students to become religious and pious,⁶ of good character, healthy, having academic knowledge, skilled, creative, self-sufficient, while becoming democratic and responsible citizens.⁷ The Ministry of National Education Strategic Plan 2005 – 2009 commits the educational system to the vision of transforming Indonesia from a traditional society into a modern nation.⁸

Structure of the system

8. The educational system which is responsible for achieving these ideals is a complex network of interlocking sub-systems. There are two central ministries which have responsibility for supervision of provision of education: the Ministry of National Education (MONE) and the Ministry of Religious

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

² *Mencerdaskan kehidupan bangsa*.

³ *Garis-garis Besar Haluan Negara*. During the period before the third set of Constitutional Amendments in 2001, this document, issued every five years, was the highest legal authority after the Constitution.

⁴ Chapter 2 General Conditions, p. 4.

⁵ Chapter 3, p. 39.

⁶ *Beriman dan bertakwa*, literally: believing and fulfilling all religious obligations.

⁷ Para 3.

⁸ Chapter 1, p. 9.

Affairs (MORA).¹ The National Education System Law (Law 20/2003)² required the integration of all schools³ into a single national system. MONE was named as the implementing ministry⁴ for the National Education System Law, but administrative authority and funding channels remained separate. Regulatory authority was – theoretically – united by moving it out of both ministries into autonomous bodies responsible directly to the president cf. para 11, p. 5 below. Although there is a good deal of cooperation between the two ministries, especially at the central level in the form of joint committees and teams, in practice the two systems are managed separately. Since responsibility for provision of education by MONE schools has been decentralized to the district level, the actual amount of cooperation depends upon the relationship between the district government education office (*dinas*) and the MORA provincial and district offices (*kantor wilayah/kanwil and kantor departemen/kandep*).⁵

9. The law recognizes both formal education, defined as education which is structured and divided into levels consisting of basic, secondary and tertiary education, and non-formal education.⁶ Although the non-formal program developed by the government as equivalency for formal basic and secondary education (called *Paket A* at the primary level; *Paket B* at the junior secondary level and *Paket C* at the senior secondary level) is considered to be a strategic policy for achievement of the universal compulsory 9-year basic education goal, the non-formal equivalency program is not part of DBE1 and is not dealt with further herein.

10. Responsibility for education in MORA is at the level of a directorate general. MORA has recently⁷ reorganized this directorate-general in order to provide better support and supervision of education. The directorate-general is

¹ This is an historical artifact reflecting different approaches to Islamic piety and law which entered the Indonesian political arena as different political parties and, thus, separate ministers and ministries.

² Full information on the title, law number and year of passage is given the first time a law is mentioned. Subsequently, only the title is used.

³ Literally: *satuan pendidikan*, “education units”.

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

⁴ The role of implementing ministry is explained in para 42, p. 17 below.

⁵ Cf. footnote 1, p. 11 below.

⁶ Which is defined as “education outside formal education, which can be implemented in a structured manner with levels.” Law 20/2003 concerning the National Education System, para 1, points 11, 12.

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

⁷ Government Regulation 63/2005.

now called “Directorate-General for Islamic Education” (formerly “Directorate-General for Islamic Institutions”) and contains four directorates:

- Directorate for Madrasah Education
- Directorate for Traditional Islamic Schools¹ (*madrasah diniyah* and *pondok pesantren*)
- Directorate for Islamic Tertiary Institutions
- Directorate for Islamic Education in General Schools.

The sub-directorates within the Directorate for Madrasah Education are organized on functional lines²: curriculum, student affairs, teachers, facilities, organization and institutions, supervision and evaluation which roughly parallel the functional divisions within MONE.

11. The National Education System Law established two non-departmental agencies, directly under the authority of the President, to implement provisions of the law which apply to both general schools and madrasah³: the National Education Standards Agency and the National School Accreditation Agency. Members of the Agencies are appointed by the President from civil society⁴ but the technical secretariats of the agencies are staffed by civil servants seconded from MONE. Technical guidelines to implement the decisions of the agencies are also issued by MONE.

12. The formal education system consists of three levels⁵:

- basic (9 years, ages 7 to 15)⁶

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

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

² Previously the organization was based on levels of education: primary, JSE, SSE, tertiary, traditional Islamic schools (*madrasah diniyah* and *pondok pesantren*)

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

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

⁴ I.e., they are not required to be civil servants.

⁵ Law 20/2003 concerning the National Education System, para 1, point 11. The education law defines kindergarten/pre-school education as non-formal.

⁶ Although the structure and organization of central MONE and the provincial and district education offices (*dinas*) still reflects the pre-national education system law division into primary (6 years), junior secondary (3 years) and senior secondary (3 years). Tertiary education was not included in decentralization as tertiary institutions have (varying levels of) autonomy direct from the central ministry (MONE and MORA) offices.

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

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

13. Both MONE and MORA schools have large numbers of students being served by private sector education providers who are more (MONE) or less (MORA) closely regulated by the sectoral ministry.

14.

15. Figure 1 shows the structure of the educational system and enrolment¹ in each part of the system.² As students move to higher levels of education, MORA schools become less important while MONE private schools become much more important. At the primary level, MONE schools account for 90% of total students, with 93% of these in government schools. MONE government primary schools account for more than 50% of the total system enrolment. Thus from both efficiency and value for money standpoints, “getting it right” in these schools must be a top policy priority.

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

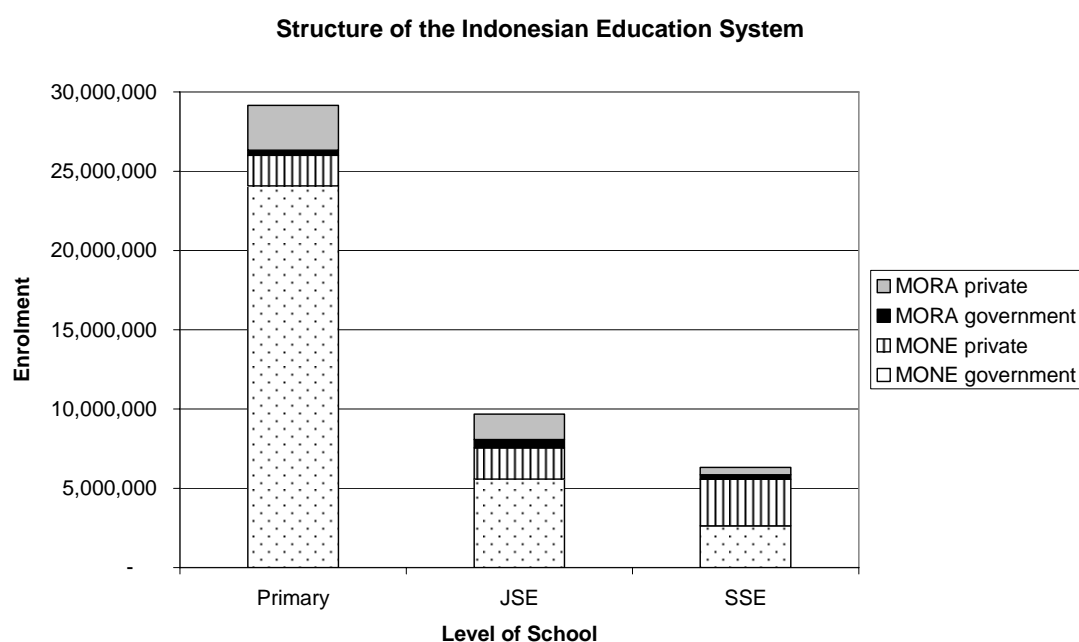
²

Figure 1 does not include students in *madrasah diniyah* and *pondok pesantren* who are not concurrently enrolled in either MONE or MORA schools. MORA estimated that there were approximately 1 million of these students in 2005, of which 58% were JSE age, cf. Grand Design, p. 57. MORA has separate programs to enable these students to achieve 9-year basic education, i.e. the non formal equivalency and Wajar Dikdas in Pesantrens noted above, para 9, p. 4 above. As of 2005, these programs were serving about 25% of the 600,000 students. (*Ibid.*, p. 58)

Many *madrasah diniyah* and *pondok pesantren* have madrasah schools located within the *madrasah diniyah* and *pondok pesantren* campus. Some also have MONE schools on the campus. These students are included in

Figure 1.

Figure 1 Structure of the Indonesian Education System



source: *Summary of Indonesian School Statistics; Statistics of Religious Education., 2004/2005*

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

17. MORA schools are overwhelmingly private at all levels: 87% at primary; 75% at JSE and 66% at SSE. Private schools also account for 67% of enrolment in MONE SSE schools.

18. Private schools – both MONE and MORA – are owned and operated by legal bodies called “foundations”¹ (*yayasan*) which may be responsible for single or multiple schools and may operate in limited geographical areas or nationally. Private schools teach the same curriculum as government schools and their students sit for the same exit examinations to graduate. Religious organizations may establish foundations to operate private schools: e.g. there are many private schools under MONE jurisdiction which are operated by Moslem foundations² as well as foundations established by Christian, Hindu and Buddhist religious organizations.

¹ The term *yayasan* in Indonesian covers the same range of institutions as the term “foundation” in English. Education is only one of many possible political, social and/or charitable activities in which *yayasan* engage.

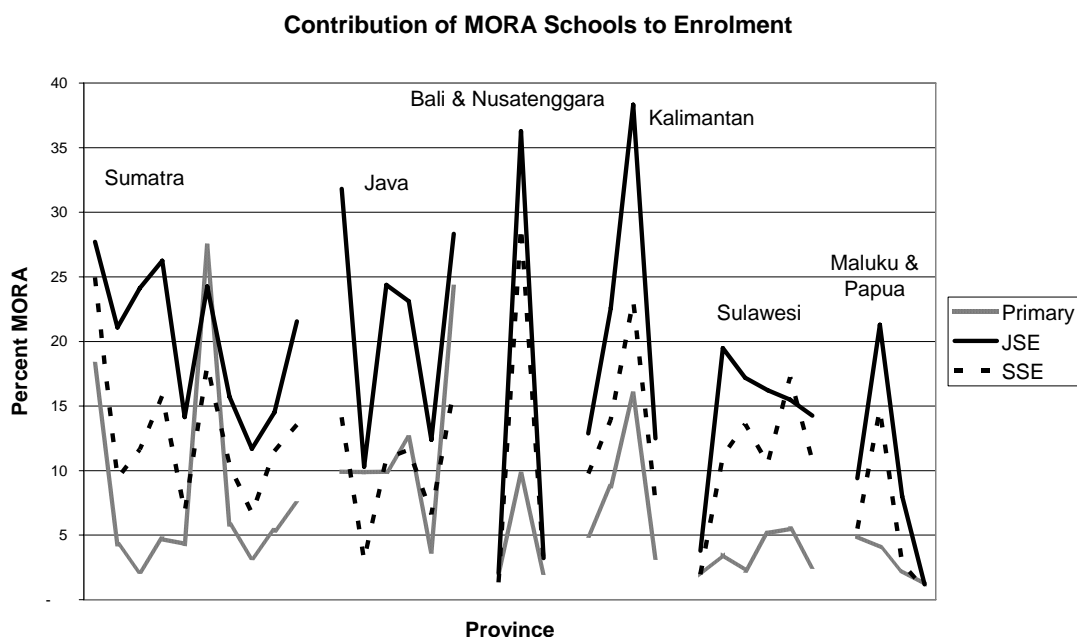
² This is why “Moslem” or “Islamic” schools is not an appropriate translation for the term *madrasah*.

Variability

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

20. Figure 2 shows the percentage contribution of MORA schools to total enrolment at the provincial level. The provinces are arranged in approximate west-to-east order. The lines show the contribution of MORA schools to enrolment at each level of education (gray line at primary level; heavy black line at JSE level; dotted line at SSE level). The dominant role of MORA at the JSE level shows clearly (the heavy black line tends to be much higher than the other lines).

Figure 2 Contribution of MORA Schools to Enrolment

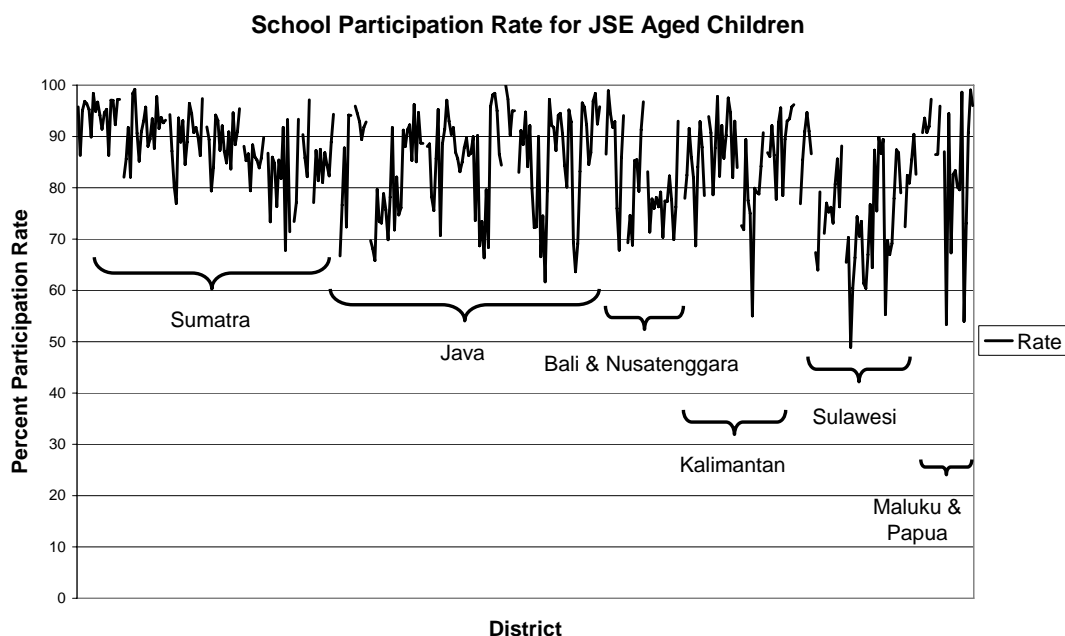


source: *Summary of Indonesian School Statistics; Statistics of Religious Education., 2004/2005*

21. But the most prominent feature of the figure is the differences among provinces. For example, in Jambi (5th from the left in Sumatra), MORA primary schools account for 27% of enrolment, larger than the 24% for JSE and in W.Sulawesi (5th from the left in Sulawesi), MORA SSE schools account for 17% of enrolment, larger than the 16% for JSE. Furthermore, neighboring provinces can have very different conditions: for example Jakarta and Yogyakarta have much lower contributions from the madrasah sector and are therefore very different from their neighbors Banten and W.Java (for Jakarta), C. and E.Java (for Yogyakarta); W.Nusatenggara has a much higher contribution from the madrasah sector and therefore is very different from Bali and E.Nusatenggara; and in the same way, S.Kalimantan is very different from the remaining provinces in Kalimantan; and N.Maluku is very different from Maluku and the two provinces Papua and W.Irian.

22. Differences can be even more striking at the district level. Figure 3 shows school participation rates¹ for children of JSE age (13 – 15 years) by district. As in the previous figure, the districts are arranged in approximate west-to-east order within provinces and provinces are arranged in west-to-east order. Not only is the absolute difference between individual districts very large, ranging from less than 50% participation to almost 100%, but the difference among the districts within the same province is almost as large: while the average range is 70% to 95% within a single province, S.Sulawesi has a range of 49% (Bantaeng District) to 90% (Enrekang District) and S.Kalimantan has a range of 55% (Hulu Sungai Selatan District) to 91% (Banjar Baru City).

Figure 3 School Participation Rate for JSE Aged Children



source: *Susenas Survey by Central Statistical Agency (BPS), 2005*

23. This same level of variation is also found in other social variables, such as adult literacy and health, and economic variables such as employment and incomes. Statistical analysis² shows that only about 17% of total national variability occurs between provinces while variation among districts within a single province accounts for the remaining 83% of variability. Analysis based on national or provincial level data is unlikely to produce a good indication of local conditions as a basis for planning or policy development.

24. The variability of local conditions also operates against the use of uniform national policy initiatives. In the past, this problem was overcome by an approach of uniform national policy with local implementation, however

¹ Percentage of children of a certain age cohort who are enrolled in any level of school. Maximum value is 100%.

² Analysis of variance/ANOVA.

the local implementation bogged down in uniform national implementing regulations and technical rules. Regional autonomy at the district level provides an opportunity for districts to set their own priorities. Central initiatives such as the Ministry of Home Affairs (MOHA) “guidance” on sectoral priorities for 2007 district budgets¹ undermine the potential of district government to accommodate district needs and characteristics. For example poverty alleviation is the top priority in the guidelines, which is relevant at the national level, but hardly the top priority for municipalities such as Den Pasar (Bali), Banjarmasin (S.Kalimantan) and Bukittingi (W.Sumatra) which have only 3% of the population with incomes below the poverty line compared to the national average of 16%.² Again, improved access and quality for education and health is the third priority in the MOHA instruction, although access to education is not a top priority for Toba Samosir district (N.Sumatra) which has 99% enrolment for primary and junior secondary aged children and 93% enrolment for senior secondary aged students (compared to national averages of 97%, 83% and 53% respectively).³

Allocation of responsibility

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

- **provision** of formal educational services is the responsibility of the school and the community (school-based management, mandated by the National Education System law)
- **management of the provision** of educational services in MONE schools is the responsibility of the district government, directly for MONE government schools and indirectly, through licensing and regulation⁴, for MONE private schools; this responsibility is exercised through the District Education Service (*Dinas Pendidikan Kabupaten* or *Dinas Pendidikan Kota*)⁵.
- **management of the provision** of educational services in MORA schools is the responsibility of the vertical hierarchy of MORA in the

¹ Permendagri 26/2006. The priorities are based on the National Medium Term Development Plan, 2004 – 2009.

² 2004, Susenas data.

³ 2004, Susenas data.

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

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

⁵ The *Dinas* may have different names in different districts. In some cases, it is still called by the former name of the ministry, i.e. Education and Culture (*Dinas Pendidikan dan Kebudayaan/Dikbud*).

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

regions (MORA Provincial offices/*Kanwil* and MORA District offices/*Kandep*), directly for MORA government schools and indirectly for MORA private schools¹.

- **establishing education policy and standards** is the responsibility of the central government; in addition to the national agencies noted above, para 11 p. 5 above, both MONE and MORA have offices to carry out this responsibility.²

26. Teachers in government schools (both MONE and MORA) are central government civil servants.³ MONE and MORA receive annual hiring quotas for new civil servant teachers, based on discussions among the national (central) Civil Service Commission, Ministry of Finance (MOF) and Parliament about budget availability. For MONE teachers, these quotas are then distributed to districts that actually carry out the recruitment in accordance with national requirements and guidelines. MORA recruits centrally, however submission of application forms and test administration is implemented at the district level. The new recruits are legally hired by the central ministries and carry civil service identification numbers from the central ministry (ID number prefix 13 for MONE and 15 for MORA). MONE teacher recruits are automatically assigned to the districts which recruited them and MORA teacher recruits tend to be assigned to the districts where their applications were submitted and processed. MONE civil servant teacher salaries are paid by the central government through the general block grant from the central budget to district budgets (*dana alokasi umum/DAU*).⁴ MORA civil servant teachers are paid directly through the central MORA budget with the funds flowing through the MORA vertical hierarchy.

27. The entire process, from assignment of quotas through passing the civil service entrance examination to actual recruitment is well-known as “fertile” for corruption, collusion and (especially) nepotism. This condition applies to the civil service in general, at both the central and regional levels, i.e. all sectors, not just MONE and MORA. Decentralization, together with a more active local mass media (print and radio/TV listener/viewer call in programs), has resulted in negative publicity for cases of malfeasance.

28. Districts have the authority to hire district government civil servants, including teachers. They carry district civil service identification numbers (ID

¹ It must be emphasized that the legal and bureaucratic status of the *Dinas* and *Kandep* are in no way analogous or similar. The *Dinas* is part of the autonomous district government and has no hierarchical relationship with central MONE; the *Kandep* is part of the central MORA and has no legal relationship with the *Dinas* although there may be cooperation between the two agencies. *Dinas* are funded through (decentralized) district budgets; *Kandep* are funded through the central MORA budget.

² PP 38/2007 gives provincial and district *dinas* responsibility for setting “operational” policy “in accordance with national” policy.

³ Some government schools hire non-civil servant teachers and pay their salaries out of the school’s budget. E.g. about 14% of teachers in MONE government primary schools and 47% of teachers in MORA government primary schools are not civil servants.

⁴ For details on calculation of DAU, ref. para 62, p. 24 ff.

number prefix 51) and their salaries are paid through the district budget but not covered by the general block grant.

29. Civil service teachers are also “provided” to private schools and their salaries paid out of the government budget via the general block grant (for MONE teachers) or personnel budget (for MORA teachers). However, in fact what normally happens is that private schools nominate existing teachers who fulfill the civil service requirements, to be recruited as civil servants through the regular recruitment process. The teachers’ salaries are paid into the school’s budget and the teachers’ actual take home pay is set by agreement between the teacher and the school. In most cases, the civil service teachers are paid the same salaries as equivalent non-civil service teachers in the school so the “provision” of civil service teachers is actually a budget subsidy to the private school. Almost 30% of teachers in MONE private primary schools are civil servants but only 10% of teachers in MORA private primary schools are civil servants.

30. Private schools have two other types of teachers: permanent and non-permanent. Permanent teachers are permanent employees of the foundation, with all the legal rights of permanent employees.¹ They are paid a base salary with supplements plus incentive pay based on actual number of teaching hours. About 40% of teachers in MONE private primary schools are permanent employees of the foundation. Non-permanent teachers are hired on annual or multi-year contracts.² They are usually paid a (low) base salary, with no supplements, and earn most of their income from the teaching-hour based incentive pay. Many of the non-permanent teachers carry a full teaching load. About 23% of teachers in MONE private primary schools are non-permanent. Civil servant teachers from MONE government schools frequently serve also as non-permanent teachers in MONE private schools.

31. This results in double-counting of individual teachers in the MONE database (and published statistics) because both the government and the private schools report the person as a teacher in the school: one with civil servant status, the other with non-permanent status. MONE has instituted a national teacher identification number program in an attempt to overcome this problem. However because the program is implemented (and funded) at the district level, success depends upon the resources available via the district budget and the priority given to the program compared to other demands on the district budget.

32. There is another group of teachers who are referred to as “contract teachers”. These are teachers hired by and funded through the district education budget but who are not district government civil servants. District

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

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

governments attempt, with varying degrees of success, to have these teachers included as successful recruits in the annual MONE civil service quota.

33. Table 1 summarizes the types of teachers and funding sources for each type.

Table 1 Types of Teachers and Funding Sources

	MONE	MORA
Government	Central civil service (ID 13) salaries from DAU via district budget District civil service (ID 51) salaries from district budget District contract teachers salaries from district budget Non-civil service salaries from school budget	Central civil service (ID 15) salaries from MORA budget Non-civil service salaries from school budget
Private	Central civil service (ID 13) salaries from DAU via district budget into school budget but teacher incomes from school budget Non-civil service: permanent salaries from school budget Non-civil service: non-permanent salaries from school budget	Central civil service (ID 15) salaries from MORA budget into school budget but teacher incomes from school budget Non-civil service: permanent salaries from school budget Non-civil service: non-permanent salaries from school budget

34. Non-permanent teachers who work on a contract basis, in both government and private schools as well as district contract teachers, should be differentiated from the “contract teacher program” teachers. The contract teacher program began as an activity in donor-assisted projects where substantial numbers of teachers were taken out of schools for lengthy in-service training or university degree programs.¹ The projects then funded replacement teachers who were hired through the central ministry project budget. All contracts were annual, but contracts tended to be extended over a period of years, either because the original teacher was enrolled in a multi-year university degree program or because the replacement was transferred from one short-term replacement position to another instead of hiring new contract teachers to replace subsequent trainee releases. When the donor

¹ In early projects (1970s), where the “contract teacher program” was initiated, the teacher trainees were all civil servant teachers who were assigned to their schools via a central MONE “letter of assignment” which was legally binding on both the teacher and the school. In subsequent projects which offered training to non-civil servant teachers from private schools, the trainees were all permanent teachers, who were legally bound to their schools by their “permanent” employee status.

funding finished at the end of the project, it was politically very difficult to dismiss these teachers,¹ some of whom had worked in the schools for several years. As a result, the central MONE budget continued to fund them.² Beginning in 2005 the central government made a commitment to give civil servant status to all existing contract teachers who had served as contract teachers for 10 years or more.

Academic context

35. All MONE and MORA, government and private, schools use the same basic curriculum (although madrasah schools add extra religious subjects). The National Education Standards Agency has recently (2006) issued regulations specifying the content of curriculum at the primary level, as one of the national education standards required by the National Education System Law. MONE has issued detailed technical guidelines for this curriculum. Responsibility for developing syllabi and lesson plans is now in the hands of teachers, under the supervision of their principals and supervisors, although MONE's "guidelines" include concrete examples of what and how to teach.³

36. The government⁴ issues graduation certificates to students from all four types of schools. Graduation is based on passing a national exit examination at the end of each level.⁵ Exit examinations for primary level are the responsibility of the district education office, which establishes a team consisting of principals, teachers and supervisors, university lecturers (in some districts) and may or may not include representatives from madrasah schools.⁶ Each district team designs, administers and grades its own test,⁷ using examination questions/problems from the MONE national examination

¹ In 2004 on National Education Day, 250,000 contract teachers formed the Communication Forum of Indonesian Contract Teachers to lobby for civil servant status.

² Through activities in the "development" budget (under the old budget format). Most of these teachers had been hired for projects funded through MONE rather than MORA. MORA-based project funding is relatively new, beginning with ADBs Basic Education Project, 1996 – 2002.

³ This "rigidity" is frequently criticized by academics and education professionals however it is an extremely important support vehicle for the many unqualified teachers who are unable to develop their own syllabi and lesson plans. It provides a minimum level of quality in these cases.

⁴ District government (MORA District Office for madrasah) for kindergarten, primary, JSE and SSE. At the tertiary level, the individual institution issues the graduation certificate however its right to issue certificates is contingent upon permission from the central technical ministry (MONE or MORA).

⁵ The examination consists of a number of subjects. The final pass/fail decision is made based on the total score (sum of all subjects) which allows a high score in one subject to compensate for a low score in other subject(s).

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

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

⁶ Representatives appointed by the MORA district office are responsible for producing the section of the test covering religion, for all religions, not just Islam.

database.¹ National exit examinations for JSE and SSE levels are developed and implemented by central MONE's Center for Evaluation and Assessment.

37. Students in *pondok pesantren* and *madrasah diniyah* which do not have MONE or MORA schools on campus but do offer the minimum basic education program, cf. footnote 1, p. 5 above, are permitted to sit for the primary and JSE level exit examinations and qualify for government graduation certificates.

38. It is important to note the distinction between graduation and admission to the next level of education. Graduation from a given level, as evidenced by possession of a graduation certificate, does not guarantee admission to a specific school at the next level. Individual schools, both MONE and MORA, government and private, have the right to set their own admission standards. Surveys have shown that a school's success in getting its graduates admitted to well-regarded schools at the next level is one of the most important indicators of education "quality" cited by parents. Another closely related indicator cited by parents, which is also one of the criteria for both accreditation and school performance evaluations, is student performance on the exit examinations. Much of the parental dissatisfaction with the exit examinations is actually disappointment because their children are not admitted to the particular school at the next level which the parents had hoped for.

39. Textbooks are produced by the private sector. Schools are permitted to choose from a list of textbooks which have been vetted by MONE. Teaching-learning equipment and media are produced by the private sector. Donor funded projects purchase these in the market and provide them to schools, which can also purchase in the market from their own school budgets. MONE, district education offices and MORA procure from the market under government procurement guidelines.²

² Some district education offices provide funds to schools for textbooks.

C. Introduction to Indonesian Laws and Regulations

40. Indonesian legal products are arranged in an hierarchy of authority as follows:¹

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

Legal products are identified by the type, followed by a number, then the year of issue, e.g. law 20/2003, Government Regulation 58/2006, etc. Ministerial Executive Orders also include the name of the issuing Minister, e.g. Ministry of Home Affairs Regulation 16/2006. The formal names of laws and Government Regulations⁵ also include the phrase “concerning ...”, e.g. law 20/2003 concerning the National Education System. More informally, legal products are referred to by the abbreviated type, number and year, e.g. PP58/2006, *Permendagri* 16/2006 (“*dagri*” is the abbreviation for Ministry of Home Affairs/MOHA).

41. Each of the lower order products must refer to a higher order product for its legitimacy, e.g. laws must refer to some paragraph in the Constitution;

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

² This assembly consists of all members of Parliament plus additional appointed members representing various “functional groups” (stakeholder groups). It has the power to amend the Constitution and impeach the President and Vice President.

³ An annotated glossary of terms and abbreviations is attached as Appendix 1. The glossary was too long to fit comfortably at the head of the paper. Hereinafter when a technical term is used for the first time, the full names in both English and Indonesian and abbreviations are given. Subsequent references use only the common name or abbreviation.

⁴ Presidential Instructions and Decisions are not explicitly mentioned in Law 10/2004 but continue to be issued and obeyed.

⁵ In the following discussion, legal products will be referred to by their Indonesian name abbreviations: e.g. PP for government regulations; Perpres for Presidential Regulation; Permen for Ministerial Regulation, etc..

government regulations must refer to laws; presidential orders must refer to laws or government regulations; etc.

42. Each law specifies a ministry to be responsible for implementation.
43. Regions¹ also have their own legal products:
 - Regional Regulations passed by the Regional Legislature (*Peraturan Daerah/Perda*)
 - Executive Orders (executive regulations or executive decisions) issued by the Head of Region² (*Peraturan Walikota/Peraturan Bupati* OR *Surat Keputusan Walikota/Surat Keputusan Bupati*)

Regional regulations are different from central laws in that they must refer to a central law, i.e. they must be implementing regulations at the regional level for a central law. Furthermore regional regulations must be submitted to MOHA for a “no objection” review. The list of regulations submitted and MOHA’s decision on each are available on the MOHA website.

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

45. Indonesia has two parallel “legal” systems:³ the general courts and the government (executive branch). Criminal and civil law operate through the general court system, including public prosecutors who, together with judges, are civil servants in the Ministry of Justice. The government system comprises administrative law, that is, government regulations and executive orders which are neither criminal nor civil. The administrative law system has its own courts where cases involving implementation of regulations and orders are brought against government executive agencies by citizens (represented by lawyers). Administrative law is binding on civil society organizations which fall within the scope of jurisdiction of the law, e.g. private schools, but sanctions are administrative rather than criminal, e.g. demotion in rank or delay of scheduled salary increases for personnel; reduction in central budget

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

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

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

² The Head of a Province is a Governor; the Head of a Chartered Municipality is a Mayor (*Walikota*) and the Head of a Regency is a Regent (*Bupati*). Similar to executive orders issued by the head of a central agency (minister), regional executive orders are also not specifically mentioned in Law 10/2004 but continued to be issued and obeyed.

³ Actually, three if the Moslem religious courts are included. But these courts deal only with domestic matters (marriage, divorce, inheritance, etc.) and so do not have any direct effect on the education system except when private madrasah schools are build on land which has legal title in Moslem religious courts but not in the secular land registration system, and therefore in secular court jurisdiction.

transfers to the district budget; loss of license or closure of a school; etc. All the laws and regulations presented in this study are administrative.¹

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

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

STOCKTAKING, 2006, P. 8

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

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

GENERAL EXPLANATION, POINT IV

The philosophy behind this approach to law making is explained:

“A country’s constitution is only part of the country’s basic law. The constitution is the written law while, in addition to the constitution, there is also unwritten² basic law, that is basic rules which emerge during the implementation of practice and are deliberately maintained although not written down.”

GENERAL EXPLANATION, POINT IV

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

¹ The “Grand Design” (or “Strategy”) for decentralization (2005) presented by MOHA, the “National Action Plan for Fiscal Decentralization” (2005) and the “Handbook for Implementing Regional Government” (2006, 2007) issued by Bappenas do not have any legal standing.

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

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

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

GENERAL EXPLANATION, POINT IV

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

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

49. The critical factor in such cases is the specific law to which subsequent implementing regulations refer. As noted above, responsibility for implementation of each law is assigned to a specific minister: the finance laws are under the Ministry of Finance (MOF); the planning law is under the Chair of the National Development Planning Agency (Bappenas); both regional laws are under the Ministry of Home Affairs (MOHA)³ even though one deals with finance. The specific law to which implementing regulations refer determines which ministry is responsible for coordination, supervision, enforcement, monitoring, reporting, etc. of that aspect of the general principles contained in

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

² Amending existing laws is not a part of Indonesian political culture.

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

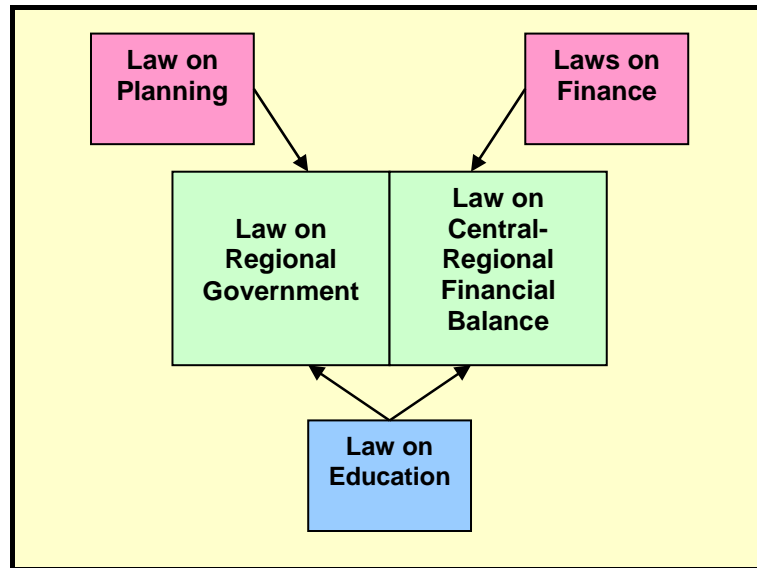
all the laws. For example, the laws on finance, planning and regional government all require annual “work plans” as the basis of the annual budget. Supervision of implementation is governed by two different regulations: PP 20/2004 refers to the finance law, and thus reporting to and supervision by MOF; while PP 39/2006 refers to the planning law, and thus reporting and supervision to Bappenas – with copies to MOF and MOHA.

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

D. Laws and Regulations

51. Figure 4 shows the core relationships of the national laws relevant to education governance and finance.¹

Figure 4 Core Relationships of the National Laws Governing Education



52. There are five laws (or packages of laws) which impinge directly on education.² The Regional Government³ law 32/2004 assigned responsibility for “management of provision of education” to district governments.⁴ The Central-Regional Financial Balance law 33/2004 provided financing arrangements to enable district governments to fulfill their obligations under the Regional Government law.⁵

¹ It should be noted that law 20/2003 concerning the National Education System (the “Education law”) explicitly requires a PP dealing with education finance. This PP has not yet been issued. The discussion below focuses on general issues of finance for decentralized activities, including education, as well as general principles governing education finance as given in the Education law.

² The discussion henceforth is limited to basic education (primary and junior secondary). It focuses primarily on schools under the jurisdiction of the Ministry of National Education (MONE) touching only tangentially on schools under the jurisdiction of the Ministry of Religious Affairs (MORA), the madrasah schools.

³ The 1999 version was entitled law on Regional Autonomy. The 2004 revision is often mistakenly referred to as the “regional autonomy” or “decentralization” law. Both these terms are inappropriate because they do not reflect the content of the 2004 law which deals only with governmental issues which is narrower than autonomy.

⁴ Schools (literally “education provider units” in the Education law) are responsible for providing education.

⁵ Appendix 1 contains detailed excerpts and notes on the laws and implementing regulations.

53. The Regional Government law 32/2004 and The Central-Regional Financial Balance law 33/2004. The regional government law divided governmental “functions”¹ into 3 types:

- retained functions, six sectors for which responsibility was retained in the central government – religion was one of these and this is the reason why madrasah schools are not decentralized;
- “obligatory functions”, 15² sectors for which responsibility was transferred unequivocally to districts – education was one of these;³
- voluntary functions, which districts may choose to accept or leave with the center, based on the district’s own interests and capabilities.

54. Obligatory function sectors are governed by minimum service standards (MSS) set by the central sectoral ministry with responsibility for that sector: in the case of education, this is the Ministry of National Education/MONE (*Menteri Pendidikan Nasional/Diknas*). The existing education MSS⁴ are a mixture of district-level standards (enrolment rates) and school-level standards (drop-out rates, condition of facilities and infrastructure, teachers, textbooks, class size, student test scores).

55. PP 38/2007 provided a more detailed division of labor and responsibility and, not coincidentally, reinforced the principle that all “functions” belong to the central government but some are “shared” with (*dibagi bersama*) other levels.⁵ There are now 26 obligatory functions and 8 voluntary functions.⁶ A series of appendices provides a detailed list of activities which are the responsibility of central, provincial and district government. For education, these include:

- policy, including standards (central government to set policy and standards, provincial and district government to set “operational” policies and standards)
- finance (central government to provide “guidelines” for standard costs⁷ of different levels of education)

¹ This is an English language term introduced by the donor community during preliminary discussions of the 1999 laws. The actual Indonesian term used in the laws and regulations translates literally as “business areas” (*urusan*) not in the sense of “economic production activities” but in the sense of “area/sector of concern”, as in the phrase “none of your business”. The most appropriate English term for the context is actually “sector” but since “function” is now in general use, the term will be retained hereunder.

² Originally, now 25, cf. *Permendagri* 13/2006.

³ The same list was made obligatory for provinces with the stipulation that the provincial government was responsible for these sectors “on the provincial scale” (*dalam skala provinsi*). This is frequently cited as an example of “overlap” and “lack of clarity” in assignment of responsibilities. PP38/2007 has clarified the differences in responsibility between provinces and districts.

⁴ Keputusan Menteri Pendidikan Nasional 129a/U/2004. PP 65/2005, which refers to the law on regional government, contains instructions for developing and issuing MSS. Existing MSS are given two years in which to conform to the new requirements. MOHA Ministerial Regulation 6/2007 provides technical instructions on developing MSS.

⁵ PP 38/2007, para 2.

⁶ *Ibid.*, Para 7.

⁷ Note that this is in conformity with Law 17/2003 concerning National Finance, discussed below.

- curriculum (central government to provide “basic framework”)
- facilities and infrastructure, including teaching-learning materials (all levels of government to provide “supervision” or “monitoring and evaluation”), i.e. actual facilities and infrastructure to be provided by the school
- personnel (district government to hire and assign)
- quality assurance, divided into 4 sub-activities
 - national exit examination
 - evaluation (of managers and providers as well as achievements of national education standards)
 - accreditation
 - quality assurance.

For each of the sub activities, the central government sets the guidelines, which the provincial and district governments implement the activities.

56. The most important change introduced by this regulation is contained in the allocation of responsibility for planning (part of the “policy and standards” item). The central government develops a national “strategic” plan for education.¹ The provincial government develops a provincial “strategic” plan for education in the province and the district government develops an “operational program” for education in the district. This terminology in the regulation is inconsistent with the planning law, which requires both provincial and district education offices (*dinas*) to produce “strategic” plans for education in the province and district, respectively. The terminology of the PP38/2007 appendix specifically places the district operational plan at a lower level than the provincial strategic plan, requiring that the district plan be “in conformity with” (*sesuai*) the central and provincial strategic plans. However the new terminology is very much in conformity with the current thinking in both Bappenas and MOHA, cf. para 78, p. 29 below.²

57. Because this is a relatively new regulation (promulgated July 2007) and because strategic plans are developed by newly-elected governors and heads of districts, i.e. every 5 years on a staggered schedule depending upon when the election is held;³ thus it remains to be seen to what degree districts are ready to submit to this restriction and to what degree provinces are willing and able to enforce it. If the past is any guide, districts will quote liberally from the national and provincial plans and then produce plans based on their local needs and priorities.

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

² The law for which PP 38/2007 is an implementing regulation is cited as the regional government law (Law 32/2003), which suggests that MOHA was the initiating agency in producing the regulation.

³ At present, elections are held when the current term of office ends which is based on past history for each district and province.

58. PP 3/2007 specified the procedures (and provided formats) for reporting on achievement of decentralized responsibilities¹ by heads of regions to the regional legislature and to MOHA. Districts submit their reports to provinces, which then sends them on to MOHA. Provinces submit their reports to MOHA, which then sends them on to the President. The PP requires that these reports be presented to the public (via the mass media) simultaneously with presentation to legislature.

59. Funding for obligatory functions and voluntary functions accepted by the district must be provided by the district's own budget.² The regional government law specifies the components of district budget revenues:

- revenues from the district's own economic base³
- balancing funds from the central budget
- other.

60. Balancing funds consist of three types of transfers from the central budget to regional budgets:

- district's share of revenues generated from the district and shared with central government and other districts (primarily income and land taxes and natural resources royalties)
- general block grant (*dana alokasi umum/DAU*)
- sector- and activity-specific block grants (*dana alokasi khusus/DAK*).

61. The central-regional financial balance law explains that the purpose of "balancing" funds is "to reduce the fiscal gap between Central Government and Regional Governments and among the Regional Governments". The term fiscal gap is a technical term defined in the law as the difference between fiscal needs and fiscal capacity. The central transfers are intended to reduce disparities in the districts' ability to provide services not as an financial "equalizing" mechanism.

62. The DAU, which is part of the balancing funds, is divided into two parts:

- basic allocation, which is intended to cover personnel costs for the district's⁴ civil servants⁵ (including all teachers in MONE⁶ government

¹ Obligatory functions + voluntary functions which the district has accepted.

² Some analyses by donor agencies have concluded that this provision forbids the central government from providing any funding for the decentralized sectors.

³ Excesses occurred during the early days of decentralization. These revenue sources are now tightly regulated by implementing regulations and the requirement of "no objection" from MOHA. As this revenue source is not directly related to education finance, it is not dealt with further here.

⁴ The explanation herein is related to districts. An identical process is used to calculate provincial budgets.

⁵ Many of whom were "inherited" when the district offices of central sectoral ministries were closed and their assets transferred to district authority during the original decentralization of 1999-2001.

⁶ Teachers in MORA government schools and civil service teachers in MORA private schools are counted as MORA civil servants and funded through the (central) MORA budget.

schools and some teachers in MONE private schools who have civil service status)

- fiscal gap.

The fiscal gap, as explained above, is the difference between fiscal needs (to provide basic services) and fiscal capacity.

63. Fiscal needs are calculated by MOF using a formula which includes indicators to proxy the quantity of basic needs and the cost of providing the services.

64. District fiscal capacity is the sum of:

- district's own revenue base capacity (not actual own revenues)
- shared revenues.

65. The fiscal gaps for the individual districts (needs – capacity) are summed to obtain the national total fiscal gap and each district's fiscal gap "weight" is calculated as a percentage of the total fiscal gap. This weight is then applied to the central budget allocation for DAU (net of the total basic allocation for civil service salaries), producing the amount of funding which the district will receive for the fiscal gap component of DAU. See Figures 5 and 6.

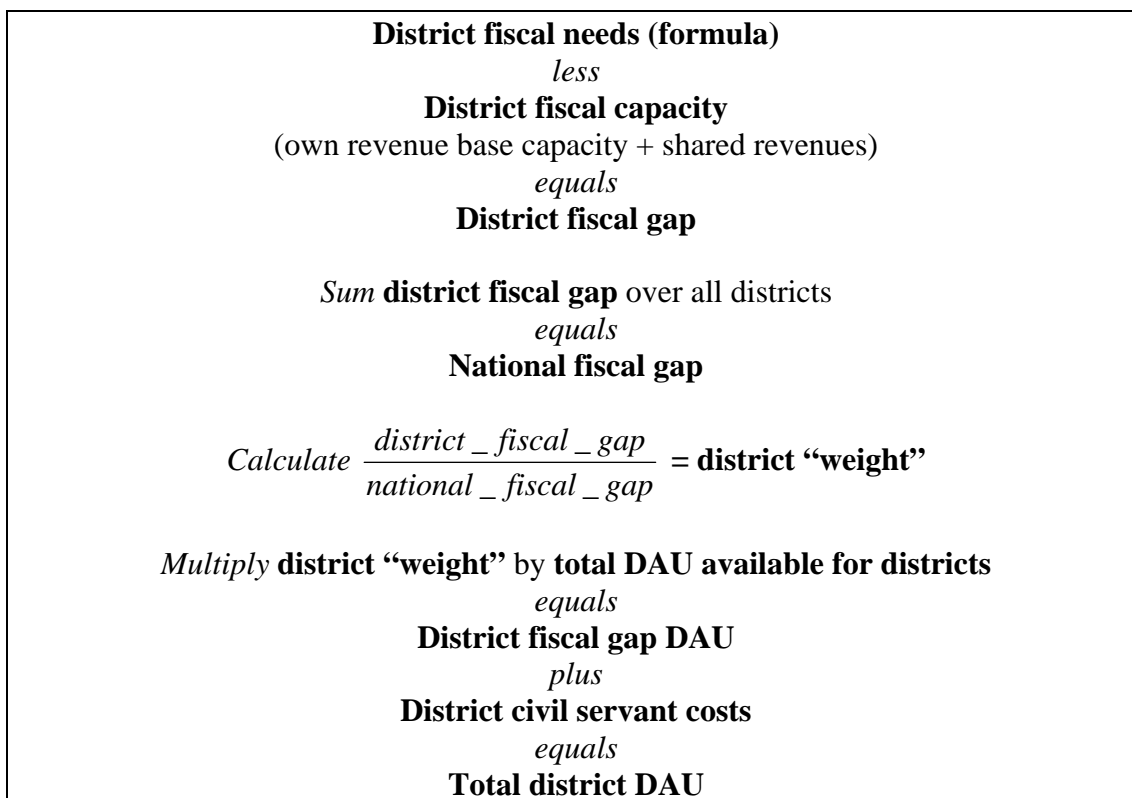
Figure 5 DAU Allocation at the Center

<p style="text-align: center;">Total DAU in central budget (calculated by MOF based on total central budget revenue) <i>less</i> Regional civil servant costs: approximately 50% of total DAU¹ (estimated by MOF) <i>equals</i> DAU available for fiscal gap <i>divided into</i> DAU available for provinces (10%²) DAU available for districts (90%)</p>
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¹ WB PER, 2007, p. 120

² PP 55/2005.

Figure 6 DAU Calculation for the District



66. Districts with a positive fiscal gap, i.e. needs larger than capabilities, receive DAU equal to their basic allocation (for civil service salaries) plus their percentage of the total national fiscal gap. Note that this amount does not necessarily cover all the district’s costs of providing services in the decentralized sectors. The size of the actual subsidy received depends upon the total DAU available (total national revenue collection) and the fiscal gaps in other districts.

67. Districts with fiscal gap = 0 receive only the basic allocation of DAU (to pay civil service salaries) because they are assumed to be able to fund all their decentralized responsibilities.

68. Districts with negative fiscal gap (capability larger than needs) smaller than the basic allocation of DAU receive the basic allocation less the fiscal gap, i.e. they are assumed to be able to fund a portion of the civil service salaries, as well as total responsibility for services provision, from their fiscal capacity. Regions with negative fiscal gap (capability larger than needs) larger than the basic allocation of DAU will receive no DAU.

69. In past practice, there has been a “hold harmless” rule, i.e. that current year’s DAU for a district cannot be less than previous year’s DAU¹ and a

¹ Note that these calculations are all in current money, i.e. not corrected for inflation. So even with a “hold harmless” provision, the district is actually receiving less value than in the previous year, equal

special allocation called “adjusting funds” (*dana penyesuaian*) was included in the DAU. The hold harmless rule will expire in 2008.

70. The expenditure side of the district budget funds the programs and activities for the decentralized sectors. PP 58/2005 provides guidelines, procedures and formats for drawing up the regional work plan and budget, including the sectoral office (*dinas*) work plans and budgets. Permendagri 13/2006 and 26/2006 give details of the process with examples of budget formats attached. Permendagri 26/2006 also gives nine priorities for 2007 regional budgets and includes “suggested” programs and activities¹ for districts to address each of the priorities. Poverty alleviation is the top priority (providing increased access to education for poor people is one of the suggested programs); improved access and quality for education and health is the third priority.

71. District budget regulations must receive a “no objection” from the governor and provincial budget regulations must receive a “no objection” from MOHA. Details of procedures to submit the regulations are given in PP 79/2005² and technical instructions to Governors on how to evaluate the draft budget laws are contained in the MOHA Ministerial Regulation (Permen) 16/2007. Implementation of the regional budgets is subject to supervision from MOHA, via the governor in the case of districts, but also subject to control from the provincial offices of MOF’s Directorate-General of Treasury. Regional budgets are audited by regional inspectorates (Bawasda) as internal auditors and the State Audit Agency (BPK) as external auditors.

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

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

- a long-term (20 year) development plan;

to the annual inflation rate for the district, while the district must pay for services at the inflated cost rates.

¹ This appears to be a partial retreat to the New Order system, where central “block grants” to districts were accompanied by very detailed specifications about what the districts could (and could not) do with the money. Incidentally, this PP also specifically gives MOHA the authority to provide “guidance and supervision” to regional legislatures.

² Incidentally, this PP also specifically gives MOHA the authority to provide “guidance and supervision” to regional legislatures in addition to the regional executive branch.

- a medium-term¹ (5 year) development plan, to be drawn up by each incoming President-Vice President team to set the direction of development for their administration;
- annual development plans, called Government Work Plans (*RKP*).

Ministries² at the central level must have:

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

Regions must have:

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

A summary of the current national plans relevant to education (national long-term, national medium-term, MONE Strategic Plan and national annual work plan 2007) can be found in Appendix 2.

74. The instructions in the Planning law explicitly require that the process of producing long term and medium term development plans must include “development planning consultations” (*musyawarah perencanaan pembangunan/musrenbang*). The National Development Planning Agency (*Badan Perencanaan Pembangunan Nasional/Bappenas*) consults with representatives of the central ministries and regional governments. Bappenas also holds seminars and workshops, where civil society representatives – generally academics and nationally or locally recognized “experts” – are invited to comment on the draft.

75. Beginning in 2006, Bappenas has published annual “handbooks” for regional government. These handbooks are intended to disseminate information concerning the laws and regulations governing regional

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

² Planning for madrasah schools is contained in the MORA Strategic Plan and MORA Annual Work Plan.

³ *Dinas*.

⁴ This terminology has been modified by PP 38/2007, cf. para 55, ff. p. 22 above.

government.¹ One of the instructions contained in the handbook is the requirement and procedures for development planning consultations at the regional level.

76. Overall the planning process is technocratic: civil servants in the sectoral offices work together with the civil servants in the planning agency to develop plans. In some cases, the planning agency hires consultants to draft the plan. Bappenas publishes annual “handbooks” (*buku pegangan*) for regional government containing huge amounts of technical information and detailed instructions for how to implement the planning process, including public consultation. Donor agencies also produce procedures and manuals for planning. The plethora of approaches is not necessarily a negative point as the real problem lies with the ability of local agencies to generate constructive public interest in what has traditionally been considered a technocratic function. Inviting (selected) people to meetings does not contribute much to the planning process if the CSOs are uninformed or hostile.

77. PP39/2006 requires both central ministries and heads of regions, via the regional development planning agency² (*Badan Perencanaan Pembangunan Daerah/Bappeda*) to report to Bappenas quarterly on achievement of plans with copies to MOF and State Minister for Government Apparatus (central ministries) or MOHA (regions). The regional reports are compiled by Bappeda from reports submitted by the sectoral offices (*dinas*). District sectoral reports are copied to the provincial sectoral office and to the central sectoral ministry.³

78. The instructions in the law also state that the medium term development plans, at both the central and regional levels, must reflect the campaign platform of the winning candidate teams. In contrast, the text of the 2005 – 2025 long term plan⁴ (LTDP) stated explicitly that: “Direct election [of the President and Vice President] provides an opportunity for the candidates to present their vision, mission and program in the campaign. [However] this opportunity has the potential to create disconnects between development during one term and the next” (LTDP 2007, Chapter 1, Section 1.1, para 4, p.

¹ The 2007 handbook also contains a “theme”: investment and the role of regional government in promoting investment.

² Note that this agency is a part of regional government and does not stand in an hierarchical relationship to Bappenas.

³ There is another annual performance report required of central and regional government officials, the Accountability Report for Performance of Government Agencies (*Laporan Akuntabilitas Kinerja Instansi Pemerintah/LAKIP*). LAKIP was originally intended as a personal accountability report in the name of the official however it has developed into an agency performance report. LAKIP is governed by the Presidential Instruction 7/1999 concerning performance accountability of government agents, (*penyelenggara negara*) under the anti-corruption policies of 1999. LAKIP is required of all government officials (Echelon 2 and above) in all government units, both in central ministries and in the regions. The basis for accountability and reporting is the central or regional strategic plan. The evaluation mechanism is a simple comparison of plan vs. achievement weighted by the importance of each item in the overall plan. Five indicators for evaluation are given (inputs, outputs, results, benefits and impacts). Guidelines were issued by the Institute for Government Administration (LAN). Reports go to Minister for State Apparatus with copies to State Audit Agency (BPKN).

⁴ Law 17/2007.

2) which suggests that the political flexibility and democratic responsiveness of tying the medium term development plan to elections is not viewed as an advantage by Bappenas planners. Furthermore MOHAs Circular on Long Term and Medium Term Development Plans¹ explicitly states that provincial level plans must be based on the national plan and district level plans must be based on the provincial plan.

79. **The package of laws on finance**, law 17/2003 concerning National Finance, law 1/2004 concerning the National Treasury and law 15/2004 concerning Inspection of Management and Responsibility for National Finance reorganized the entire budgeting process – and MOF as well. The format of government budgets was brought into line with international (United Nations) best practice² as well as the requirements of the Central-Regional Financial Balance law. The central government budget consists of two parts: funding for central government operations (which also include funds spent by central offices for support of activities in the regions) and transfers direct to regional budgets. These transfers are governed by the Central-Regional Financial Balance law and the funds become the sole responsibility of the region. Regions do not need to account for the funds to the center,³ however their budgets are subject to audit by the internal and external government auditors. Financial flows between the center and the regions, with special reference to education, are shown in Figure 7.

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

81. The law provides very specific formulas for how the shared revenues (*dana bagi hasil/DBH*), consisting primarily of taxes and royalties from various natural resources, are to be divided. The actual revenue received by regions for natural resources depends upon production, the market price (in US\$ or other currency converted into US\$) and the Rupiah/US\$ exchange rate. Shared revenues are paid quarterly. District budget teams estimate the value of shared revenues during budget preparation.

82. The DAU is paid in 12 equal monthly installments. MOF calculates DAU allocations for each district, based on estimates of revenues and fiscal gaps. These allocations are issued in the form of a Presidential Regulation toward the end of the previous year, so they are available for budget planning. The World Bank’s 2007 Public Expenditure Review noted that conservative

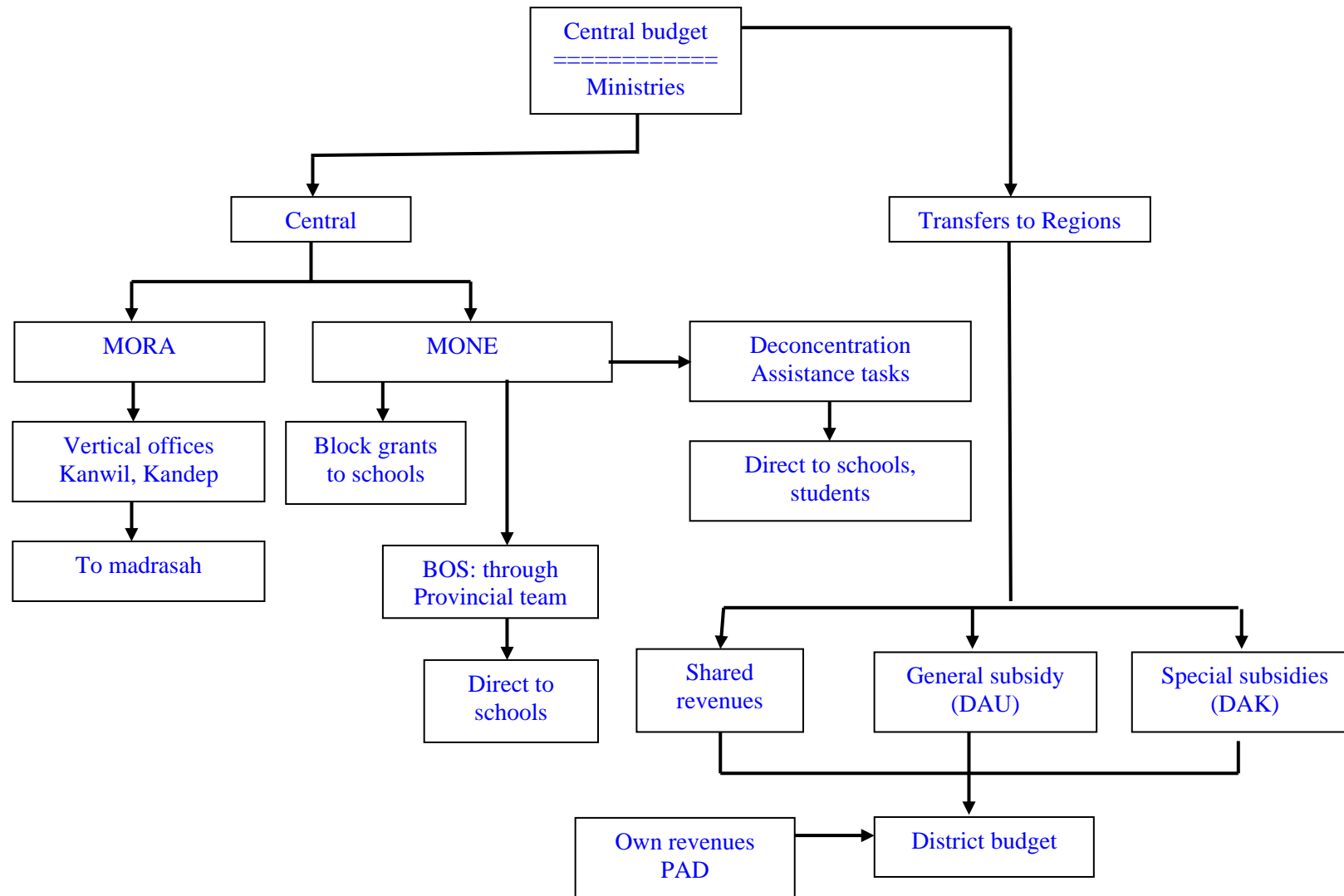
¹ Circular Letter (*Surat Edaran*) 050 / 2020 / SJ, 11 August 2005.

² The previous distinction between the routine budget (drawn up by the Ministry of Finance) and the development budget (drawn up by Bappenas) was replaced by a unified budget (drawn up by the Ministry of Finance). It is inappropriate to compare “development spending” items from pre-2005 budgets with “capital spending” items from the current budget due to differences in definitions. Development spending was funded through projects and included both current and capital items, including large allocations for personnel costs and operation and maintenance.

³ Aside from the fairly onerous reporting requirements to MOHA and Bappenas noted above.

budget assumptions by MOF, which are then transmitted to the district level via DAU allocations, have resulted in considerable under-spending of actual budget relative to potential budget: at the national level 2% of GDP; at the regional level 3.1% of GDP. (WB PER, 2007, p. 8)

Figure 7 Financial Flows between Center and Regions



83. The specific DAK are not defined in the law¹ but regions must fulfill “criteria” specified by the sectoral ministry in order to qualify for DAK. MOF allocates the DAK and matching funds from the region (minimum of 10%) are required. However this requirement may be waived if the regions meet “incapability” requirements. MOF allocates DAK, via a Ministry of Finance Regulation, after consultation with Parliament’s Budget Committee and the related sectoral ministries, including MONE. The present rules limit the use of education DAK to rehabilitation of primary schools and primary-level madrasah, including both buildings and furniture. The Minister of National Education has issued a Ministerial Regulation (Permendiknas 4/2007) containing technical instructions for the use of DAK in the 2007 budget.

84. Deconcentration funding is funding flowing through central ministry budgets, to be spent for decentralized sector programs and activities in the regions.² Responsibility for implementation of deconcentrated programs is vested in the governor, as the representative of the central government in the province.³ The governor reports back to the central sectoral ministry which was the source of the funds and the central sectoral ministry must report back to MOF. Day-to-day implementation of deconcentrated programs and activities is exercised by the provincial sectoral office (*dinas*) responsible for that sector, i.e. education deconcentrated activities are implemented by the Provincial Education Office. The central ministry decides both the amount of deconcentration funding and the scope of deconcentrated programs and activities. The provincial office allocates the funds to specific beneficiaries, e.g. schools.⁴

85. The World Bank Public Expenditure Review estimates that about half of central ministry development⁵ spending flows through the regions as deconcentrated funding. (WB PER, 2007, p. 6) About half of this is accounted for by Operational Assistance for Schools (*Bantuan Operasional Sekolah/BOS*).

86. In addition to deconcentration, MONE and the other central sectoral ministries have funds for their own programs and operations. Some of these funds are spent for activities in the central ministry; others are spent for programs and activities outside the ministry; e.g. block grants to schools, teacher training in districts, distribution of textbooks and other learning

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

² MORA does not have deconcentration funding because madrasah are not decentralized.

³ The governor has two separate roles. S/he is the chief executive of the province and s/he is also the representative of the central government for the area covered by his/her province. As governor, s/he has no authority over the districts in the province. As representative of the central government, s/he carries the authority of the central government over all districts located within the province.

⁴ BOS funding also flows through the provincial office, but is not deconcentrated; cf. para 83 below.

⁵ The WB PER acknowledges that, post 2005, there is no more development spending category in the budget; however “for consistency”, calculations are made and results presented. Although the exact methodology for classification is not presented, it is stated that “development” spending is a proxy for public sector capital spending.

materials to schools, etc. Donor loan-funded activities are budgeted in this manner. Operational Assistance for Schools (*Bantuan Operasional Sekolah/BOS*) funding is also a budget line in the MONE central budget. For additional information on BOS, please refer to Appendix 3. The multiplicity of funding sources for activities in schools makes it difficult for districts to track the actual resources available for education in its jurisdiction. Most schools are unaware of the ultimate source of funding they receive, only that it comes from “government” or, sometimes, from “a [donor] project”.

87. The central budget process described in Figure 8 based on the National Finance law and PPs 20 and 21 of 2004, applies to the budget for funding central government operations including both MONE and MORA. It begins with ministries developing their annual work plans.¹ These ministerial work plans are then combined to produce the government work plan, which is discussed in Cabinet.

88. Meanwhile the Ministry of Finance (MOF) is developing fiscal projections for the coming year, containing forecasts of macro economic and fiscal variables.² The forecasts and overall government work plan are taken to the Budget Committee in Parliament for discussion. This information is available to the public through various sources including the mass media and the MOF website.

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

90. The ministries then prepare their draft annual work plan and budget (RKA-KL) in consultation with Bappenas and the Sectoral Commission in Parliament which is responsible for their sector.³ The forms for the RKA-KL have a column for “performance indicators” but the indicators are frequently neither useful nor meaningfully quantifiable, e.g. the program is curriculum

¹ In theory, these are the plans required by the Planning law and provide the link between plans and budgets. PP 39/2006 is the latest in a long line of efforts to make that link a reality. Cf. WB PER p. 101 ff.

² These forecasts are extremely important because they form the basis of predicted revenues (oil and other commodity prices, tax revenues, foreign exchange earnings) and predicted non-discretionary spending (debt repayment).

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

³ The Sectoral Commission is different from the Budget Committee. Sectoral Commissions have general responsibility for supervision of all aspects of the sectors: policy, planning, budgets, implementation, problems which arise within the society, etc.

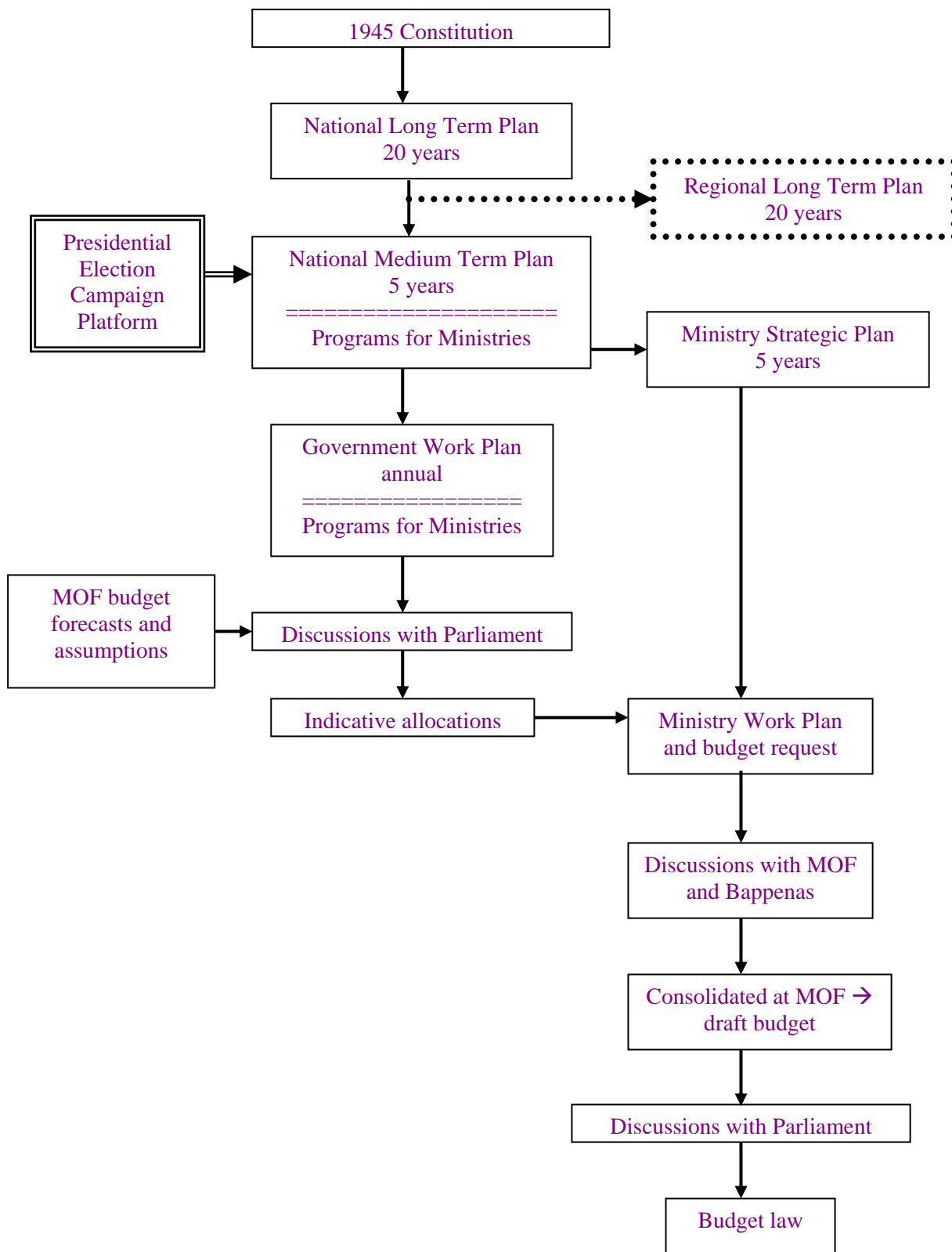
development; the activity is “develop curriculum”; and the performance indicator is “curriculum developed”.¹

91. The law mandates a “medium-term expenditure framework”² but the explanations of what is actually meant are mostly theoretical. The budget format contains a column for “estimated budget requirement for the next fiscal year” for each program and activity, but these are frequently left blank.

¹ Government Work Plan 2007, Matrix of Programs for Education (Matrix 26), row 2.4.

² As a substitute for the five-year plan process.

Figure 8 Central Budget Process



MOF consolidates the RKA-KL into the draft budget, which is submitted to Parliament to be passed as a law. Parliament may revise the budget allocations, which are presented in great detail with costs for each individual activity broken down into eight cost categories.¹ However Parliament is forbidden by law from increasing the total budget deficit, i.e. any funding increases to one activity must be balanced by decreased funding for other(s). Both the draft law, which is presented to Parliament on the eve of Independence Day accompanied by a Presidential speech, and the final Budget law are available to the public. However the public versions do not contain details of budget allocations for specific activities.

92. After the first semester of the year, MOF recalculates actual revenues² to that point and presents a draft revised budget to Parliament. Both the draft revision and the final Budget Revision law are available to the public. After the close of the fiscal year, budget implementation is audited by the external auditor (BKP) and the auditor reports to Parliament on the results of the audit. While the audit is not made public, because it is protected by confidentiality regulations, the auditor holds a press conference and presents important highlights of audit findings. The external auditor website also contains copies of previous years' reports which can be downloaded. MOF has one year to prepare a final budget report of actual revenues and expenditures and this is also eventually passed by Parliament as a law. This law is available to the public.

93. Nowhere in the budget process are consultations with the public required.³

94. The budget process at the regional level is analogous to the central level, cf. Figure 9, however the Regional Planning Agency (*Bappeda*) is responsible for consolidating the plans of the individual sectoral offices (*Dinas*) into the draft budget. The regional government has a "budget team" which actually draws up the draft Regional Budget Regulation to be submitted to the Regional Legislature.

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

96. The national treasury law 1/2004 provides detailed instructions on budget implementation and the law on control of state finance, law 15/2004, establishes financial reporting and auditing procedures. Government regulation 8/2006, which is an implementing regulation for the national treasury law, provides detailed formats for reporting on budget realization.

¹ Cf. WB PER, p. 101 ff.

² Actual expenditure is not presented because administrative delays in budget implementation mean that by June, only about 10% of the budget allocations have been spent. (WB PER, 2007, p. 98)

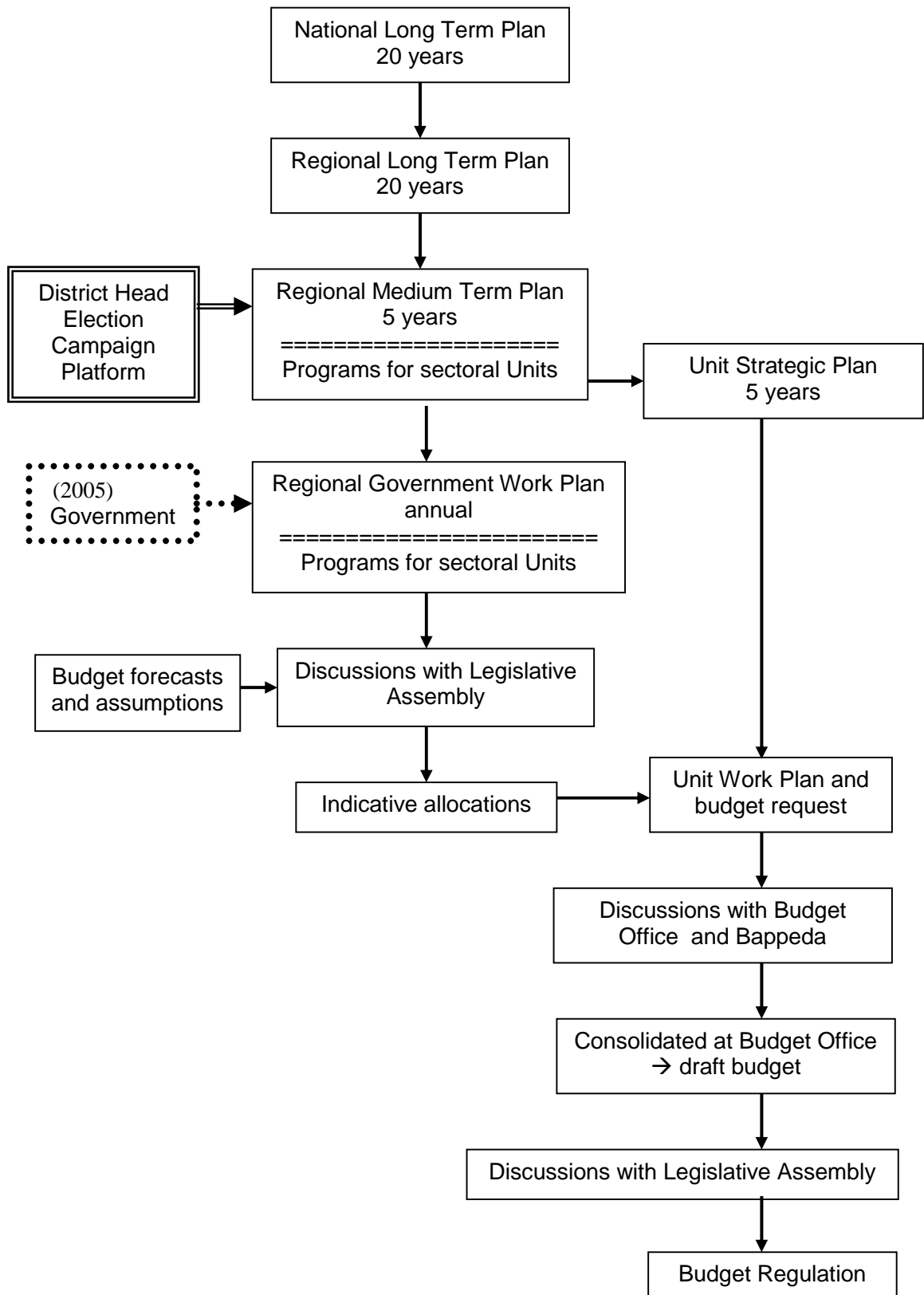
³ It is the planning process which requires public consultations.

Neither of these is directly relevant to education governance and finance and so they are not dealt with further.

97. Law 20/2003 requires the following implementing regulations¹: one law (which has already been passed), 38 government regulations (of which one has been issued in May 2005), and 30 ministerial regulations (of which five have been produced during 2007). This provides some indication of the technical and political complexities of the law

¹ It was stated that all of the implementing regulations have to be completed by maximum two years from the effectiveness of the law which means by July 2005.

Figure 9 Regional Budget Process



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

99. The law brought all education providers into one national system: government and private; MONE and MORA. However the unification was achieved via a unified regulatory regime, formally located outside both MONE¹ and MORA, with planning, budget and management functions remaining separate. The regulatory regime consists of national education standards (NES) which would be binding on all education providers. Note that the NES are different from the MSS. NES are mandated under the education law; MSS under the regional government law; NES apply to the entire teaching-learning process (inputs-process-output-evaluation) but not enrolment; MSS apply only to enrolment and certain characteristics of schools. NES are enforced by MONE; MSS are enforced by MOHA. The education law does mention MSS in para 51 which states: Management of early childhood, basic and secondary education units [schools/madrasah] is to be based on minimum service standards and the principle of school/madrasah based management.

100. The NES are to be developed by a new, independent agency, the National Education Standards Agency (*Badan Standard Nasional Pendidikan/BNSP*). This agency was given authority to develop, monitor and report on achievement but no authority for enforcement of the standards. The law (and MONE) seem to have envisioned implementation via the school accreditation process, which was entrusted to another new, independent agency: the National School/Madrasah Accreditation Agency (*Badan Akreditasi Nasional Sekolah/Madrasah, BAN-S/M*).

101. PP 19/2005 contains a list of items for which standards need to be set, but not levels of the standards., e.g. the Agency must issue a curriculum but the content of the curriculum is not included in the PP. Chapter VIII Management Standards, required both the central and district governments to draw up annual plans, including fulfillment of MSS as one of the priorities in the plans. Permendiknas 22, 23 and 24/2006 set the “content” standards for the basic education (primary + junior secondary) which is the framework for the national curriculum at this level. Law 14/2005 set certain standards for teachers, including the requirement for professional certification.²

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

² WB PER estimates that the cost of BOS + the salary increases attached to professional certification will take up most of the 30% budget increase for education between 2006 and 2007. (WB PER, 2007, p. 25)

102. The education law also imposed compulsory basic education¹ and stipulated that central and/or regional governments must make it available at no cost to participants.² Inpres 5/2006 instructed various ministers to take actions to accelerate the achievement of compulsory 9-year basic education.

103. Although the education law stated that issues of education finance would be dealt with in a government regulation³ it did provide some general guidelines.

- Education funding is the joint responsibility of the central government, regional governments and the general society.
- One permitted form of government funding is tax relief.⁴
- Funding from the government (central or regional) to schools must be in the form of block grants, as must be funding from the central government to regional governments (provincial and district education offices).

This latter requirement has the effect that funding assistance must be linked directly to specific programs and activities.⁵

104. The division of labor among the various parties is clear:⁶

- Management of the education system [as a whole] is the responsibility of the [MONE] minister, which includes setting national policy and NES to guarantee the quality of national education.
- Provincial government coordinates cross-district border provision of education, development of education personnel and provision of facilities for basic and secondary education.⁷
- District governments manage basic and secondary education, as well as education units based on local advantages (*keunggulan lokal*).

105. In the section entitled “role of the community”, the law establishes Boards of Education (Dewan Pendidikan/DP) and school/madrasah committees⁸ (komite sekolah/ madrasah).⁹ Implementing regulations for the Boards and committees have not been issued, however the MONE website contains documents describing their “role and functions”. The roles and

¹ But provided no enforcement or sanctions. Some districts have noted this deficiency and addressed it in their district regulations on education.

² This was the provision which was used by Parliament to change BOS from a poverty policy to a free basic education policy, effectively de-linking it from its origin in the social safety net and fuel subsidy compensation. A discussion of the origins and development of BOS can be found in Appendix 3.

³ Which has not been issued yet, although a draft is posted on the MONE website.

⁴ Exactly which taxes are to be relieved is not stated. Perhaps land and building taxes on private school facilities.

⁵ BOS funding is not included in the education law as it consists of a budget line in the national budget.

⁶ Note that PP 38/2007 has moved some of the boundaries between provinces and districts for specific activities, but not changed the general division of labor.

⁷ Coordination, not implementation, and only for cross-district border cases.

⁸ The school/madrasah committee is different from the “foundation” (yayasan) which is the owner-operator of a private school.

⁹ School-based management was already required.

functions of the two institutions are identical, save for their level: the Board operates at the level of the province¹ or district; the committee at the level of the school.

106. Para 49 of the law has become a source of on going debate. This is the para that mandates 20% of central and regional budgets must be allocated to education. The following paragraphs attempt to summarize the major developments in that debate. In 2002 the MPR passed the fourth amendment² to the 1945 Constitution. One of the provisions of this amendment revised Chapter 13 Education and Culture para 31. The original formulation said that all citizens were guaranteed education and that the government would provide a single education system. The amendment added the following provisions:

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

107. The education law stipulated:

Education funding net of educator⁴ salaries and civil service education and training [is] a minimum of 20% of the central budget for education sector and minimum of 20% of regional budgets.⁵ (para 49, point 1)

The Explanation⁶ for this point stated: “Fulfillment of the education financing may be done in phases”.⁷

108. The Budgetary Note submitted by the Government to Parliament as an accompaniment to the 2005 Budget noted that the education sector accounted for 20% of total development funding during the period 2002 – 2004, i.e. that

¹ It is explicitly stated that the provincial boards do not have an hierarchical relationship to the district boards.

² The 20% requirement was not part of the original constitution.

³ *Negara memprioritaskan anggaran pendidikan sekurang-kurangnya dua puluh persen dari anggaran pendapatan dan belanja negara serta dari anggaran pendapatan dan belanja daerah untuk memenuhi kebutuhan penyelenggaraan pendidikan nasional.*

⁴ This is a technical term defined in para 1 of the law. It covers “education personnel qualified as teachers, university lecturers, [guidance] counselors, [various technical terms for different types of] tutors, instructors, facilitators and other specialized terms who provide education”.(point 6) It does not include administrative personnel in schools, central MONE/MORA staff and staff of provincial and district education offices.

At the time of both the constitutional amendment and the education law were passed, the government was still using the dual budget, that is, separate budgets for “routine” and “development” (capital) spending items. Arguably the intention of the MPR and DPR was 20% of the development budget, which would automatically exclude personnel expenses from **both** the numerator (education spending) and denominator (total spending) of the calculation.

The unitary budget system currently in use requires personnel expenses to be apportioned to each budget item (activity). Thus it is no longer possible to calculate “net of personnel”.

⁵ *Dana pendidikan selain gaji pendidik dan biaya pendidikan kedinasan dialokasikan minimal 20% dari Anggaran Pendapatan dan Belanja Negara (APBN) pada sektor pendidikan dan minimal 20% dari Anggaran Pendapatan dan Belanja Daerah (APBD).*

⁶ “Explanation” text is part of the law and is legally binding.

⁷ *Pemenuhan pendanaan pendidikan dapat dilakukan secara bertahap.*

the Government had been in compliance with the Constitution and Education Law during that period.¹

109. In 2005, a group of nine teachers from Banyuwangi, East Java, filed a case with the Constitutional Court. They demanded the court cancel “Explanation” of para 49 of the law on the grounds that it was inconsistent with the constitutional amendment. The court agreed. The effect of this decision was to require that the existing (2005) budget law and the draft budget for 2006, which was currently being debated in Parliament, comply with the 20% criterion.

110. The applicants thus petitioned the court to declare the 2005 budget law unconstitutional because it did not fulfill the 20% criterion. The court determined that the applicants did have legal standing and constitutional grounds to submit their petition. However, the court considered that if the case was admitted and further adjudicated, it would lead to a financial disaster to the state, which would create legal uncertainties. Based on this reasoning, the majority of the court declared the case “inadmissible”. Two dissenting judges on the case wrote important remarks to the effect that the nature of the budget law was different from ordinary laws, in that it served a budgetary function rather than a legislative function, and that it was only valid for a one-year period, unlike normal laws that stand until they are explicitly revoked.

111. In January 2006, the Indonesian Teachers Association (PGRI) and the Association of Indonesian Education [Faculty] Graduates (ISPI), petitioned the court to re-consider the constitutionality of the 2005 budget law, claiming that it allocated only 8% to education. The government rejoinder contained two different arguments:

- the 8% referred only to budget funding for “schools” whereas the actual total for education was 19.3%²
- the Constitution did not explicitly oblige the government to allocate 20% of the national budget for education; it stated that the government should “strongly consider” (i.e. “give priority to”) that percentage.

Again the court ruled in favor of the petition, but the ruling was only a moral victory because it required the government to “revise” the allocation in subsequent budgets but did not impose the 20% criterion nor did it provide any sanctions for failure to comply.

112. The same case was brought in 2007 against the 2006 and 2007 budget laws. The 2007 case also contended that the government had failed to implement free compulsory basic education. The court’s determination was similar, i.e. that the government was in violation but accepted the

¹ This also supports the interpretation that the 20% rule was intended to apply only to the development budget as the routine budget was used to fund personnel expenses. It was only after the budget format was changed that questions of interpretation arose on application of the 20% rule.

² At the time of the original decision, some members of parliament had also offered varying definitions of what should be included in the 20% and what should be included in the base against which the 20% would be calculated.

government's argument that it was impossible to fulfill the legal requirement. However the court handed a major victory to the government when it accepted the government's calculation of 11.8% of the budget for education against the petitioners' claims that including in-service training was inappropriate.

E. Findings and Analysis

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

114. The issues cited in the Introduction with relation to laws and regulations, i.e. that:

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

seem to apply to the earlier (1999) versions of the regional autonomy laws and the old (pre-2004) budget system. Most of these issues, which were raised by donor evaluations and analyses,¹ have been addressed in the current laws and regulations.

115. Lack of clarity and inconsistencies between laws and regulations is, to some degree a function of the whole approach to governing, which sees laws and regulations as setting out the general principles, with details of implementation left to the specific agency tasked with implementation. It is also shaped by a systemic weakness, i.e. lack of middle level support functions – professional staff and accessible information. Territorial skirmishes among different agencies, with very different philosophical and political approaches to decentralization, compound the confusion, as does the cultural tradition² of avoiding open conflict through formulations which can be interpreted in various ways.

116. On the positive side, there have been efforts to clarify definitions, e.g. PP 38/2007 but a (not unintended) side effect of the efforts has been a tendency to re-centralize decision making and re-impose a rigid uniformity – beloved of bureaucrats but contrary to the spirit of decentralization. It remains to be seen how successful these efforts will be in practice; whether the centralizing agencies (especially Bappenas, MOHA and provincial government) have the capacity to impose their vision of development on the districts.

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

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

² Especially strong in MOHA.

118. This conclusion, rather than list inconsistencies and points of “vagueness” in the Indonesian legal system as it relates to decentralizing basic education, attempts to summarize the analysis of the relevant laws and regulations made in the main body of the text. The summary analysis for each relevant law discussed in this paper is guided by the following:

- what does the law/regulation seek to do
- do the contents of the law/regulation support the goal
- is it realistic to suppose that the law/regulation will achieve its goal (here is where inconsistency and vagueness could be explored)
- what needs to happen in practice for the law/regulation to achieve its goal.

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

What does the law seek to do?¹

- Fulfill the constitutional obligation of the government to “make national life smarter”² and “provide a single national education system which will increase faith and piety and good character as part of making national life smarter.”³
- Guarantee equal access, improved quality and relevance, and more efficient management.
- Meet the challenges of change in local, national and global life.
- Renew the education system in a planned, goal-oriented and sustainable manner.

Do the contents of the law support the goal?

- The law lays out the basic principles for establishing a comprehensive national education system, including deliberate efforts to foster faith, piety and character.
- The law also contains provisions based on current best practice in education in both teaching-learning and education management.
- Accepting the (technocratic) assumption⁴ that change must be planned and goal-oriented, the law clearly lays out the directions of change and ultimate goals.

Is it realistic to suppose that the law will achieve its goal?

- This is not a green-field law: it is attempting to make basic changes in an existing system but it is written as if it were creating a new system. Aside from a formal closing (attached to all laws) stating that any existing law or regulation not in conflict with this law will continue in

¹ “Considerations” for Law 20/2003.

² Preamble to the 1945 Constitution

³ 4th Amendment to the 1945 Constitution.

⁴ Held equally by GOI, donors and consultants.

force and that any existing law in conflict is no longer binding,¹ there is no specific change trajectory included in the law.

- This lack of principles to guide the transition is especially important given that the law mandates a single system while, in practice, there are five parallel systems (MONE and MORA, each with government and private schools, plus traditional Islamic boarding schools).
- A functioning school accreditation system which applied to all schools, including the Wajar Dikdas programs of traditional Islamic boarding schools, would provide the necessary unity to the system while allowing MONE (decentralized to districts) and MORA administration to remain separate.
- The law does take account of regional autonomy in management of the provision of education. However the regional autonomy law in force at the time of the education law was the 1999 regional autonomy law, not the 2004 regional government law which superseded it and is currently in force. The provisions dealing with regional autonomy law in the education law are sufficiently general that they are not in essential conflict with the 2004 regional government law and implementing regulations for the regional government law have clarified the situation.

What needs to happen in practice for the law to achieve its goal?

- Implementing regulations, which are being issued, but slowly. In the meantime, the various central and regional agencies are moving forward with changes in practice, based on their interpretation of the law's intent. Donor-funded projects are an important source of practical ideas for how to move toward these goals.
- Accreditation. The national agency has been formed and is now working on accreditation standards and procedures. It is planned that implementation of accreditation activities will be at the district level, with district funding, using central standards and procedures.
- Funding. The People's Consultative Assembly² addressed this issue (before the education law was passed) by requiring the government budget to "give priority" to education with a minimum of 20% of the budget and also making basic education compulsory with government required to fund it. As noted in the text, what the 20% actually requires and how the government can fulfill the requirement are part of the ongoing political dialogue between the legislature, the government and civil society. However the government has moved decisively on

¹ Para 75.

² The organization which has the power to amend the constitution. It consists of all elected members of Parliament plus appointed members. In the past, the government selected the appointed members; current practice uses a selection team composed of members of Parliament and government representatives who select from among slates of candidates submitted by CSOs.

funding for basic education by instituting the BOS per capita subsidy to schools.¹

- The new formula for calculating DAU, even though it is not targeted specifically for education, also provides districts with more budget resources which can be used for education.

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

What does the law seek to do:²

- It is essential to understand what this law was attempting to do because it is frequently misunderstood. The law is deliberately restricting the scope of regional (provincial, but especially district) governments as granted under the 1999 regional autonomy law because of widespread central perceptions³ that district governments were “going too far” in their autonomy to the point of endangering the central government’s role as sole source of rights and authority in a unitary state. The change of name of the law is important: the original (1999) law was “regional autonomy”; this law is “regional government”.
- Achieve the goal of regional government, which is to “accelerate the achievement of social welfare for the people” through improving and empowering regional government, improving services and enhancing the role of civil society⁴.
- Implement the principles of regional government, which are democracy, distributional equity, justice and the special features of the region within the unitary state.
- Improve the efficiency and effectiveness of regional government, especially relations among governmental units⁵.
- Give regional government the widest possible autonomy to use the region’s special characteristics to respond to the opportunities and challenges of global competition, within the national governmental system.

Do the contents of the law support the goal?

- The law provides scope for regional government to develop and implement policy to achieve local objectives, taking into account local characteristics. Specific decentralization of the “social welfare” and economic production sectors to district level provides the necessary

¹ And its “partner” funding: BOP per capita funding for non formal equivalency programs at the basic level and MORA’s Wajardikdas per capita funding for basic education programs in traditional Islamic boarding schools.

² “Considerations” for Law 32/2004.

³ MONE and Ministry of Public Works were notable exceptions to this general trend.

⁴ This term is a code phrase for increased financial contribution.

⁵ Both vertical (central – regional hierarchy) and horizontal (among regions).

authority to plan and implement¹ development activities, including education².

- The law attempted to establish systematic relations among governmental units, but multiple interpretations and formalistic “dissemination” undercut this effort. It has been found necessary to issue assorted implementing regulations. The effectiveness of these regulations is hindered by the tendency to issue “general” regulations to deal with what are essentially casuistic issues.
- The law does not specifically address efficiency or effectiveness of regional government, except for the above-mentioned systematic relations. The law establishes reporting requirements and evaluation procedures which could address the effectiveness issue but not efficiency.³

Is it realistic to suppose that the law will achieve its goal?

- This law is specifically intended to reign in “excesses” of district government. This has been achieved, but it is an open question whether the achievement is an impact of the law or a natural progression as regional governments became accustomed to the responsibility of running their regions.
- There is no hard evidence, despite much research and survey activity, that social welfare has declined since regional autonomy, including in the education sector⁴. There is some evidence that social welfare has improved in some regions for some sectors. Given a Pareto-evaluation criterion (nobody worse off and some people better off) it would seem that regional government has succeeded. Inter regional migration (“voting with the feet”) creates healthy competition among districts, which is reinforced by a virtuous circle of success creating higher expectations. Active mass media and investigative journalism play an important role in providing information to the public.
- Regions tend to ignore requirements which they feel to be an unnecessary burden, e.g. reporting, databases/MIS, etc., or too expensive. Another strategy for dealing with unrealistic requirements is formal fulfillment, e.g. hire a group of consultants to produce a district plan, review, etc.; submit the document to the requiring agency; and then proceed with the district’s own implementation activities and procedures.

¹ Funding is dealt with in a separate law. See para 121 below.

² Although, at the beginning, there was some confusion as to whether this was limited to basic education or also included secondary education. PP 38/2007 specifically includes management of secondary education as a decentralized activity.

³ The package of national finance laws, cf. para 123 ff. contained provisions which were intended to produce cost efficiency (least cost for a given activity) but not economic efficiency (achieving objectives at least cost).

⁴ There is considerable dissatisfaction with **achievements** in level of social welfare, but this is different from **changes** in levels of social welfare.

What needs to happen in practice for the law to achieve its goal.

- Central agencies, particularly MOHA, need to take their responsibilities seriously and provide practical guidance as well as useful supervision to regional government.
- Most of MOHAs guidance to date has moved in the direction of re-centralizing authority or re-establishing rigid uniformity. MOHA does not seem to have either the organizational or personnel capabilities to implement useful supervision.
- MOHAs implementing regulations on supervision have allocated “technical” supervision for sectoral activities, such as education, to the sectoral ministries. In the case of education, because MONE is organized differently from district education offices¹, the technical supervision is limited. Note that MORA schools do not fall under this system because MORA is not decentralized.

121. Law 33/2004 concerning Central/Regional Financial Balance.

What does the law seek to do?²

- This law was deliberately intended as a companion to the regional government law to fulfill the requirement in the regional government law that decentralization of sectors from the central government to regions would be accompanied by funding, facilities and infrastructure and personnel.³
- This law was also intended to replace the central/regional finance law which had been passed as a companion to the 1999 regional autonomy law.
- This law was passed after the package of three laws reorganizing the national budgeting system, government payments system and financial control systems and the national planning system law and is in conformity with all those laws.
- Establish just and appropriate relationships among finance, public services and exploitation of natural and other resources among governmental units.

¹ Directorate General of Basic and Secondary Education has separate directorates for levels of education: pre-school (which is classified as non formal in the education law) and primary; junior secondary; and senior secondary. District education offices vary in organization but most have separate units for non formal (including pre-school), basic (primary and junior secondary) and secondary. Both systems are historically conditions, in particular, the latter was heavily influenced by the fact that responsibility for management of primary schools was handed over to the districts well before decentralization and an interpretation of the 1999 decentralization law which held that primary and junior secondary education was decentralized to the district level while senior secondary education was decentralized either to the provincial level or retained in the center (there was a difference of opinion on this).

² “Considerations” for Law 33/2004.

³ Law 32/2004, para 12.

- Establish central/regional financial balance based on a clear division of labor and responsibility.¹

Do the contents of the law support the goal?

- Yes. Most of the donor (and consultant) objections raised to the central/regional finance system are addressed to the provisions of the 1999 law, which also pre-dated the overhaul of the national financial system. In particular, this law has provided satisfactory relationships between budgets (incomes) and natural resources which was a main source of discontent in the 1999 system.
- Neither regional nor central government agencies have made substantial complaints about the law.
- The specific issue of 20% budget allocation for education is less contentious at the district level because non-discretionary allocations for civil service salaries form such a large proportion of the district budgets. Teachers and other education personnel, together with health (local health clinic personnel and midwives) account for most of the district civil service personnel bill.

Is it realistic to suppose that the law will achieve its goal?

- In terms of the financial system, it has already done so,
- In terms of linking the financial system to public service provision, the role of the planning law is important, ref. para 121 below.

What needs to happen in practice for the law to achieve its goal?

- In terms of the financial system, effective enforcement, which MOF has provided.
- In terms of linking the financial system to public service provision, there were turf wars between Bappenas and MOF at the beginning, but these seem to have been resolved and recent implementing regulations provide a framework for a more integrated system of policy, plans and budgets. It is now up to Bappenas to provide the effective supervision of the planning-budgeting link which MOF provides for the purely financial side. Bappenas is in the process of establishing an Monitoring and Evaluation Office which could take on this task.

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

What does the law seek to do?²

- The law begins with a very strong assumption: that national planning is necessary in order to “guarantee” that development activities would be effective, efficient and objective-oriented.

¹ The “clarity” to come from the companion law on regional government.

² “Considerations” for Law 25/2004.

- The law then adds a second assumption: that national planning requires a national planning system.
- The law is intended to establish a national planning system in order to achieve the national objectives as specified in the Preamble to the 1945 Constitution.
- This law also is not a green field law. It was passed after the re-organization of the national financial system, ref. para 123 below, appeared to integrate the planning function into the (new) financial system under the authority of MOF. This law institutionalized the pre-existent planning system under the authority of Bappenas and tied it into the new budgeting system.

Do the contents of the law support the goal?

- Given the two assumptions, yes.
- There is also an attempt to integrate the planning system with the budgeting system via the requirement that budgets be based on a “work plan”.

Is it realistic to suppose that the law will achieve its goal?

- If the goal is defined as establishing a planning system, yes.
- If the goal is defined as activities based on budgets based on planning, not necessarily. Experience in the first several years after the law was passed suggested that the law was not achieving its goals. Plans were formalistic and developed by the local planning agency while budgets were developed by sectoral agencies based on MOF guidelines. Recent implementing regulations have given local planning agencies a stronger role in the formal process however the actual composition of budget teams is decided by the Head of District.

What needs to happen in practice for the law to achieve its goal.

- Local planning agencies need to have the technical competence (and political skills) to fulfill their roles in the planning-budgeting process. Sectoral agencies also need the technical and negotiating skills to draw up plans and then budget for achievement of the plans. Donors are active in assisting with this need.
- Bappenas needs to have both a system and capacity to implement the system for supervision of budgets from the point of view of achievement of development objectives (MOF is responsible for supervision of financial compliance).

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

What does the law seek to do?

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

Do the contents of the law support the goal?

- Yes.

Is it realistic to suppose that the law will achieve its goal?

- It has done so. The current system has made it possible for tighter financial controls over all levels of government. The major issues of corruption are now concerned with private sector money influencing government actions, not with misuse of government funds.¹
- The current system also is in line with international best practice and based on UN standards.

What needs to happen in practice for the law to achieve its goal?

- Adequate and effective dissemination from MOF, which did not happen² but a phased in implementation approach and learning by doing has filled the gap.

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

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

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

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Appendix 1

List of Laws and Regulations

This appendix contains tables providing more detailed information about the content of the laws and the implementing regulations.

The appendix is divided into 4 sections:

- the decentralization package (Laws 32 and 33 of 2004)
- the planning law (Law 25/2003)
- the finance package (Laws 17/2003 and 1/2004)
- the education laws (Law 20/2003 and Law 14/2005).

Note:

When “Explanation” is cited, this refers to the official Explanation attached to the Law. Explanations are considered part of the law and are legally binding.

The Decentralization Package

- Law 32/2004 Concerning Regional Government
- Law 33/2004 Concerning Fiscal Balance between the Central and Regional Governments

Note there was a subsequently Government Regulation in Lieu of Law (PP Penganti UU) 3/2005 which amended this law, but it dealt only with delays in elections of Heads of Districts due to uncontrollable circumstances. The GR was later formalized as Law 8/2005.

Law 32/2004 Concerning Regional Government

Reference	Description and Action required	Implementation
Para 2(3)	Objective of regional government is welfare of people in the region	
Paras 10 – 14	Division of functions between the center and regions.	GR 38/2007 provided a detailed division of responsibility among central, provincial and district governments; appendices provided lists of activities and division of responsibility for sectors, including education
Para 11(3)	Provision of obligatory functions [by regional government] will be based on Minimum Service Standards set by the Central Government	<p>GR 65/2005 on formulating and implementing MSS</p> <p>MSS based on obligatory functions</p> <p>MSS contain indicators and deadlines for achievement</p> <p>Consultation Team coordinated by MOHA</p> <p>DG Regional Autonomy sends the results to Regional Assembly (DPOD) for recommendations</p> <p>issued by sectoral Minister in form of Ministerial Decision</p> <p>in setting MSS, must consider:</p> <ul style="list-style-type: none"> • MIS, capacity to monitor and report achievement • existing maximum achievement • cost of achievement • empirical experience of success in achieving service <p>must also issue Technical Guidelines</p> <p>after MSS issued, they become a basis for regional government planning and budgeting → targets and schedule for achievement included in Regional Medium Term Development Plan and</p>

Reference	Description and Action required	Implementation
		<p>the Unit (sectoral Dinas) Strategic Plan and in annual work plans</p> <p>MSS information to be included in regional MIS</p> <p>sectoral ministry is responsible for guidance and monitoring of achievement</p> <ul style="list-style-type: none"> • center to province • governor (as representative of center) to district <p>MOHA responsible for general monitoring, Sectoral ministry responsible for technical monitoring</p> <p>existing MSS are still valid as long as they don't conflict with this regulation → 2 years to accommodate for any which are in conflict</p> <p>all MSS must be issued within 3 years</p> <p>MOHA Ministerial Regulation 6/2007 provided technical instructions for developing MSS</p>
Para 14(3)	Implementation of paras 10 – 14(1) and (2) will be set by Government Regulation.	
Para 15(1)	Center will provide funds to regions for: activities under regional authority	
Para 15(3)	<p>Fiscal relations between center and region comprise:</p> <ul style="list-style-type: none"> • central transfers for regional functions • balancing funds • loans and grants <p>These transfers will be governed by regulations (peraturan perundang-undangan).</p>	Law 33/2004 on central regional financial balance
Para 16(3)	Relations between the center and regions and between regions in providing governmental services, funding and cooperation will be governed by regulations (peraturan perundang-undangan).	
Para 22	Regions have the following obligations under autonomy: [list follows] e. improve provision of basic education services	
Para 23	Rights and obligations of regional government are realized in the form of government work plans and are operationalized in the form of revenues, expenditures and funding through the regional funding management system.	
Para 28	<p>Responsibilities of head of region, including report on implementation of regional government to center, explanation of* accountability report to legislative assembly and inform implementation report to the public.</p> <p>These reports to be used by center for</p>	<p>GR3/2007</p> <p>Details of procedures and formats for reporting.</p> <p>Uses the term “accountability” for annual and end-of-term reports to legislature.</p> <p>Districts submit to provinces, which then submits to MOHA. Provinces submit to MOHA,</p>

Reference	Description and Action required	Implementation
	<p>“evaluating” regions and in determining “guidance” for regions.</p> <p>Implementation of the reporting responsibilities will be set by Government Regulation.</p> <p>*Note: The term “explanation of” accountability is used to emphasize that the Head of Region is accountable to voters, not to Legislative Assembly.</p>	<p>which then submits to President.</p> <p>Requires these reports to be presented to the public (via mass media) simultaneously with presentation to legislature.</p>
Para 37	Governor is also the representative of the Central government in the Province.	
Para 38	<p>Activities as representative of the Central Government are financed through the central budget.</p> <p>Job description and authority will be set by Government Regulation.</p>	<i>Note: This is the basis of deconcentration.</i>
Para 131	<p>Transfers of civil servants [including government teachers] within the province are done by the Governor, after consultation with Civil Service Agency.</p> <p>Transfers of civil servants between provinces are done by MOHA, after consultation with Civil Service Agency.</p>	
Para 132	Quotas for new civil service recruitment are set by Minister of State for State Apparatus, based on requests from Governors.	
Para 145	<p>Regional regulations must be submitted to center within 7 days after they have been passed.</p> <p>Center can revoke regional regulations which violate the conditions given in this law.</p> <p>Revocation takes the form of a Presidential Regulation (Perpres) and must be issued within 60 days of receipt.</p> <p>Head of Region must stop implementation within 7 days of the revocation, and Legislative Assembly must then revoke the regulation.</p> <p>Revocation can be appealed to the Constitutional Court.</p>	<p>Criteria given in explanation for para 7 of Law 33/2004</p> <p>MOHA website now contains a list of regulations submitted and the decisions for each.</p>
Para 150	<p>Regional Planning Agency draws up regional plans:</p> <ul style="list-style-type: none"> • Long Range (20 years) containing vision, mission and direction for the region, based on national long range plan Formally adopted as a Regional Regulation. • Medium Term (5 years) containing vision, mission and program of the [newly elected] Head of Region, with 	<p>cf. Law 25/2003 on planning</p> <p>MOHA Circular Letter SE Mendagri 050/2020/sj dated 11 August 2006 gives details. <i>Note that the Planning Law says Regional</i></p>

Reference	Description and Action required	Implementation
	<p>attention to national middle range plan containing:</p> <ul style="list-style-type: none"> ○ policy direction ○ strategy ○ general policy ○ sectoral programs ○ area/regional programs ○ work plan (indicative regulations and budgets) <p>Formally adopted by Regional Legislature as a Regional Regulation.</p> <ul style="list-style-type: none"> ● Annual work plan (RKPD) containing: <ul style="list-style-type: none"> ○ economic situation of the region ○ development priorities ○ work plan and budget with attention to national annual work plan. <p>Guidelines for these plans will be set in a Government Regulation.</p>	<p><i>Medium Term plans are issued by Head of Region as an executive decision.</i></p> <p>Law 17/2003 on national finance and Law 33/2004 on central regional financial balance</p>
Para 151	<p>Each sectoral office (Dinas) makes a Strategic Plan (5 years) containing</p> <ul style="list-style-type: none"> ● vision, mission ● goal and strategy ● policy and program ● indicative activities, based on regional medium range plan 	
Para 152	<p>Plans based on accurate data including</p> <ul style="list-style-type: none"> ● implementation of regional government activities ● structure of regional government ● personnel of regional government ● regional finance ● regional natural and human resources ● regional laws and regulations ● demographic data ● basic area/regional data (explanation to the law says this covers regional boundaries and “other”) ● other data. <p>Managed as an information system which is integrated at the national level.</p>	
Para 154	<p>Guidelines for drawing up, supervising and evaluating regional planning will be set by Government Regulation.</p>	<p>GR39/2006 <i>but reference for this GR was the planning law, not regional government law</i></p>
Para 155	<p>Regional governmental functions are funded through regional budgets.</p> <p>Central governmental functions implemented in regions are funded through central budget.</p> <p>The two budgets are kept separate.</p>	<p>cf. Law 17/2003 on national finance</p>
Para 162	<p>DAK is part of central budget, used to fund decentralization</p> <ul style="list-style-type: none"> ● special activities based on national priorities ● special activities proposed by regions. 	<p>cf. Law 17/2003 on national finance</p>

Reference	Description and Action required	Implementation
	<p>DAK for national priorities coordinated by Governor.</p> <p>DAK for activities proposed by regions, coordinated by proposing regions.</p> <p>Implementing procedures to be set in Government Regulation.</p>	
Para 163	<p>Guidelines for use, supervision, M&E for shared revenues (tax and natural resources), DAU and DAK will be issued by MOHA Ministerial Regulation (Permendagri)</p> <p>Explicit definitions and procedures for balancing funds (shared revenues + DAU + DAK) will be given in the Law on Central-Regional Financial Balance.</p>	
Para 167(1)	Regional expenditure priority is to protect and improve the quality of life for the community and fulfill regional obligations.	
Para 167(2)	<p>Protect and improve quality of life includes: improving basic services, education*, providing facilities for health services, social and public facilities at acceptable levels (layak), developing social security systems.</p> <p>*Explanation to the law says that improving education means allocating at least 20% of the budget for education.</p>	
Para 167(3)	Expenditure is based on standard costs for activities, standard prices, performance indicators and minimum service standards.	cf. Law 17/2003 on national finance
Para 175	Regions must report budget surplus/deficit position to MOHA ever semester.	
Para 180	<p>Head of Region sets priorities and indicative budget allocations for each sectoral office and other agency.</p> <p>Based on the indicative priorities and budget, each Head of sectoral office and agency makes a draft work plan and budget, based on performance targets.</p> <p>Draft work plans and budgets are sent to the Region Budget Office to be included in the proposed budget sent to Legislative Assembly.</p>	<p>Details for this process in Permendagri 13/2006.</p> <p>Permendagri 26/2006 sets the central MOHA priorities for the 2007 budget.</p> <p>cf. Law 17/2003 on national finance</p>
Para 181	Head of Region submits budget proposal to Legislative Assembly.	Details for this process in Permendagri 13/2006
Para 182	Sectoral office work plans and budgets follow the format set by Regional Regulations based on [national] regulations.	cf. GR58/2005 and Law 33/2004 para 69 ff.
Par 183	Regional government may request budget revisions. Deadline for revision is 3 months before end of fiscal year.	<p>GR58/2005</p> <p>Head of Region must submit semester report to DPRD + prognosis for remaining semester (July)</p> <p>→ budget revision</p>
Para 184	Head of Region sends draft Regional Regulation on Accountability for	<p><i>Note:</i></p> <p><i>In the original decentralization, Head of Region</i></p>

Reference	Description and Action required	Implementation
	<p>Implementing Regional Budget to Legislative Assembly.</p> <ul style="list-style-type: none"> • Report must include results of audit by State Auditor including: <ul style="list-style-type: none"> actual realization of regional budget balance sheet cash flow comments on the financial report financial statements for Regional Government owned enterprises (BUMD) <p>Deadline is 6 months after close of fiscal year.</p>	<p><i>was responsible to DPRD. Now responsible to voters, but DPRD must pass an accountability regulation.</i></p>
Para 186	<p>Draft regional budget and draft implementation order by Head of Region, which have already been agreed by Legislative Assembly, sent to the next higher authority [MOHA for provinces, Governor for districts] 3 days before they are established as legal documents.</p> <p>Next higher authority has 15 days to evaluate.*</p> <p>If next higher authority says the draft regulations are in violation of existing laws and/or the public interest, then Head of Region has 7 days to revise.</p> <p>If the Head of Region does not revise, then the previous year's budget and implementation order come back into effect.</p> <p>Governor reports the results of the evaluation to MOHA.</p> <p>*Explanation to the law gives the criteria for evaluation:</p> <ul style="list-style-type: none"> • alignment of regional policy with national policy • balance between public interest and interest of government administration/officials • not in violation of the public interest, higher order regulations or other regional regulations. 	<p>GR58/2005 Next higher authority's agreement is in the form of a Decision Letter</p> <p>GR79/2005 contains detailed procedures.</p> <p>MOHA Ministerial Instruction 16/2007 contains technical instructions to Governors on how to evaluate.</p>
Para 191	<p>Regional Financial Information system will be developed to support evaluation of regional financial management. RFIS is to be integrated at the national level.</p>	<p>MOF website has RFIS (<i>called SIKD in Indonesian</i>) but latest data is 2003.</p> <p>Regions can submit data via electronic portal, but data is not made available to the public.</p>
Para 197	<p>Coordination of inter-regional cooperation and/or cooperation with 3rd parties for provision of public services.</p> <p>Procedures will be set in a Government Regulation.</p>	
Para 217	<p>Guidance by the center for regions:</p>	<p>GR 79/2005 on guidance and supervision of</p>

Reference	Description and Action required	Implementation
	<ul style="list-style-type: none"> • vertical coordination • guidelines and implementation standards (planning, implementation, administration, finance, quality, control and supervision) • guidance, supervision and consultation • training • planning, research, development, M&E <p>Control and supervision are exercised on both implementation of government services and regional regulations.</p>	<p>regional government</p> <p>Guidance is given to heads of regions, members of regional legislative assemblies, regional civil servants, village heads, village staff and members of the village consultative assemblies. <i>Note: the fact that legislators are also subject to guidance is a major change from the original decentralization, where legislators were autonomous.</i></p> <p>The functions which are subject to guidance and supervision are</p> <ul style="list-style-type: none"> • general governance • obligatory functions • elective functions • deconcentrated and assistance tasks (province) • assistance tasks (district). <p><i>Note: i.e. all functions.</i></p>
Para 222	<p>Guidance and supervision by MOHA.</p> <p>Guidance and supervision for districts coordinated by Governor.</p>	<p>GR 79/2005 on guidance and supervision of regional government</p>
Para 223	<p>Guidelines for guidance and supervision including:</p> <ul style="list-style-type: none"> • norms and standards, • procedures • rewards and punishments <p>to be set by Government Regulation.</p>	<p>GR 79/2005 on guidance and supervision of regional government</p>
Para 228	<p>Central Government functions which are deconcentrated will be implemented through vertical offices of central ministries.</p>	

Law 33/2004 Concerning Financial Balance between the Central and Regional Governments

Reference	Description and Action required	Implementation
Explanation	<p>Balancing funds are regional funds which come from the central budget.</p> <p>Balancing funds consist of 3 components, which form an integrated unity:</p> <ul style="list-style-type: none"> • shared revenues • general allocation (DAU) • special allocation (DAK). <p>Balancing funds are intended to assist regions to fund their obligations and to reduce regional financial disparities.</p> <p>Rebosition funds, which were originally a DAK, have now been moved to shared [forestry] revenues.</p> <p>DAU is intended to reduce fiscal disparities. Will be calculated on a formula, using fiscal needs and fiscal capacity.</p> <p>DAK is for assistance to regional activities which are national priorities. In particular, infrastructure and facilities for services in basic needs which are below certain standards or to accelerate regional development.</p>	<p>GR54/2005 concerning regional borrowing</p> <p>GR55/2005 concerning balancing funds</p> <p>GR57/2005 concerning grants to regions</p>
Para 7	<p>Regions are forbidden to:</p> <ul style="list-style-type: none"> • pass regional regulations which result in high cost economy • pass regional regulations which impede the flow of people, goods and services between/among regions and also imports/exports <p>Explanation: High cost economy is taxing anything which is already taxed by a provincial or central government, thus reducing the regional competitiveness.</p> <p>Examples of hindering mobility are permits to enter a city or border-crossing taxes.</p>	
Para 23	<p>Region's share of shared revenues is transferred to the region based on realized revenues of the current year</p> <p>Explanation: Implementation and calculation procedures to be set by Government Regulation.</p>	
Para 36	1/12 of total DAU is paid monthly	
Para 66	<p>Budget has 5 functions.</p> <p>APBD, realization of APBD and accountability of APBD in the form of</p>	

Reference	Description and Action required	Implementation
	<p>regional regulations (Perda)</p> <p>Explanation of functions:</p> <ul style="list-style-type: none"> • Authorization: budget is basis for revenues and expenditures. • Planning: budget is guidelines for planning and managing activities. • Supervision: budget is guidelines for evaluating whether activities are in accordance with rules and regulations. • Allocation: budget must be directed to reduce unemployment and waste of resources, to improve economic efficiency and effectiveness. • Distribution: budget policy must take account of feelings of justice and obedience. 	
Para 67	<p>Use of surplus or financing for deficit must be included in the APBD</p> <p>Explanation: Operation expenditures should not be larger than revenues.</p>	
Para 69 (1)	<p>Regional government draws up Annual Work Plan (RKPD) for region, based on central government Annual Work Plan</p> <p>This is the basis for the budget.</p>	<p>GR 58/2005 on regional financial management</p> <p>Permendagri 13/2006 and Permendagri 26/2006 give details</p>
Para 69(3)	<p>Annual Work Plan (RKPD) for region is then particularized in the form of Unit Work Plan and Budgets (RKA-SKPD)</p> <p>Procedures to be set by Government Regulation.</p>	<p><i>Note: The system outline in this and following paras is identical to the central system.</i></p>
Para 71	<p>in June, regional government submits its general policy and annual work plan to Legislative Assembly</p> <p>discuss → agree priorities</p> <p>tentative budget allocations for Units</p>	<p>GR 58/2005 on regional financial management</p> <p>Permendagri 13/2006 and Permendagri 26/2006 give details</p>
Para 72	<p>Head of Unit then develops RKA-SKPD</p> <p>based on performance targets</p> <p>includes proposed budget</p> <p>→ discuss with Legislative Assembly → to Finance Office to draw up Draft Budget Regulation</p>	<p>GR 58/2005 on regional financial management</p> <p>Permendagri 13/2006 and Permendagri 16/2006 give details</p>
Para 73	<p>Head of District submits Draft Budget Regulation to Legislative Assembly</p> <p>→ discuss → Regional Regulation</p>	<p>GR 58/2005 on regional financial management</p> <p>Permendagri 13/2006 and Permendagri 26/2006 give details</p>
Para 75	<p>Each Head of Unit then draws up budget implementation documentation → implementation</p>	
Para 80	<p>Deadline for budget revision is 3 months</p>	

Reference	Description and Action required	Implementation
	before end of fiscal year One revision/year, except emergencies	
Para 81	Regional government submits draft budget accountability regulation 6 months after end of fiscal year at the latest	
Para 82	Management and accountability for the budget is subject to Finance and Treasury Laws	
Para 87(1)	Deconcentration funding must be preceded by official transfer of authority from central agency to Governor	
Para 87(4)	Governor establishes as special Unit for implementation of deconcentration activities	
Para 87(5)	Governor informs DPRD of deconcentration work plan and funding at the time of [provincial] budget discussions Explanation: To allow synergies between deconcentration and provincial budget.	
Para 88	Deconcentration funding is part of the central agency work plan and budget	
Para 90(1)	Accountability for deconcentration funding is separate from decentralization and assistance tasks	
Para 90(4)	Governor reports deconcentration funding to minister Explanation: Reports should include: <ul style="list-style-type: none"> • accountability for “substance” [content] of the delegated authorities • costs • expenditures • achievements. 	
Para 90(5)	Minister reports deconcentration funding to President	
Para 91	Items purchased through deconcentration funding belong to the center but may be given to the region	
Para 92	Procedures for deconcentration to be set by Government Regulation.	
Para 94 - 100	Rules and procedures for Assistance Tasks are similar to deconcentration	
Para 101	Central government establishes a Regional Financial Information System Explanation: RFIS is a tool for the central government to collect, analyze, report and publish information in order to support better government through transparency and accountability.	GR 56/2005 on RFIS MOF must establish central system within 3 years Regions must establish their systems within 5 years
Para 102(1)	Regions submit financial information to the center: <ul style="list-style-type: none"> • budget and realization • balance sheet 	Permenkeu PMK 46/2006 on procedures for reporting regional financial information:

Reference	Description and Action required	Implementation
	<ul style="list-style-type: none"> • cash flow • any comments by auditors • deconcentration and assistance task funds • financial reports for regional-government-owned enterprises • data required to calculate fiscal needs and fiscal capacity 	<p>sent to MOF for integration into national RFIS</p> <p>sent to MOHA for evaluation of provision of regional government services</p>
Para 102(2)	<p>Regions establish regional financial information systems</p> <p>Explanation: This is to be phased implementation, based on regional financial capability.</p>	
Para 103	Regional Financial Information system data is open to the public	

The Planning Law

Law 25/2003 Concerning the National Development Planning System

Reference	Description and Action required	Implementation
Para 1	<p>Definitions</p> <p>(3) National Planning System ... long term, medium term and annual plans to be implemented by government and society in the center and regions</p> <p>(4) Long term = 20 years</p> <p>(5) Medium term = 5 years</p> <p>(6) Medium term for Ministry = Ministry Strategic Plan = 5 years</p> <p>(7) Medium term for Regional Work Unit = Regional Work Unit Strategic Plan = 5 years</p> <p>(8) Annual = Government Work Plan = 1 year</p> <p>(9) Regional annual = Regional Government Work Plan = 1 year</p> <p>(10) Ministry Annual = Ministry Work Plan = 1 year</p> <p>(11) Regional Work Unit Annual = Regional Work Unit Work Plan = 1 year</p> <p>(12) Vision = general statement about what is desired at the end of the planning period</p> <p>(13) Mission = general statement about efforts that will be made to implement the vision</p> <p>(14) Strategy = concrete steps consisting of indicative programs</p> <p>(15) Policy = direction/action taken by Government to achieve goals</p> <p>(16) Program = policy instrument, consists of one or more activities carried out by government agencies, is funded through the budget, or private activities coordinated by a government agency</p>	
Para 4	<p>National Long Term Plan: contains vision, mission and direction of national development</p> <p>National Medium Term Plan reflects the vision, mission and program of the President</p>	

Reference	Description and Action required	Implementation
	<p>and is based on the National Long Term Plan.</p> <p>Contains strategy, general policy, Ministry programs and the macro economic framework. Also planned regulations and indicative budgets</p> <p>Explanation: the plan is based on the development agenda offered by the President during the campaign.</p> <p>Annual Work Plan is derived from Medium Term Plan.</p> <p>Contains development priorities, macro economic framework, Ministry Programs, regulations and indicative budgets.</p>	
Para 5	Similar definitions for regional plans.	
Para 6	<p>Ministry Strategic Plan contains vision, mission, objective, strategy, policy, program and development activities. It is indicative.</p> <p>Ministry Work Plan is based on indicative budget allocation. Contains policy, program and development activities.</p>	
Para 7	Similar definitions for regions	
Para 8	<p>Stages in National Development Planning:</p> <ol style="list-style-type: none"> drafting the plan authorizing the plan controlling plan implementation evaluating implementation 	GR40/2006 gives details
Para 10	<p>Planning Minister prepares draft Long Term Plan</p> <p>Head of Regional Planning Agency prepares draft Regional Long Term Plan</p>	
Para 13	<p>National Long Term Plan is authorized in the form of a law.</p> <p>Regional Long Term Plan is authorized in the form of a regional regulation.</p>	
Para 19	<p>National Medium Term Plan is authorized in the form of a Presidential Decree no more than 3 months after inauguration.</p> <p>Ministry Medium Strategic Plan is authorized in the form of a Ministerial Decree.</p> <p>Regional Medium Term Plan is authorized in the form of a Head of District regulation no more than 3 months after inauguration.</p> <p>Regional Work Unit Strategic Plan is authorized in the form of a Head of Regional Work Unit regulation.</p>	<p>MOHA Circular Letter SE Mendagri 050/2020/sj dated 11 August 2006 gives details and requires Medium Term plan to be passed as a regional regulation.</p> <p><i>Note that the regional government Law says Regional Medium Term plans are passed as regional regulations.</i></p>
Para 25	Work plans become the basis of budgets (national and regional).	

Reference	Description and Action required	Implementation
Para 26	National work plan in the form of Presidential decree. Regional work plan in the form of Head of District decree.	
Para 28	Supervision of implementation of plans is the authority of the head of Ministry/Work Unit. Planning Minister/Head of Planning Agency collects and analyses the results of monitoring.	GR 20/2004 on Government Work Plan <i>Note: this GR was issued under Law 17/2003 concerning finance</i> GR39/2006 gives details Heads of sectoral agencies report to Bappeda, with copies to central sectoral ministry and provincial sectoral agency. Bappeda prepares district report to Bappenas.
Para 29	Heads of Ministries/Agencies evaluate the performance of their units against the plan.	GR 20/2004 on Government Work Plan Evaluation at least once in 5 years May request change in work plan → to Bappenas and MOF
Para 33	Governor coordinates, integrates, synchronizes and synergizes planning across Districts	

The Finance Package

- Law 17/2003 Concerning National Finance
- Law 1/2004 Concerning the National Treasury

Notes:

(1) These laws re-organized both the Ministry of Finance (separated budget planning from implementation; created a National Treasury) and the budgeting and payments systems.

(2) Law 17/2003 reorganized the budget format and budgeting system. Implementation is the responsibility of the Directorate-General of Budget.

(3) Law 1/2004 reorganized the payments system for budget implementation and created the Directorate General of Treasury.

(4) There was a third law in the package: Law 15/2004 concerning examination of government financial management and responsibility for government finance, which dealt with accounting, supervision and control, auditing, etc. This law explicitly defined the functions of the external auditor, which was established by the 1945 Constitution. This law is very technical and not directly relevant to education finance and so is not presented herein.

Law 17/2003 Concerning National Finance

Note: this was the first of a package of 3 laws which completely reorganized the government financial system and MOF. The other two laws dealt with the national treasury (principles of how to implement budgets and documentation required) and government accounting.

Reference	Description and Action required	Implementation
Para 3	National and regional budgets are in the form of annual laws/regional regulations passed by the Parliament/Regional Legislative Assembly. Budget revisions and budget accountability reports are also annual laws/regulations.	
Para 12	APBN based on government work plan.	GR 20/2004 on Government Work Plan
Para 13	May: government presents broad outlines of annual fiscal and macro economic policy to Parliament Parliament and government discuss these broad outlines as the first step in preparing the following year's budget. Based on these broad outlines, government and Parliament decide general budget policy	GR 21/2004 on Work Plans and Budgets After these discussions, MOF decides on tentative budget allocations for ministries and sends the info in the form of a circular letter

Reference	Description and Action required	Implementation
	and priorities, which will form the reference within which ministries prepare their budget proposals.	
Para 14	<p>Minister as “user” of budget/goods prepares the ministry work plan and budget for the next year.</p> <p>The work plan and budget is based on planned performance.</p> <p>The work plan and budget includes estimated budget requirements for the succeeding year.</p> <p>These work plan and budgets are discussed with Parliament.</p> <p>The results of these discussions are sent to MOF as inputs into the budget proposal.</p> <p>Note: No mention of Bappenas.</p>	<p>GR 21/2004 on Work Plans and Budgets Attachment III contains instructions on how to fill out the RKA-KL. An example of the format is given.</p> <p>Contains:</p> <ul style="list-style-type: none"> • Vision, Mission, Goal, Policy, Program • Expected results (hasil) • Activities • Expected outputs <p>For each program and activity:</p> <ul style="list-style-type: none"> • cost for the planned year + cost for the next year • categorized by type of expenditure [8 categories, explained in Attachment IIA] • revenues, if any <p>Estimated cost for the next year will be one of the bases for the next year’s budget.</p> <p>Bappenas looks at [<i>telaah</i>] the draft work plans in coordination with MOF</p> <p>Sectoral ministers discuss the draft work plans with Parliament</p> <p><i>Notes:</i> (1) In practice, the “expected result” is just “achieve [program name]” and “expected output” is just “achieve [activity name]” (2) The format and instructions for preparing RKA-KL have changed each year.</p>
Para 15	<p>August: Government submits draft law on budget + supporting documentation to Parliament.</p> <p>Parliament may change the proposed budget.</p> <p>Explanation: Parliamentary changes may not increase the deficit.</p> <p>Parliament makes a final decision at least 2 months before the end of the current fiscal year.</p> <p>The budget as agreed by Parliament includes details of the organization unit, function, program, activity and line item.</p>	
Paras 17 - 20	Similar process for regional budgets.	
Para 26	After the budget law has been passed, implementation is governed by a Presidential decree.	

Reference	Description and Action required	Implementation
	After the regional budget regulation has been passed, implementation is governed by a Governor/Head of District decree.	
Para 27	<p>Government prepares report on Budget Realization for First Semester and forecast for the remaining 6 months.</p> <p>July: submitted to Parliament</p> <p>Budget may be revised</p> <p>If the budget needs revision, the revision must be agreed by Parliament before the end of the fiscal year.</p>	
Para 28	Similar provisions for regional budget revision.	
Para 29	Implementation of budgets will be governed by the treasury law.	
Para 30	<p>President presents budget report to Parliament within 6 months of close of previous fiscal year.</p> <p>Report consists of: budget realization, financial statements, cash flow and notes on the financial report.</p>	
Para 31	Similar provisions for regional budget report.	
Para 33	Control and reporting of national finance is governed in its own law.	
Para 36	<p>Para 1 definitions of revenues and expenditures require accrual approach. This will be implemented within a maximum of 5 years.</p> <p>Para 30 and 31 on financial reporting will begin implementation in 2006.</p>	

The Education Laws

- Law 20/2003 Concerning the National Education System
- Law 14/2005 Concerning Teachers and University Lecturers

Law 20/2003 Concerning the National Education System

Reference	Description and Action required	Implementation
Para 6	Every citizen between the ages of 7 and 15 is required to attend basic education.	
Para 7	Parents of children in the basic education ages are required to give basic education to their children.	
Para 8	The community has the right to participate in planning, implementation, supervision and evaluation of educational programs.	
Para 9	The community is required to support the provision of education with resources.	
Para 10	Central and regional governments have the right to direct, guide, assist and supervise the provision of education in accordance with laws and regulations.	
Para 11(1)	Central and regional government are required to provide services and make it easier (kemudahan) and to guarantee the provision of quality education for all citizens without discrimination.	
Para 11(2)	Central and regional government are required to guarantee funding for educational services for all citizens between the ages of 7 and 15 years old.	
Pasal 12	Rights of students: (c) high achieving students whose parents cannot afford the cost of education have the right to scholarships (d) students whose parents cannot afford the cost of education have the right to have the cost covered	
Para 17	Basic education is the foundation for secondary education. Offered by MONE primary schools (SD) and MORA primary schools (MI) and MONE JSE schools (SMP) and MORA JSE schools (MTs) and other institutions at those levels*. *Explanation states that “at those levels” means Paket A and Paket B. Will be covered further in a government regulation.	
Para 18	Secondary education is the continuation of basic education. Offered by MONE SSE schools (SMA) and MORA SSE schools (MA) and MONE vocational schools (SMK) and MORA vocational schools (MAK) and other institutions at that level*. *Explanation states that “at those levels” means Paket C. Will be covered further in a government regulation.	
Para 26	Non formal education	

Reference	Description and Action required	Implementation
	<p>Provided as a substitute, addition and/or supplement to formal education.</p> <p>Non formal education will be accepted as equivalent to formal at those levels*, after passing an equivalency assessment based on the national education standards.</p> <p>*Explanation states again that “at those levels” means Paket A, B and C.</p>	
Para 27	<p>Informal education</p> <p>Provided by family or neighborhood in the form of independent study.</p> <p>Informal education will be accepted as equivalent to formal, after the student passes an examination based on the national education standards.</p>	
Para 34	<p>Compulsory education</p> <p>(2) Central and regional government required to provide free compulsory education at least at the level of basic education.</p> <p>(3) Compulsory education is the responsibility of the state [<i>“negara”, as opposed to central and/or regional government, “pemerintah”</i>]</p> <p>Compulsory education provided by central government, regional government and the community.</p> <p>Will be governed by a government regulation.</p>	<p>Inpres 5/2006 instructed various ministers to take actions to accelerate the achievement of compulsory 9-year basic education.</p>
Para 35	<p>National Education Standards (NES)</p> <p>(1) Consist of standards* for content, process, competency of graduates, education personnel, facilities and infrastructure, funding, and evaluation.</p> <p>*Explanation gives more details on the content of the various standards</p> <p>Must be continually raised in a planned manner.</p> <p>(2) Used as the basis for developing curriculum, education personnel, facilities and infrastructure, management and funding.</p> <p>(3) To be developed, monitored and achievement reported by a special agency for standardizing, guaranteeing and controlling educational quality.</p> <p>(4) To be governed by a government regulation.</p> <p>Explanation: Independent agency in (3) is at the national and provincial levels.</p>	<p>GR19/2005 gave details of these standards, but not the content (standard) which must be achieved. The GR also did not include any implementation mechanisms.</p> <p>Permendiknas 22, 23 and 24 of 2006 issued the standards for primary curriculum and competencies for graduates of primary level.</p> <p>Permendiknas 19/2007 issued the standards for school management.</p> <p><i>This agency has been established at the central level.</i></p>
Para 36	<p>Curriculum to be based on NES</p>	<p>Permendiknas 22, 23 and 24 of 2006 for primary</p>

Reference	Description and Action required	Implementation
	Details in a government regulation.	
Para 38	<p>Framework for basic and secondary education to be provided by central government.</p> <p>Curriculum to be developed by each school/ madrasah and its school/madrasah committee under the supervision of the Education Service (dinas) or District Office of MORA (kandep).</p>	
Para 39	<p>Education personnel (tenaga kependidikan) have the job of administration, management, development, supervision and technical services to support the educational process.</p> <p>Educators (pendidik) are professional personnel with the job of planning and implementing the teaching-learning process, evaluating the result, providing guidance and training, and doing research and development for the community especially for educators in institutions of higher education.</p>	
Para 40	<p>Educators and education personnel have the right to an “appropriate” and “sufficient” [pantas dan memadai] income and social welfare protection.</p> <p>Explanation says this means income higher than regional minimum living cost [kebutuhan fisik minimum, KFM].</p> <p>Social welfare include health protection and pension.</p>	Law 14/2005 on teachers and university lecturers
Para 41	<p>(2) Recruitment, placement and distribution of educators and education personnel is the responsibility of the agency which recruits them based on the needs of formal education units.*</p> <p>*Note: “satuan pendidikan” means schools and includes any other agencies which have the status and role of schools.</p> <p>(3) The central and regional governments are required to facilitate* schools by providing educators and education personnel to guarantee the provision of quality education.</p> <p>*Explanation says facilitation is to guarantee that there are no education units with too many or too few educators and education personnel and to improve quality of the education units.</p> <p>(4) Implementation details in a government regulation.</p>	
Para 42	<p>(1) Educators must fulfill minimum qualifications and certification for the level at which they teach.</p> <p>(2) Educators in formal education for early childhood, basic, secondary and higher education will be produced by accredited tertiary institutions.</p> <p>(3) Qualification requirements will be set by government regulation.</p>	Law 14/2005 on teachers and university lecturers
Para 43	<p>(2) Certification of educators will be done by tertiary institutions which have an accredited program for recruitment of educational personnel.</p> <p>Explanation says that the certification program is intended to fulfill minimum qualifications for educators as part of their career development by central and/or regional government.</p>	Law 14/2005 on teachers and university lecturers
Para 45	Each formal and non formal education unit must provide	

Reference	Description and Action required	Implementation
	<p>facilities and infrastructure which fulfill the needs of education.</p> <p>(2) Details to be issued in a government regulation.</p>	
Para 46	<p>(1) Funding is the joint responsibility of the central government, regional government and society.</p> <p>(2) Central and regional governments responsible to provide budgets in accordance with para 31, item (4) of the [amended] 1945 Constitution.</p> <p>(3) Details to be issued in a government regulation.</p> <p>Explanation lists various forms of funding which are allowed, including tax relief.</p>	<p>Text of 4th amendment to the Constitution, dated 10 August 2002</p> <p>Para 31, item (4) The state gives priority to the education budget a minimum of 20% of central budget and regional budget in order to fulfill the needs of providing national education.</p> <p><i>Note: I am including the entire sentence in the original Indonesian because this is a controversial point:</i></p> <p><i>(4) Negara memprioritaskan anggaran pendidikan sekurang-kurangnya dua puluh persen dari anggaran pendapatan dan belanja negara serta dari anggaran pendapatan dan belanja daerah untuk memenuhi kebutuhan penyelenggaraan pendidikan nasional.</i></p>
Para 47	<p>Principles governing sources of funding:</p> <ul style="list-style-type: none"> • justice [fairness] • sufficiency • sustainability. <p>Details in a government regulation.</p>	
Para 48	<p>Principles governing management of funding:</p> <ul style="list-style-type: none"> • justice [fairness] • efficiency • transparency • public accountability. <p>Details in a government regulation.</p>	
Para 49	<p>(1) Funding for education, net of educator salaries and pre-service education for the government bureaucracy [pendidikan dinas] should be a minimum of 20% of the central budget education sector and a minimum of 20% of regional budget.</p> <p><i>Note: I am including the entire sentence in the original Indonesian because this is a controversial point:</i></p> <p><i>Pasal 49</i></p> <p><i>(1) Dana pendidikan selain gaji pendidik dan biaya pendidikan kedinasan dialokasikan minimal 20% dari Anggaran Pendapatan dan Belanja Negara (APBN) pada sektor pendidikan</i></p>	<p><i>Note: the Education Law was ratified in July 2003 while the Finance Law (which re organized the budget format) was ratified in April 2003.</i></p> <p><i>The old budget format had “sectors” in the development funding section. Development funding did not include wages and salaries, which were covered in the “routine” funding. It may be that this clause intended to require that</i></p>

Reference	Description and Action required	Implementation
	<p><i>dan minimal 20% dari Anggaran Pendapatan dan Belanja Daerah (APBD).</i></p> <p>Explanation to the Law says this may be achieved in stages.</p> <p>(2) Salaries of teachers and university lecturers hired by the central government are allocated in central budget.</p> <p>(3) Funding for education units from the central government and regional governments is in the form of grants based on rules and regulations.</p> <p>(4) Education funding from the central government to regional governments is in the form of grants based on rules and regulations.</p> <p>(5) Details in a government regulation.</p>	<p><i>20% of development funding go to education.</i></p> <p><i>The new budget format does not have “sectors”. It only has “functions” and “departments/non-departmental agencies”.</i></p>
Para 50	<p>(1) Management of the education system is the responsibility of the [MONE] minister.</p> <p>(2) Central government sets national policy and NES to guarantee the quality of national education.</p> <p>(3) Central and/or regional governments provide at least one school at each level to be developed to international standard (“bertaraf internasional”)</p> <p>(4) Provincial government coordinates cross-district border provision of education, development of education personnel and provision of facilities for basic and secondary education.</p> <p>(5) District governments manage basic and secondary education, as well as education units based on local advantages (keunggulan lokal)</p> <p>(7) Details in a government regulation.</p>	
Para 51	<p>(1) Management of early childhood, basic and secondary education units based on minimum service standards and the principle of school/madrasah based management.</p> <p>(3) Details in a government regulation.</p> <p>Explanation says that school-based management is management by the principal and teachers assisted by the School/Madrasah Committee.</p>	<p>Kepmendiknas 129a/2004 contained minimum service standards for education.</p> <p>Cf. Law 32/2004 para 11 implementation for recent developments in MSS.</p> <p><i>Note: MSS are governed by Law 32/2004 on regional government, not the education law.</i></p>
Para 53	<p>Education Legal Entities (Badan Hukum Pendidikan)</p> <p>Explanation says this is to give a legal basis for education providers. May be a government-owned enterprise (BUMN).</p> <p>(1) Providers of education and/or formal education units, established by the central government or community will take the form of education legal entities.</p> <p>(2) The function of these entities is to provide education to students.</p>	

Reference	Description and Action required	Implementation
	<p>(3) The entities are non-profit and may manage their own funds for the progress of the education unit.</p> <p>(4) Details in a separate Law. <i>Note: not a government regulation.</i></p>	
Paras 54 - 56	Chapter Title: Role of the Community (Peranserta masyarakat)	
Para 54	<p>(1) Community includes:</p> <ul style="list-style-type: none"> • individuals • groups • families • professional organizations • business • social organizations. <p>(2) Roles include:</p> <ul style="list-style-type: none"> • source • provider • user <p>of education.</p> <p>(3) Details in a government regulation.</p>	
Para 55	<p>Community Based Education</p> <p>(1) Communities have the right to provide formal and non formal education with special characteristics of religion, social and political environment.</p> <p>(2) Providers of community based education develop and implement their curriculum and evaluation, as well as management and funding based on NES.</p> <p>(3) Funding may come from providers, the community, central and regional government and other sources in accordance with rules and regulations.</p> <p>(4) Community based institutions may receive technical assistance, funding subsidies and other funding sources in a fair and equitable manner from the central government and/or regional government.</p> <p>(5) Details in a government regulation.</p>	
Par 56	<p>Board of Education and School/ Madrasah Committee</p> <p>(1) The community has a role in improving education quality including:</p> <ul style="list-style-type: none"> • planning • supervision • evaluation <p>the education program through the Board of Education and School/Madrasah Committee.</p> <p>(2) Board of Education is an independent institution and plays a role in improving education through providing</p> <ul style="list-style-type: none"> • things to consider (pertimbangan) • direction • support in the form of personnel, facilities and 	

Reference	Description and Action required	Implementation
	<p>infrastructure</p> <ul style="list-style-type: none"> • supervision <p>at all levels [national, provincial, district] in a non-hierarchical relationship.</p> <p>(3) School/madrasah Committee is an independent institution and plays a role in improving education through providing</p> <ul style="list-style-type: none"> • things to consider (pertimbangan) • direction • support in the form of personnel, facilities and infrastructure • supervision <p>at the level of the education unit.</p> <p>(4) Details for Board of Education and School/Madrasah Committee in a government regulation.</p>	
Para 57	(1) Evaluation is for quality control as a form of accountability by the education provider to stakeholders.	
Para 58	<p>(1) Evaluation of students is done by educators to monitor</p> <ul style="list-style-type: none"> • process • progress • improved achievement <p>in a continuous manner.</p> <p>(2) Evaluation of students, education units and education programs is done by an independent agency</p> <ul style="list-style-type: none"> • regularly • thoroughly • transparently • on a systemic basis <p>in order to achieve NES.</p> <p><i>Note: I think the use of the term program here is to include tertiary institutions in the requirement for evaluation (and accreditation, cf. Para 60).</i></p>	
Para 59	<p>(1) Central and regional government evaluates providers, units, levels and types of education.</p> <p>(2) The community and/or professional organizations may form independent agencies to conduct evaluation in accordance with Para 58.</p> <p>(3) Details in a government regulation.</p>	
Para 60	<p>(1) Accreditation is done to establish the worthiness of programs and formal and non formal education units.</p> <p>(2) Accreditation by central government and/or an independent agency, as a form of public accountability.</p> <p>(3) Based on open ["terbuka": published, publicly available] criteria.</p> <p>(4) Details in a government regulation.</p>	
Para 62	<p>(1) Every formal and non formal education unit must have a permit from the central or regional government.</p> <p>(2) Requirements to obtain the permit include:</p> <ul style="list-style-type: none"> • content of the education 	

Reference	Description and Action required	Implementation
	<ul style="list-style-type: none"> • number and qualifications of the educators and education personnel • facilities and infrastructure • funding • system of evaluation and certification • management and education process. <p>(3) Permits are issued and revoked based on rules and regulations.</p> <p>(4) Details in a government regulation.</p>	
Para 65	<p>(1) Foreign educational institutions which are accredited in their home countries may offer education in Indonesia in accordance with rules and regulations.</p> <p>Explanation says that the rules and regulations include immigration, taxes, foreign investment and foreign labor.</p> <p>(2) Foreign basic and secondary institutions must offer religion and citizenship education to students who are Indonesian citizens.</p> <p>(3) Foreign providers are required to cooperate with Indonesian educational institutions and include Indonesian citizens as educators and managers.</p> <p>(4) Foreign providers follow Indonesian rules and regulations.</p> <p>Explanation says that the rules and regulations include curriculum, evaluation and levels of education.</p> <p>(5) Details in a government regulation.</p>	
Para 66	<p>(1) Central and regional government, Board of Education and School/ Madrasah Committee supervise provision of education services at all levels and types of education.</p> <p>(2) Principles of supervision:</p> <ul style="list-style-type: none"> • transparency • public accountability. <p>(3) Details in a government regulation.</p>	
Para 72	<p>Education providers who are not legal entities may continue to operate while waiting for the Law on Education Legal Entities.</p>	
Para 73	<p>Central and regional government have 2 years in which to issue permits for all formal education institutions which exist at the time this Law is passed and which do not have permits.</p> <p>Para 1 defines formal education as “structured” and in “levels” consisting of basic, secondary and tertiary.</p> <p>Non formal is defined as “outside of” formal but able to be structured and in levels (although the levels are not specified).</p>	

Law 14/2005 Concerning Teachers and University Lecturers

Reference	Description and Action required	Implementation
Para 1 Definitions	<p>(1) Teacher is at pre-school, primary and secondary levels.</p> <p>(2) University lecturer is at tertiary level.</p> <p>(4) Professional is a job or activity performed by a person for pay which requires expertise, expert ability or skill which fulfils quality standards or norms and requires professional education.</p> <p>(12) Educator certification is formal proof which is given to teachers and university lecturers as professional educators.</p>	
Para 2	<p>Teachers are professionals at pre-school, basic and secondary levels.</p> <p>Their status as professionals is proved by educator certification.</p> <p>Explanation: professional means that the job can only be done by people who fulfill the qualification.</p>	
Para 8	<p>Teachers must have the following types of qualifications:</p> <ul style="list-style-type: none"> • academic • competencies • certificates • health • skills. <p>Explanation: “healthy” means capable of fulfilling their activities as teachers. Does not exclude handicapped people.</p>	
Para 9	Academic qualification means sarjana or D4	
Para 10	<p>Competencies include pedagogic, personal, social, and professional.</p> <p>Competencies are acquired from professional education.</p> <p>Explanation:</p> <ul style="list-style-type: none"> • pedagogic means can manage learning by students • personal means mature, excellent character, wise, dignified, model for students • professional means understand the subject matter • social means communicate and interact with students, other teachers, parents and the community 	
Para 11	Certification program will be provided by tertiary institutions which have accredited teacher education and have been selected by government.	
Para 13	<p>Central and regional governments must provide funding for improving qualifications and certification of teachers in all education units [not just government].</p> <p>Academic qualifications and certification will be detailed in a government regulation.</p>	
Para 16	Government will provide salary supplement for professional certification equal to the base salary of the teacher.	GR 58/2006

Reference	Description and Action required	Implementation
	<p>Private school teachers will receive a supplement equal to what they would receive if they were civil servants.</p> <p>Funding will be provided via central and/or regional budgets.</p>	
Para 24	<p>Government is required to provide teachers to fulfill the needs of government schools.</p> <p>Provincial government is responsible for teachers at secondary and special ed schools.</p> <p>Districts are responsible for pre-school and basic education.</p> <p>Private schools must provide enough permanent teachers to fulfill their needs.</p> <p>Note: this is not just quantitative, but also includes qualitative qualifications.</p>	
Para 35	<p>Work load of teachers includes all basic tasks: planning lessons, implementing lessons, evaluating learning, guiding and training students and other additional tasks.</p> <p>Minimum work load is 24 hours of face-to-face and maximum is 40 hours of face-to-face per week.</p>	

Appendix 2

Education Sector in Current National Development Planning

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

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

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

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

Chapter II General Conditions

Section II.1 Current Conditions

Point A. Socio-cultural and religion

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

p. 5

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

p. 5

6. Educational levels have improved:

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

However these achievements are insufficient to face future global competition.

It is made worse by the increasing disparities in education levels between groups, especially between rich and poor, between urban and rural, between [geographical] regions and gender disparities.

p. 6

Section II.2 Challenges

Point A. Socio-cultural and religion

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

Challenges include:

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

Also:

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

p. 22

Point B. Economic

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

p. 24

Point D. Infrastructure and Facilities

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

p. 26

Point E. Politics

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

p. 28

Chapter III Vision and Mission

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

Indicators for progressive include:

- human resources with high quality education

High quality is measured by:

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

p. 37

Indicators for justice and prosperity include:

- equal access in all sectors, including education

p. 38

8 missions:

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

p. 39

2. Create a[n economically] competitive nation.

3. Create a democratic society based on law.

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

5. Create equitable distribution of development and [social] justice.

6. Create natural beauty and environmental sustainability.

7. Create an archipelago nation which is self-sufficient, progressive, strong and based on national interests.

[Code words for priority of marine, as opposed to terrestrial, development and national defence.]

8. Create an important international role.

Chapter IV Directions for Development

Section IV.1 Long-term development

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

Point A. Develop quality human resources

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

Basic education must be of high quality, accessible and free.
p. 47

Section IV1..3 Create a democratic society based on law.

2. Role of the state is to create self-sufficient and “adult” civil society with strong economy and education.
p. 58

Section IV.1.6 Create natural beauty and environmental sustainability.

10. To be achieved through both social learning and formal education at all levels.
p. 73

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

1. To be achieved through education.
p. 74

Section IV.2 Phases and Scale of Priorities

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

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

Improved human resources via education.
p. 78

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

Improved HDI scores, including education, supported by fully-consolidated national education system.
p. 79

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

p. 80

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

Achieve middle income status.

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

p. 81

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

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

pp. 82-83

Stronger links between education and higher accomplishments in science and technology.
p. 83

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

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

Vision 2004 - 2009

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

p. Part I, 1-1

Missions

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

p. Part I, 1-2

Strategies

1. Reform
2. Develop

p. Part I, 1-2

Challenges

1. Safe and peaceful Indonesia
 - separatism
 - crime
 - terrorism
2. Just and democratic Indonesia
 - existing laws and regulations which are not conducive
 - low quality of public services
 - weak political institutions and agencies
 - weak decentralization and regional autonomy

pp. Part I, 1-4 / 1-5
3. Prosperous Indonesia
 - low quality human resources (access to education)
 - low quality education
 - decentralization of education has not been completely successful
 - + health and social conditions¹⁶¹
 - + economic sectors

pp. Part I, 1-5 / 1-6

¹⁶¹ Important to note that these are tied to ministries and programs = budget allocations.

Priorities

3. Prosperous Indonesia

Third priority is quality of human resources as measured by HDI

first target is access and quality of education

p. Part I, 1-17

policies are:

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

pp. Part I, 1-18 / 1-19

Specific programs and targets for improving access to higher quality education

Constitution as basis for universal compulsory 9 year basic education

pp. Part IV, 26-1

Problems:

- average level of education low (7.1 years and 36% JSE or above; illiteracy 10%) which result in insufficient for knowledge-based economy and global competitiveness
pp. Part IV, 26-1
- demographic changes (reduced birth rates) causes changes in demand for education: reduced demand for primary; increased demand for lifelong and non-forma.
pp. Part IV, 26-1
- unequal access (rich-poor, male-female, urban-rural, geographical)
 - Susenas data (2003) showed that 76% of drop outs and non-transition was due to financial costs of schools
 - poor parents think education is expensive and benefits are not worth it
pp. Part IV, 26-1 / 26-2
- physical facilities for JSE and higher are unequally distributed
- quality is low and not relevant
 - number of teachers is insufficient and quality is low, including formal qualifications
 - teacher [economic] welfare is low
 - physical facilities are insufficient
 - not enough operational funding

 - result of this is that graduates are not entrepreneurial and prefer to be employees
pp. Part IV, 26-2 / 26/3
- education management is not effective and efficient
 - at both school and district levels
 - division of responsibility, including for funding is unclear
 - minimum service standards are not fulfilled
 - Boards of Education and school committees are not doing their jobs

pp. Part IV, 26-2 / 26-3

- not enough development budget funding for education¹⁶²
 - during the past 5 years (2000 – 2004) education was the highest priority (largest development budget sector)
 - two requirements of constitutional amendment and education law: 20% of budget for education AND free basic education
 - 2004 education was 21.5% of the central development budget
 - in 1999 – 2001, Human Development Report cited [central] public expenditure on education was 1.3% of GNP while 2003 Susenas showed private expenditures on education were 3.49% of expenditure → claims to show that private expenditures are larger than government

p. Part IV, 26-4

Targets:

- significant reduction in illiterate adult population
- measurable increase in percent of people who achieve 9 year basic education
 - reduce primary drop out rate to 2.06% and JSE drop-out to 1.95%
 - increase 7 – 12 year school participation rate to 99.57% and 13 – 15 year rate to 96.64%
 - increase primary gross enrolment to 115.76% and JSE to 98.09%
 - reduce completion time by reducing repetition rates to 1.63% for primary and 0.32% for JSE
- increased proportion of children receiving pre-school education
- increase proportion of people at SSE and tertiary levels
 - increase transition rates
 - reduce repetition
 - increase gross enrolment rates
- improve justice by decreasing urban-rural and gender differences
- increase the percent of teachers with full qualifications and professional certification; adjust numbers of teachers to numbers of students
- improve quality as measured by passing test scores
- improve R&D and new scientific and technological discoveries in tertiary and dissemination via social service

p. Part IV, 26-5

Policy directions

- increase compulsory universal 9 year basic education
- expand access and equity for SSE and vocational SSE to anticipate increases in enrolment from successful graduates of 9 year basic education; create SSE graduates who are quality labor force members
- expand access to tertiary to produce graduates for the labor market; tertiary institutions as the “spear point” for global competitiveness through development of science, technology and art
- improved access for groups which have not had equal access (poor, remote, conflict areas and handicapped)
- vocational and entrepreneurial education, including quality non-formal education

¹⁶² Note: this plan was drawn up before the budget format was changed in 2004.

- provide non formal education for people who cannot enrol in formal, especially illiterates and drop outs and others who want to improve their quality of life
- improve physical facilities and teachers
- improve [financial] welfare of teachers
- improve educational management and community participation
- increase autonomy and decentralization of education management by giving increased authority to schools, together with a system of control and guarantees of quality based on performance evaluation
- reform the education funding system to achieve 20% in 2009 in order to expand access to quality education
- better quality curriculum and implementation supported by media, for character formation and life skills so graduates can solve problems and be [economically] productive for a knowledge based economy and society
- develop multi-cultural education for national integration and values of pluralism, tolerance and inclusivity
 - p. Part IV, 26-6
- develop reading culture
- education R&D for policy, programs and activities in order to improve quality, access, effectiveness and efficiency in management
 - p. Part IV, 26-7

Programs¹⁶³

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

goal:

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

priorities:

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

activities:

- increased and improved quality infrastructure and facilities, especially for rural, remote and archipelago areas; rehabilitation of damaged facilities; provision of adequate operational funding; quality improvements
 - via block grants and counterpart funding
- multiple alternatives such as formal and non formal education, including special provision for handicapped and gifted students
- retrieval of drop outs and non-transitioners, including community-based EMIS and financial assistance in the form of scholarships and vouchers

¹⁶³ These correspond approximately to Directorates-General and/or Directorates within MONE.

- curriculum development, including vocational for JSE students who do not continue to SSE
- providing facilities, teaching-learning media and education technology, including equipment, textbooks, reading books, science and technology books as references
- special attention to gifted students
- school based management and community participation which gives authority and responsibility to the schools
- increased community participation in provision of services, funding and management; increasing community awareness of the importance of basic education for boys and girls
p. Part IV, 26-8
- policy development, planning, M&E, supervision based on transparency, accountability, participation and democracy
p. Part IV, 26-9

3. Secondary Education [2 Directorates within DG Basic and Secondary Education]

4. Higher Education [Directorate General]

5. Non formal Education [Directorate General]

6. Improving Teacher Quality [Directorate General]

7. Civil Servant Education and Training

8. Improving a Reading Culture and Libraries

9. Education R&D

10. Education Management

Ministry of National Education Strategic Plan 2005 – 2009

October 2005

Vision for MONE: Indonesians who are smart and competitive

education to transform traditional society into modern society

p. 9

Mission for MONE: Education which is capable of building Indonesians who are smart and competitive in a just/fair way, of high quality and relevant for global society needs.

p. 9

Goals for MONE, based on National Education System Law:

- upgrade faith and religious practice, good character and spiritual quality of students;
 - improve ethics and aesthetics, together with science and technology to improve social welfare;
 - provide equal access for all types and levels of education to all citizens; in a just/fair, non-discriminatory and democratic way;
- p. 10
- achieve the compulsory universal 9 year basic education program efficiently, with high quality and relevance
 - reduce illiterate adult population significantly
 - increase access to non formal education for males and females who have never enrolled, are illiterate, drop outs and non-transitioners and all others who want to improve their quality of life
 - raise national competitiveness through graduates who are self-reliant, high quality, skilled, expert and professional, can learn, have life skills, can face challenges and change
 - raise education quality through national education standards and minimum service standards, raise minimum qualifications and certification for teachers
 - improve the relevance of education through education R&D and development of science and technology by higher education institutions and dissemination through social service
 - reform education organization and management to be more efficient, productive and democratic in good governance and accountability
 - improve effectiveness and efficiency of management through school based management and community participation, effective autonomy and decentralization
 - eliminate corruption, collusion, nepotism for good governance in MONE

p. 11

Chapter 2 Situation Analysis

- Access and enrolment
- Quality and relevance
- Governance, accountability and public image

Lessons learned from decentralization

- some regions are taking initiatives
- reaping benefits of autonomy requires capable personnel at the regional level

- successful reform requires local ownership
- two constraints: funding and accurate information
p. 38

Medium Term Policy Framework

- Access
- Quality, relevance and competitiveness
 - national education standards
p. 45
 - testing and quality assurance through analysis of test results
 - accreditation
p. 46
- Governance, accountability and public image
 - governance and accountability achieved through performance-based funding at both the school and district level
 - school based management
 - community participation in planning, implementation and control of performance
p. 47
 - internal control and auditing systems¹⁶⁴
p. 48

Strategic Policies

- Access
 - BOS
 - [block grants] for school construction and rehabilitation + laboratories, libraries and books
 - teacher recruitment
 - expand non-formal education
 - expand adult literacy programs
 - expand special education schools and inclusive schools
 - alternatives for basic education in remote, sparsely populated, natural disaster, conflict and isolated areas and street children
 - pre-school/early childhood
 - life skills
 - vocational SSE
 - higher education
 - distance education programs
 - encourage private education providers
- Quality, relevance and competitiveness
 - national education standards
 - quality assurance based on national education standards through accreditation
 - professionalization of teachers
 - competencies for teachers
 - upgrade infrastructure and facilities [cf. second policy for access]
 - life skills
 - schools based on local comparative advantages
 - international standard schools

¹⁶⁴ The Minister is a Professor of Accounting.

- universities listed among the top 100 in Asia
- invest in vocational and professional [i.e. non academic] programs
- publications in education, science and technology
- ICT
- Governance, accountability and public image
 - internal control and auditing system in cooperation with government internal and external auditors
 - improve the inspectorate general
 - improve capability in planning and budgeting
 - p. 59
 - improve managerial capabilities [central]
 - improve enforcement of regulations
 - improve educational management capabilities [decentralized]
 - enforce Presidential Instruction 5/2004 on eliminating corruption, collusion and nepotism
 - improve preventive efforts by inspectorate general
 - p. 60
 - more intensive and extensive inspections by internal and external auditors
 - follow up on audit findings
 - p. 61

Programs:¹⁶⁵

- Pre-School/Early Childhood
- Universal Compulsory 9 Year Basic Education
 - Access
 - BOS
 - rehabilitate classrooms [annual quantitative targets are included]
 - build new schools and new classrooms
 - p. 65
 - 9 year basic education under one roof and Open JSE
 - special additional classes for retrieved drop outs and never-enrolled
 - Quality, relevance and competitiveness
 - curriculum, teaching-learning methods and evaluation system
 - p. 66
 - professional capacity of teachers
 - teaching-learning facilities and materials
 - p. 67
 - Governance, accountability and public image
 - improve Boards of Education and School Committees
 - EMIS
 - p. 68
- Secondary education
- Higher education
- Non formal
- Upgrading teachers
- Education R&D
- Education management

¹⁶⁵ These are budget lines/categories.

- Other programs (reading culture and libraries, R&D for science and technology, mainstreaming gender, supervision and accountability of government agencies, government and leadership services, human resources management, facilities and infrastructure for government offices)

Funding strategy:

- Priorities for limited resources
 - first priority for government resources is support for students from poor families and other disadvantaged children
 - second priority is funding for changes in policy to fulfil constitutional obligations and international commitments
 - third priority is estimates of future government and private sector funding availability
p. 98
- district governments must estimate their budget needs based on their strategic plans which are implementation plans for the central strategic plans
p. 99
- budgets must provide incentives and disincentives for education quality
p. 102
- budget estimates for 2005 based on Ghozali study actual; for 2009 based on Ghozali study ideal
p. 104

Monitoring and Evaluation

contains lists of the types of monitoring and evaluation to be implemented by each agency

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

pp. 120 – 121

core indicators:

- access and equity
 - enrolment ratios (including non formal programs)
 - disparities in enrolment between various groups (gender, urban-rural, poor-non poor, etc.)
 - adult illiteracy
- quality and relevance
 - exit examination scores
 - proportion of SSE in vocational programs
 - proportion of tertiary in vocational and professional programs
- governance
 - number of problems discovered in audits
 - rupiah value of problems discovered audits
 - rupiah value of cases followed up/solved
p. 122

A more comprehensive list of indicators is also given.

Government Work Plan 2007
Presidential Regulation 10/2006

To achieve the missions of the Medium Term Development Plan

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

Based on the following considerations:

1. Large impact towards achievement of the objectives so that there is a direct impact on people
2. Urgent and important
3. Task which falls to government as the main executor
4. Realistic

Chapter 1, para 4

Problems for 2007

Education: low quality compared to other ASEAN countries and MDG targets

p. 2-9

Theme for 2007:

reduce unemployment and poverty

p. 2-16

Priorities for 2007:

accessibility and quality of education (and health) is 4th out of 9

p. 2-17

Targets

1. Gross participation rate for primary 114.9%; for JSE 91.7% and school participation rate primary 99.5%; for JSE 91.1%
2. Gross participation rate for SSE 60.7% and school participation rate SSE 16.1%
3. More teachers with full qualification.
4. Adult illiteracy rate 6.7%
5. Distributional equity and fairness between groups (urban and rural; progressive and backward areas; rich and poor; boys and girls)

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Policy Directions, Focus and Priority Activities

1. Accessibility and quality of 9-year basic education

a. BOS

b. rehabilitation of schools

c. new JSE schools and combined primary-JSE schools; new classrooms for JSE schools

d. Student dormitories and teacher housing in remote areas and isolated islands

e. Textbooks

f. Supporting facilities (libraries and books, laboratories, teaching materials)

g. Open JSE, non-formal programs (Paket A and B)

2. Accessibility and quality of secondary and tertiary education

3. Teacher availability and quality

- a. Professional certification
 - b. Academic qualifications
 - c. Guidance for teachers and education staff
 - d. Education training and education
 - e. Improve teacher welfare, including providing assistant teachers and additional per-teaching-hour incentives for remedial teaching
4. Reduce illiteracy

After these introductory chapters, each sector (ministry or agency) has its own chapter. Education is Chapter 26. The chapters consist of two parts: text and matrix.

The text contains the following sections:

- General conditions (descriptive, including quantitative)
- Targets for 2007 (some quantitative)
- Policy Directions for 2007 (descriptive qualitative)

The columns of the matrix are as follows:

- program/activity from the Medium Term Development Plan
- program/activity for Government Work Plan 2007 (budget lines for programs/ activities in the previous column)
- program targets (one or more targets for each budget line; some “targets” are qualitative, e.g. “provide support for ...” as target for a budget line entitled “support for ...”)
- implementing agency
- indicative allocation (million rp.).

The notes following below are taken from the matrix for education.

Programs

1. Early Childhood Education
2. Compulsory 9-year Basic Education
3. Secondary Education
4. Tertiary Education
5. Non-formal education
6. Civil Service Education/Training
7. Teacher Quality
8. Reading and Libraries
9. Education R&D
10. Education Management

The matrix of notes given below is limited to the programs associated with (or relevant to) basic education, i.e. program 2 (Compulsory 9-year Basic Education), program 7 (Teacher Quality) and program 10 (Education Management). Only the first three columns of the original matrix are reproduced as the implementing agency for all these programs is: MONE, MORA and the indicative allocation column is empty.

Program/activity from the Medium Term Development Plan	Program/activity for Government Work Plan 2007	Program targets
Basic Education		
1. Facilities and infrastructure <ul style="list-style-type: none"> • new schools • new classrooms • laboratories • libraries • textbooks • teaching media • teachers and personnel • reconstruction for conflict and natural disaster areas • operational funding • block grants • matching funds 	1. BOS 2. School rehabilitation 3. New schools 4. Student dormitories and teacher housing 5. Block grants for quality improvement 6. National Standard and International Standard schools	1. BOS implemented 2. School rehabilitation implemented 3. New schools built 4. Student dormitories and teacher housing built 5. Block grants for quality improvement implemented 6. National Standard and International Standard schools implemented
2. Alternative modalities for various special needs	1. Alternative modalities <ul style="list-style-type: none"> • Non-formal (Paket A and B) • Small Primary Schools • Open JSE • multi-grade teaching 2. Inclusive (handicapped students in regular classrooms) programs	1. Alternative modalities implemented 2. Inclusive programs implemented
3. Retrieval programs for drop outs and non transitioners and: <ul style="list-style-type: none"> • reduce drop outs • eliminate gender discrimination • community-based EMIS • scholarships and vouchers • nutrition programs for primary level 	1. Retrieval scholarships 2. Transition scholarships 3. Scholarships for children who have never been enrolled	1. Retrieval scholarships provided 2. Transition scholarships provided 3. Scholarships for children who have never been enrolled provided
4. Develop the national and local curriculum including life skills and vocational for non-transitioners to SSE	Develop: <ul style="list-style-type: none"> • curriculum • teaching materials • teaching models 	Development of <ul style="list-style-type: none"> • curriculum • teaching materials • teaching models
5. Provide educational materials, teaching media and technology based on ICT and the world around the students	1. Textbooks and teaching media 2. Supporting facilities: <ul style="list-style-type: none"> • libraries and books • study centers • laboratories 3. Teaching models: <ul style="list-style-type: none"> • life skills • comprehensive teaching and learning (CTL) • bi-lingual 4. ICT based teaching-learning	1. Textbooks and teaching media provided 2. Supporting facilities built 3. Teaching models developed 4. ICT based teaching-learning implemented
6. Special programs for gifted and talented students	Special programs for gifted and talented students	Special programs for gifted and talented students implemented
7. School based management	School based management	School based management implemented
8. Providing information to the community to allow them to choose the level of educational quality they want	Providing information to the community to allow them to choose the level of educational quality they want	Information provided
9. Increase community participation and community understanding of the importance of basic education for boys and girls	Increase community understanding of the importance of basic education for boys and girls and community participation	1. Communities have better understanding 2. Communities improve participation

Program/activity from the Medium Term Development Plan	Program/activity for Government Work Plan 2007	Program targets
10. Improve policies, planning, M&E and supervision based on principles of transparency, accountability, participation and democracy	1. Develop education management 2. Accredite schools and evaluate student performance	1. Dissemination of education information (this is the budget line that funds the website) 2. M&E implemented 3. Accreditation and examinations implemented
Teacher Quality		
1. Improve teacher/student ratios, through fairness in recruiting, placement and distribution of teachers including former non-formal tutors	1. Develop teacher management systems across district borders 2. Teacher data and mapping 3. Improve administration 4. Develop personnel planning and management systems 5. Develop reward and legal protection systems 6. M&E	1. Teacher management systems across district borders developed 2. Teacher data and mapping implemented 3. Administration improved 4. Personnel planning and management systems developed 5. Reward and legal protection systems developed 6. M&E implemented
2. Improve services to teachers, including education and training so they fulfill professional qualifications, instituting a system of standards and performance appraisal based on class and school performance	1. Upgrade academic qualifications of teachers 2. Provide professional certification programs 3. Competency testing of teachers 4. Subject Matter Teacher Discussion Groups (MGMP), Teacher Working Groups (KKG), Principals Discussion Groups (MKKS) and Supervisors Discussion Groups (MKP) 5. [Provincial] Agencies for teacher training 6. Improved training programs for teachers 7. Improved facilities and infrastructure for teacher training	1. Upgrade academic qualifications of teachers implemented 2. Provide professional certification programs implemented 3. Competency testing of teachers implemented 4. Subject Matter Teacher Discussion Groups (MGMP), Teacher Working Groups (KKG), Principals Discussion Groups (MKKS) and Supervisors Discussion Groups (MKP) supported 5. [Provincial] Agencies for teacher training supported 6. Training programs for teachers improved 7. Facilities and infrastructure for teacher training improved
3. Improve teacher welfare and legal protection	1. Improve teacher welfare via: <ul style="list-style-type: none"> • give civil servant status to contract teachers • subsidies for non-permanent teachers • additional incentives for remedial teaching 2. Action research in classrooms	1. Teacher welfare improved 2. Action research in classrooms implemented
4. Develop laws and regulations for teacher welfare and legal protection	1. Develop an agency for teacher competency 2. Cooperation with other relevant agencies 3. Follow up to teaching as a profession (reference is to Law 14/ 2005) 4. Develop a legal framework for teachers in religious education	1. Agency for teacher competency developed 2. Cooperation with other relevant agencies implemented 3. Follow up to teaching as a profession implemented (reference is to Law 14/2005) 4. Legal framework for teachers in religious education developed
Education Management		
1. Implementing regulations for Law 20/2003	Socialize implementing regulations for Law 20/2003	Socialization of implementing regulations for Law 20/2003 implemented
2. Capacity building for institutions responsible for development of national education	Training, seminars, workshops and discussions about issues in education	Training, seminars, workshops and discussions about issues in education implemented
3. Developing integrated and holistic education management	1. EFA 2. Coordination of planning and	1. EFA implemented 2. Coordination of planning and M&E

Program/activity from the Medium Term Development Plan	Program/activity for Government Work Plan 2007	Program targets
and good school management, including private schools and religious schools	M&E	implemented
4. Develop an education funding system that is just, efficient, effective, transparent and accountable that gives more funds to those with bigger needs and provides clear division of responsibility of funding among levels of government	Improve systems and procedures for funding	Systems and procedures for funding improved
5. Raise productivity and effectiveness in the use of resources allocated to education by government and in schools	Via placement of teachers based on educational background and capabilities	Teachers placed based on educational background and capabilities
6. Improve the effectiveness of Boards of Education and School Committees and establish a National Professional Standards and Certification Board	1. Boards of Education to provide ideas on local content, teaching-learning strategies and evaluation. 2. Guidance for School Committees on planning, programs and resource management.	1. Boards of Education to provide ideas on local content, teaching-learning strategies and evaluation. 2. Guidance for School Committees on planning, programs and resource management. implemented
7. Develop a education management system, quality management and assurance systems that can respond to globalization	Evaluation of achievement of MSS in all districts	Evaluation of achievement of MSS in all districts implemented
8. Develop ICT including a national educational TV channel	1. Distance education via educational television and ICT 2. EMIS	1. Distance education via educational television and ICT implemented 2. EMIS implemented
9. Develop regional and international cooperation in education	Institutional cooperation among domestic agencies at all levels, international agencies and the private business sector	Institutional cooperation among domestic agencies at all levels, international agencies and the private business sector implemented

Appendix 3

BOS and the Fuel Subsidy Compensation Fund

Introduction

124. The School Operational Funding subsidy (Bantuan Operasional Sekolah/BOS) is an activity¹⁶⁶ (budget line) in the Compulsory 9 Year Basic Education (Wajib Belajar 9 Tahun/Wajar) program¹⁶⁷ of the current government. While the BOS is now a funding item in its own right, it has its origins in the social safety net and fuel subsidy compensation fund, which were political categories, not budget lines. This background explains some of the unusual features of the BOS funding procedures. Furthermore during the three fiscal years in which BOS has been included in the budget, the design and administrative procedures of the activity have changed substantially. Therefore it seems useful to provide a brief description of the BOS and its background.

Social Safety Net.

125. The social safety net activities, which would eventually evolve into the fuel subsidy compensation program and then into BOS, began as a component of the response to the foreign exchange crisis of late 1997. As part of the Indonesian commitment for International Monetary Fund (IMF) emergency assistance, GOI agreed to a “social safety net” concept. At this time, the concept was very loosely defined: “budgetary allocations for social spending will be increased, so as to ensure that all Indonesians receive at least nine years of education and better basic medical services.”¹⁶⁸ As the foreign exchange crisis deepened into an economic crisis, the first concrete commitment was community-based work programs to sustain the purchasing power of the poor in both rural and urban areas.¹⁶⁹ The next addition to the program was increased budgetary subsidies on food, fuel and electricity as well as subsidized credit schemes for small- and medium-size enterprises where most of the non-agricultural labor force was employed.¹⁷⁰ Almost a year into the crisis, the government began three new programs: subsidized rice for very poor families, scholarship programs for elementary and junior secondary students from poor families and block grants to schools to cover operational expenses which had increased due to the massive inflation.¹⁷¹ All these programs were funded through the development budget, with donor assistance. For the 1999/2000 academic year, the Asian Development Bank financed the scholarships and school grants in 16 provinces while

¹⁶⁶ Line item in the budget.

¹⁶⁷ Group of related activities which together form a funding category.

¹⁶⁸ Letter of Intent, October 31, 1997; (d) Social Safety Net; para 45.

¹⁶⁹ Memorandum of Economic and Financial Policies of the government of Indonesia, January 15, 1998, para 48.

¹⁷⁰ Supplementary Memorandum of Economic and Financial Policies, April 10, 1998, para 20.

¹⁷¹ Letter of Intent and Memorandum of Economic and Financial Policies, July 29, 1998.

the World Bank financed the other 10 provinces. The funds flowed through the development budget allocation for the relevant ministries, e.g. labor-intensive public works through Ministry of Public Works; rice through Bulog (the government-owned rice procurement agency); scholarships and school block grants through Ministry of Education and Culture.¹⁷²

126. In late March 2000, the government announced plans to increase fuel prices on April 1 in an effort to cut fuel subsidies. At the same time, it announced that it would protect poor families and public transportation passengers from the increases by providing them with cash aid to buy fuel at the new prices. After consultations with Parliament, the price increase was delayed until October and the government provided unconditional cash transfers to identified poverty families.¹⁷³

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

128. In June 2001, the government raised fuel prices again by 30 percent. At the same time, the government proposed to Parliament to provide budgetary allocations for assistance to public transportation operators to help them cope with the higher prices; additional subsidized rice for 1.2 million poor families; vaccination programs for children and other medical needs of the poor; scholarships and school renovation; clean water for poor villages; cheap loans for small enterprises; and assistance for empowerment of marginal fishing communities. The education assistance comprised scholarships for class 1, 2, 3 primary students, classes 1 and 2 JSE and SSE students;¹⁷⁴ block grants for operational funding for primary, JSE and SSE schools; students and tutors in the non-formal education program; and assistance to MORA for scholarships and student block grants. This was the first time that budget allocations for the social sectors had been explicitly linked to fuel prices. However the amounts of the increased budget allocations for social sectors were not directly related to calculations of reductions in budget allocations for fuel subsidies, instead they were based on the unit costs used for the social safety net activities.

129. The scholarship money was distributed to eligible students through the Post Office. The Ministry of Finance transferred the funds to the Post Office headquarters, while debiting the transfers from the Ministry of Education budget allocation. The

¹⁷² Name has been subsequently changed to Ministry of National Education.

¹⁷³ Originally the identification was made through a household census by the Family Planning Agency under its "Family Welfare Program" because the Agency had an existing system of categorizing households on "welfare" status using a combination of consumption levels, ownership of durable goods and other variables. Subsequent identification was made through household censuses by the Central Statistical Agency using a consumption poverty line.

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

¹⁷⁴ Scholarships for students in classes 4, 5, 6 primary and class 3 in JSE and SSE were financed under existing budget allocations to MONE.

Post Office headquarters then sent the money to local post offices for payment direct to the students.

Fuel Subsidy Compensation Fund.

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

- the difference between the price Pertamina pays in the international market (or the international price at which Pertamina could sell domestic production) and the domestic price
- multiplied by the quantity of fuel used.¹⁷⁵

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

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

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

¹⁷⁵ In 2003, serious under-estimates of the demand for gasoline resulted in a 30% shortage of cash available to Pertamina which, in turn, caused international banks to refuse to issue Letters of Credit for import of fuel. The WB PER, 2007 notes that cash flow is still a problem at Pertamina.

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

134. In January 2003, the Government raised the administered price of electricity, followed a day later by the price of fuel. Again the Government announced that there would be compensation for the poor in the form of subsidized rice, education and health services. However there were no new budget allocations announced and the “compensation” appears to have been a continuation of previously existing programs.

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

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

137. The government announced a “new progressive, pro-poor scheme” to minimize the impact of the fuel price increase on the poor in the form of a “new fund”, however the activities were a continuation and extension of previous activities, i.e. subsidized rice, education and health, public works, etc. For the first time, the government presented explicit calculations: showing that the budget allocation was Rp.19 trillion; without the fuel price increase (and under certain assumptions about the international price of oil) the subsidy would amount to Rp.39.8 trillion; and without the fuel price increase (under the same assumptions about the international price of oil) Rp.60.1 trillion would be required to fund the subsidy. Thus Rp.20 trillion was available as the savings in the fuel subsidy, of which the government would allocate half (Rp.10.5 trillion) to programs for the poor. This would be added to the existing budget allocations Rp.7.3 trillion for the same program to provide a total “fund” of Rp.17.8 trillion.¹⁷⁶ The government also offered a package of assistance to the owners of public transport so that they would not need to raise fares.

¹⁷⁶ Jakarta Post newspaper, Tuesday, 1 March 2005.

BOS

138. Domestic oil prices were raised in March 2005 and an extraordinary budget revision was submitted to Parliament. This step was necessary in order to provide funding channels for post-tsunami reconstruction as well as the revision in the allocation for subsidy to Pertamina and the fuel subsidy compensation assistance, which was programmed through central ministry budgets but sent to a variety of implementing agencies: provincial and district sectoral agencies (*dinas*), Askes Corp. (the state-owned insurance company), Bulog, etc. In June the revised budget was passed by Parliament, which raised the total allocation for poverty programs from Rp.10.5 trillion to Rp.12.5 trillion with almost the entire increase going for education.¹⁷⁷ The form of assistance for education was also changed from scholarships for low-income students to a per capita grant to schools. This was the Operational Assistance for Schools (*Bantuan Operasional Sekolah/BOS*) program. BOS was offered to all¹⁷⁸ schools and *madrasah* offering basic education (primary and JSE levels) while the scholarship program was retained for students at schools and *madrasah* offering senior secondary level education.

139. The official justification¹⁷⁹ for the BOS at this time was that poor households¹⁸⁰ had lower access to education (enrolment rates) and this violated both their right to education and jeopardize the successful achievement of the government's Universal Compulsory 9 Year Basic Education targets. It was claimed that one reason for the lower enrolment of children from poor households was the high cost of education, including indirect costs such as transport, pocket money, etc. The increase in fuel prices was seen as reducing poverty households' purchasing power, which would make it even more difficult for them to send their children to school and further threaten the Universal Compulsory 9 Year Basic Education targets.

140. It was explicitly stated that BOS would "free students from the burden of school operational costs ... [for] registration, tuition, examination fees and materials and costs of laboratory and workshop sessions."¹⁸¹ The goal of BOS was to provide assistance to schools in order to "permit them to eliminate student fees while still maintaining the level of educational quality".¹⁸²

141. Originally BOS was designed with a self-selection mechanism that would encourage only schools serving poverty students to apply. The original draft

¹⁷⁷ The allocation for health was raised slightly. The allocation for rural infrastructure remained the same, but the size of the block grant to each village was reduced from Rp.300 million to Rp.150 million in order to cover more villages.

¹⁷⁸ Except the Open JSE Schools (*SMP Terbuka*) because the additional costs of the "open" program were covered by a central MONE block grant to the Mother Schools (*Sekolah Induk*). The "Open JSE" is actually a program run by a regular (government) JSE called the Mother School (*sekolah induk*) in addition to its regular program. Mother schools were eligible for BOS to cover their regular enrolment, but not the open program enrolment.

In 2007 BOS coverage was extended to open program enrolment.

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

¹⁷⁹ Stated in the Handbook for Implementation (*Buku Panduan*) 2005, p. 2.

¹⁸⁰ And households living in remote or conflict areas and households with handicapped children.

¹⁸¹ *Ibid.*, p. 3.

¹⁸² *Ibid.*, pp. 3-4

handbook (and the original announcement by the Parliamentary Budget Commission) specified that any school accepting the BOS was required to stop charging all tuition and fees to students. The theory was that schools which were currently charging less than the BOS would apply for BOS and exempt their students from paying for education, while schools which were currently charging more than BOS (to more affluent families) would opt out of BOS.¹⁸³

142. However this requirement was changed under political pressure based on the constitutional guarantee of free basic education. As the Minister of Education explained: "We will begin providing free education beginning this upcoming school year ... however, the term 'free' would not mean that it would be totally without payment. 'Free' education will be given through block grants disbursed to all public, private and religious elementary schools and junior high schools across Indonesia. ... Schools will no longer be allowed to demand any kind of fees from poor students," he stressed. "They will be given grants, the amount of which will depend on the number of students in each school, not only poor students, multiplied by the cost per student," he said. " 'Free' education for the students who are capable of paying fees would be given by limiting the kinds of fees schools will be allowed to charge. ... We will decide what kinds of fees a school can collect from the non-poor," he said. Thus BOS is now available to all primary and JSE schools and madrasah who apply and fulfill the administrative requirements for receipt of the funds.¹⁸⁴

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

144. The 2007 Handbook also contain three sub-sections which link BOS to national education policies rather than to the fuel subsidy compensation mechanism. The first sub-section¹⁸⁵ discusses BOS in relation to the universal compulsory 9 year basic education program¹⁸⁶ and identifies BOS as an activity contributing to the increased and more equitable access group of programs.¹⁸⁷ This sub-section also requires principals to "pay attention to" the following aspects of access:¹⁸⁸

- it is imperative that no poor students drop out of school because of financial reasons

¹⁸³ This distinction was retained in the Handbook, even after the requirements were changed.

¹⁸⁴ Jakarta Post newspaper, Tuesday, 18 May 2005 and Handbook for Implementation (Buku Panduan) 2005, p. 7.

¹⁸⁵ This sub-section is included in the 2006 Handbook. The other sub-sections are new in the 2007 Handbook.

¹⁸⁶ The term "program" is used here as a synonym for "budget line" (containing many activities) while the same term later in the sentence is used as a synonym for "activity". The Indonesian term *program* is used in both senses, depending upon the context.

¹⁸⁷ The other two program groups are increased quality, relevance and competitiveness; and management, accountability and public image.

¹⁸⁸ Handbook for Implementation (Buku Panduan) 2007, pp. 10 – 11.

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

145. The second sub-section deals with BOS in relation to school-based management. The discussion emphasizes that BOS is school-based management in action because the funds are completely under the control of the school which empowers the school and increases community participation.¹⁸⁹ Finally the third sub-section discusses BOS and regional government (provincial and district). This sub-section lists the obligations of regional government:

- continue to provide operational funding for schools¹⁹⁰
- if the region (district or province) has a “free school” policy, then it must provide sufficient funding out of the regional budget to cover all costs
- provide “safeguarding” funding
- supervise use of BOS funds by schools.

Eligibility and participation

146. All schools and madrasah are eligible to receive BOS. Private schools must be properly registered with either MONE or MORA. Traditional Moslem boarding schools (*pondok pesantren*) which are registered as participants in the universal compulsory 9 year basic education program¹⁹¹ are also eligible to receive BOS for the students participating in the program.

147. Schools which have revenues larger than their BOS allocations are permitted to reject BOS funding and are not required to abide by BOS rules however the principal must register his/her rejection with the district BOS team. The notification of rejection must be counter-signed by the school committee. If the school has poor students, it is required to “guarantee” that they will not drop out for financial reasons.¹⁹²

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

- if the school has poor students, then these students must be relieved of all costs and fees and the remaining BOS funds used to “subsidize” other students

¹⁸⁹ *Ibid.*, pp. 11 – 12.

¹⁹⁰ This obligation was also stated in the 2005 and 2006 Handbook

¹⁹¹ Under this program, the students in the boarding school also receive instruction in the subjects comprising the national curriculum and sit for national exit examinations at the end of grade 6 and 9. This program is different from the situation in which madrasah are sited within the boarding school campus. A madrasah is a school: there are classrooms, desks and chairs, chalk board, etc. and the class schedule follows regular school hours. In the boarding school program, the lessons in national curriculum subjects are provided in the physical facilities of the boarding school where students sit on grass mats (or carpets) on the floor and the lessons are scheduled around the Islamic studies curriculum.

¹⁹² Handbook for Implementation (Buku Panduan) 2007, p. 2.

- if the school has no poor students, then the BOS funds must be used to reduce costs and fees to all students equal to the total BOS funds.

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

Size and Structure of BOS

150. BOS consists of funding provided from the central budget to schools and is calculated as a unit (per capita) cost x enrolment. The program disbursed Rp 5.3 trillion in June–December 2005 and Rp 11.12 trillion in 2006, which equated to around 25 percent of the overall central budget for education.¹⁹³

151. The unit cost allocations are shown in Table 2.

Table 2 Unit Cost Allocations for BOS

Year (fiscal)	Unit Cost (rp.)	
	Primary	JSE
2005: 2005/2006 1st semester	235,000 ¹	324,500 ¹
2006: 2005/2006 2nd semester, 2006/2007 1st semester	235,000	324,500
2007: 2006/2007 2nd semester, 2007/2008 1st semester	254,000	354,000

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

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

Although the unit cost allocation for BOS was unchanged between 2005 and 2006, the annual inflation¹⁹⁴ during 2005 was 17.11%, during 2006 was 6.60% and during the first quarter of 2007 was 1.91%. The total increase (from 2005 to 2007) for the BOS primary unit cost allocation was 8.08% and for JSE unit cost was 9.09% so the real value of the BOS funds received by schools has dropped significantly.

152. The unit cost structures were based on the results of an empirical study carried out by the Research and Development of MONE in 2002/2003¹⁹⁵, however the actual unit cost allocations were based on discussions among MONE, MOF and Parliament. MONE provided preliminary calculations to MOF and Parliament, who then fixed the total funds available for BOS. MONE divided the total funds available by the

¹⁹³ Spending for Development: Making the Most of Indonesia's New Opportunities -- Indonesia Public Expenditure Review 2007, World Bank Initiative for Public Expenditure Analysis, Jakarta 2007, p. 36.

¹⁹⁴ Central Agency for Statistics (Badan Pusat Statistik), Consumer price index. This is a national average – there are large regional differences.

¹⁹⁵ Published in 2005 as Abbas Ghozali, "Analysis of Unit Costs for Primary and Secondary Education (Analisis Biaya Satuan Pendidikan Dasar dan Menengah)", Research and Development Office, Ministry of National Education, Jakarta, 2005.

estimated enrolment and arrived at the unit cost allocation which was included in the handbook.

153. The methodological framework for identification of cost components used in the study followed the formula funding proposal developed by UNICEF/UNESCO for MONE in 2001.¹⁹⁶ This formula divided total costs into two categories: operational/recurrent costs and investment/capital/development costs. Only the former are covered by BOS. Operation costs are sub-divided into two categories: personnel and non-personnel costs. BOS covers the latter.¹⁹⁷ The cost items which may be paid out of BOS are shown in Table 3.

Table 3 Eligible Cost Items

Original 2005 instructions	Changes in 2006 and 2007
registration	expanded to include "all" activities related directly and indirectly to admissions and re-registration of returning students
required and supporting textbooks for the library collection	expanded to include reference books for the library collection ¹⁹⁸
teacher quality support (subject matter discussion groups/MGMP, principals' discussion groups, training, etc.)	no change
tests and examination fees	expanded to include costs of preparing reports
consumables (notebooks, chalk, pencils, consumables for laboratory sessions)	expanded the list to include office supplies for school administration and newspaper subscriptions
light maintenance	specified what activities were eligible, including painting, repairing leaky roofs, repairing doors and windows, repairing furniture 2007 added repairs to bathrooms and sanitary facilities
utilities	provided explicit lists including electricity, water and telephone and allowed installation of additional telephones to existing systems ¹⁹⁹
salary supplements for permanent teachers and payments to non-permanent teachers	specified that BOS was limited to salary payments for non-permanent staff and stated that salary supplements for teachers were the full responsibility of the District Government
student activities (remedial programs, special	expanded the list to include sports, art and specific

¹⁹⁶ McMahon, W. and Boediono, "Improving Education Funding in Indonesia," in McMahon, et.al., Improving Education Finance in Indonesia, Research and Development Office, Ministry of National Education, Indonesia, UNICEF and UNESCO, 2001.

¹⁹⁷ Personnel costs for civil servant teachers (and principals) in both government and private schools are covered by government budget allocations.

¹⁹⁸ 2007 added that these books were in addition to those purchased through BOS-for-Books (BOS Buku).

¹⁹⁹ I.e., if telephone lines already reach the school. Paying for running new telephone lines from the nearest existing point to the school is prohibited.

Original 2005 instructions	Changes in 2006 and 2007
tutoring for exit exam preparation, extracurricular)	examples of extra-curricular activities
transport costs for poor students	added that this assistance was limited to poor students who experienced “problems” in covering their transport costs to and from school
dormitories (for religious boarding schools only)	no change
equipment for religious rites (for religious boarding schools only)	no change
	new item: costs of BOS administration (office supplies, duplicating materials, correspondence, reporting)
	new item: transport reimbursement ²⁰⁰ for teachers but only for activities outside the regular teaching load
	new item: if all of the above have been covered and there are still BOS funds remaining, they may be spent for teaching-learning media and purchase of furniture

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

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

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

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

²⁰⁰ This is often a euphemism for salary supplements.

Payments Schedule and Mechanism

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

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

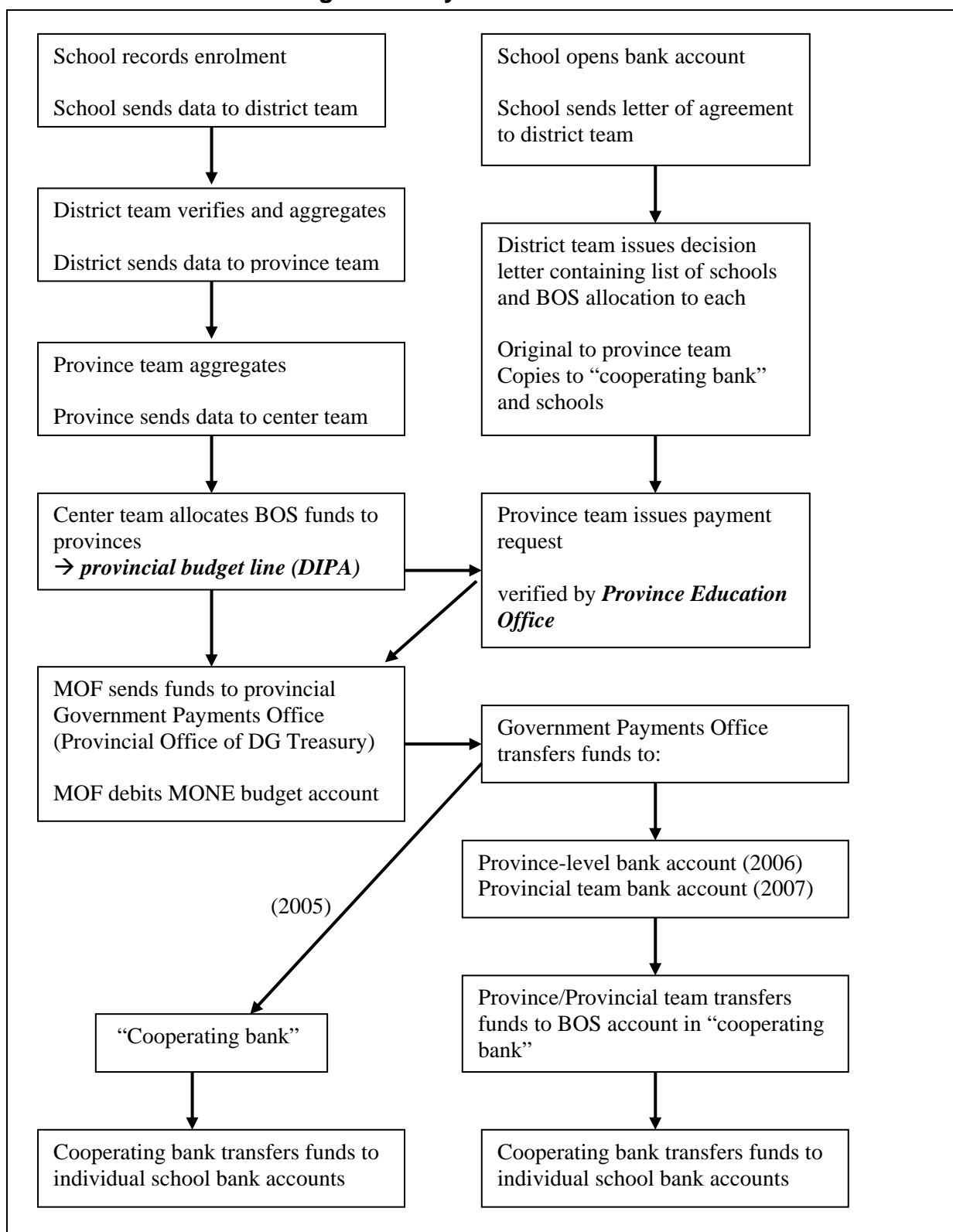
- 1st tranche for January and February;
- subsequent tranches for Java and Bali at 2-month intervals;
- subsequent tranches in other districts at 3-month intervals.

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

157. It is frequently said that BOS, like the fuel subsidy compensation funds and social safety net before it, flows “direct” from MOF to schools via the Post Office or school bank accounts. This was true in 2005, but is no longer correct as the payments mechanism has changed each year, cf. Figure 10.

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

Figure 10 Payments Mechanism



159. The discussion following is focused on MONE procedures, with supplementary comments on MORA procedures where they differ from MONE. MONE allocates its BOS budget based on enrolment data submitted by schools to district teams, which is then aggregated at the provincial and central levels. The budget allocation is reported to MOF as a budget item which will be spent in the provinces. In 2005 and 2006 the provincial budget item was attached to the office of the governor. Thus the BOS funds followed the same mechanism as the MONE deconcentration²⁰¹ funds.²⁰² In 2007, the provincial BOS management team has the legal status of a “budget user” (*satuan kerja/satker*) under MOF regulations²⁰³ which means it is eligible to control its own bank account.²⁰⁴

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

161. In 2005, the provincial (joint MONE/MORA fuel subsidy compensation team) issued a request for payment which was verified by the provincial education office. The provincial Government Payments office²⁰⁵ then released the money directly to the “cooperating bank” which transferred the money to the school accounts. In 2006, an additional step was added: the money went into the provincial-level bank account²⁰⁶ before being transferred to the cooperating bank. In 2007, as noted above, the provincial BOS management team had its own bank account which received the funds from the Government Payments office before transferring them on to the cooperating bank. These mechanisms were also applied to the MORA allocation, except that the verification is issued by the MORA provincial office.

162. A “cooperating bank” is a bank which has signed an MOU with the provincial team to distribute the BOS funds to the school bank accounts. In theory, schools are free to open their accounts at any bank, however in practice, the MOU may specify

²⁰¹ Deconcentration funds are MONE central budget funds which are allocated to the provincial governor as representative of the central government in the geographical area of the province.

Day-to-day management of the funds is delegated to the provincial education office. Deconcentrated funds are kept separate from the provincial budget (*APBD*) funds allocated to the provincial education office. Deconcentrated funds are spent for activities in the districts which comprise the province. They are managed by the district education office but kept separate from the district budget (*APBD*) allocation to the district education office.

²⁰² However MOF does not acknowledge BOS as legitimate deconcentration funding.

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

²⁰³ Provincial and district level agencies, such as the provincial/district education offices, cannot be budget users for central budget funding except for deconcentration funds (limited to provincial level agencies) and assistance task funds.

²⁰⁴ This may be related to the fact that the Fuel Subsidy Compensation Team was an ad hoc team while the BOS management team is linked to a specific budget line (BOS) within a recognized MONE program (universal compulsory 9 year basic education).

²⁰⁵ I.e. the provincial office of the Directorate General of Treasury in MOF.

²⁰⁶ In the name of the provincial education office as designated recipient of authority delegated from the governor.

that schools are required to open their accounts in the cooperating bank. The bank receives a service fee for providing the transfer services. Only government-owned banks are eligible to serve as cooperating banks. The Handbooks specify that the distributing financial institution may be either the Post Office²⁰⁷ or a cooperating bank, however in practice, the Post Office is no longer used.

BOS-For-Books (BOS Buku)

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

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

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

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

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

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

In conclusion, it should be noted that requirements, coverage, mechanisms and procedures for the BOS program (including BOS-for-books) change over time. This information should be updated annually in order to maintain its usefulness as a reference.

²⁰⁷ Which may be a hold-over from the social safety net mechanism.

Appendix 4

Glossary and Abbreviations

Alphabetical order based on the English term. Where there is no English term (cross-reference), alphabetical order is based on the Indonesian term.

English	Indonesian and abbreviation	Meaning
	Badan Pemeriksaan Keuangan/BPK	see State Auditor
	Badan Pengawasan Daerah/ Bawasda	see Regional Inspectorate
	Badan Perencanaan Pembangunan Kabupaten/ Bappekab	see: Regency Development Planning Agency
	Badan Perencanaan Pembangunan Kota/ Bappekot	see: Chartered Municipality Development Planning Agency
	Badan Perencanaan Pembangunan Nasional/Bappenas	see National Development Planning Agency
	Badan Perencanaan Pembangunan Provinsi/ Bappeprov	see: Provincial Development Planning Agency
	Bantuan Operasional Sekolah/ BOS	see School Operational Assistance
	Bappeda <i>(former name, no longer used)</i> Bappekab Bappekot Bappeprov	see: Chartered Municipality Development Planning Agency Provincial Development Planning Agency Regency Development Planning Agency
	Bappenas	see National Development Planning Agency
	Bawasda	see Regional Inspectorate
	Bupati	see Regent
	BOS	see School Operational Assistance

English	Indonesian and abbreviation	Meaning
	BPK	see State Auditor
Central-Regional Financial Balance Law	Undang-undang 33/2004 tentang Perimbangan Keuangan antara Pemerintah Pusat dan Pemerintah Daerah	Law 33/2004 concerning Financial Balance between the Central Government and Regional Government(s)
Chartered Municipality	Kota (formerly Kotamadya)	A type of district which meets certain criteria of urbanization. Note: these criteria are different from those used for the "urban-rural" classification of statistics.
Chartered Municipality Development Planning Agency	Badan Perencanaan Pembangunan Kota/Bappekot	Agency responsible for district development planning in chartered municipalities. Part of the municipality government; not subject to authority of Bappenas.
	Daerah	see Region
	DAK	see Sectoral Block Grant Allocation
	Dana bagi hasil/DBH	see Shared revenues
	DAU	see General Block Grant Allocation
	Departemen Agama/ Depag	see MORA
	Departemen Dalam Negeri/ Depdagri OR Dagri	see MOHA
	Departemen Keuangan/ Depkeu	see MOF
	Departemen Pendidikan Nasional/Depdiknas	see MONE
Development planning consultations	Musyawaharah perencanaan pembangunan/Musrenbang	Public consultations organized by Bappenas to discuss draft plans (long-term and medium-term). Mandated by the planning Law.
	Dewan Perwakilan Rakyat/ DPR	see: Parliament
	Dewan Perwakilan Rakyat Daerah/DPRD	see: Regional Legislative Assembly
	Dinas	see Regional Sectoral Office
	Dinas Pendidikan	see Regional (Provincial or District) Education Office
District	Kota AND Kabupaten	Geographical sub-division of a province, which has its own Executive and Legislature. Not subordinate to the

English	Indonesian and abbreviation	Meaning
		province.
District office of a central (sectoral) ministry	Kantor Departemen/ Kandep	District office for sectoral activities in a non-decentralized sector, e.g. District Office of MORA which oversees madrasah Not part of District Government.
Education Law	Undang-undang 20/2003 tentang Sistem Pendidikan Nasional	Law 20/2003 concerning the National Education System
Finance Law	Undang-undang 17/2003 tentang Keuangan Negara	Law 17/2003 concerning State [Government] Finance
Financial Inspection Law	Undang-undang 15/2004 tentang Pemeriksaan Pengelolaan dan Tanggungjawab Keuangan Negara	Law 15/2004 concerning Inspection of Management and Responsibility for State [Government] Finance
General Block Grant Allocation	Dana Alokasi Umum/DAU	Central transfer to regional budgets in the form of an unrestricted block grant
"general" schools	sekolah	A term used by MORA to refer to schools under MONE jurisdiction.
[central] Government	Pemerintah	Literally: government. Used in legal documents without an adjective, always refers to the central government.
Government Regulation/ GR	Peraturan Pemerintah/ PP	Implementing regulation for a Law, issued by the President
Government Work Plan	Rencana Kerja Pemerintah/RKP	Annual Work Plan for Central Government as a whole
Governor	Gubernur	Chief executive of a Province.
Head of Region	Kepala Daerah	Chief executive of a region. Includes Governors, Mayors and Regents.
Head of Region Executive Order	Peraturan Walikota/ Peraturan Bupati OR Surat Keputusan Walikota/Surat Keputusan Bupati	Implementing regulation for a Regional Regulation, issued by the Head of Region
	Instruksi Presiden/Inpres	see Presidential Instruction
	Instruksi Menteri/Inmen	see Ministerial Instructions
	Kabupaten	see District (general) OR (specific) Regency
	Kantor Departemen/ Kandep	see District office of a central (sectoral) ministry

English	Indonesian and abbreviation	Meaning
	Kantor Wilayah/Kanwil	see Provincial office of a central (sectoral) ministry
	Kepala Daerah	see Head of Region
	Kota	see District (general) OR (specific) Chartered Municipality
Law (capitalized)	Undang-undang/UU	Law passed by (central) Parliament
madrasah OR madrasah schools	madrasah	A term used by both MORA and MONE to refer to the “general schools with special Islamic characteristics” which are under MORA jurisdiction. <i>The term “Islamic schools” is inappropriate for madrasah.</i>
	Majelis Permusyawaratan Rakyat/MPR	see: Peoples’ Consultative Assembly
Mayor	Walikota	Chief executive of a Chartered Municipality.
Minimum service standards/MSS	Standard pelayanan minimum/SPM	Standards for providing services in decentralized sectors mandated in regional government Law. Standards will be defined by the sectoral ministry. Standards are binding on district governments.
Ministerial Decision	Surat Keputusan Menteri/SK	Implementing regulation, issued by the Minister charged with implementation of the original Law, used primarily for issuing permits, announcing the winners of procurement/tenders, etc.
Ministerial Instruction/MI	Instruksi Menteri/Inmen	Implementing regulation, issued by the Minister charged with implementation of the original Law, frequently used to provide more detailed information, e.g. lists of budget transfers from central budget to regional budgets are issued as MI by Ministry of Finance.
Ministerial Regulation/PR	Peraturan Menteri/Permen	Implementing regulation for a Law or Government Regulation, issued by the Minister charged with implementation of the original Law
Ministry Annual Work Plan	Rencana Kerja Tahunan-Kementerian/Lembaga Renja-KL	Annual Work Plan for a Ministry
Ministry [annual] Work	Rencana Kerja dan Anggaran –	Preliminary budget document prepared

English	Indonesian and abbreviation	Meaning
Plan and Budget	Kementerian/Lembaga RKA-KL	by ministries.
MOF	Departemen Keuangan/ Depkeu	Ministry of Finance
MOHA	Departemen Dalam Negeri/ Depdagri OR Dagri	Ministry of Home Affairs: responsible for regional government
MONE	Departemen Pendidikan Nasional/Depdiknas	Ministry of National Education: responsible for overseeing the national education system. Has direct jurisdiction over "general" schools. Ref: MORA
MORA	Departemen Agama/ Depag	Ministry of Religious Affairs: one of its responsibilities is to oversee the "madrasah" schools which are defined as "general schools with special Islamic characteristics." <i>The term "Islamic schools" is inappropriate for madrasah.</i>
	Musyawaharah perencanaan pembangunan/Musrenbang	see: Development planning consultations
National School and Madrasah Accreditation Agency	Badan Akreditasi Sekolah-Madrasah Nasional/BAS-MN	Independent Agency, established by and responsible to the President with the task of developing standards and procedures for accrediting schools and madrasah.
National Development Planning Agency	Bappenas	Agency responsible for drawing up Long-Term (20 year) and Medium Term (5 year) national development plans. Chairperson holds ministerial rank.
National Education Standards/NES	Standard pendidikan nasional	National standards for education. Cover input, process, output and evaluation. Will be defined by the NES Agency and issued by MONE. Binding on all education institutions (MONE and MORA).
National Education Standards Agency/NES Agency	Badan Standard Nasional Pendidikan/BNSP	Independent Agency, established by and responsible to the President with the task of developing NES.
Parliament	Dewan Perwakilan Rakyat/ DPR	National legislative agency.
	Peraturan Daerah/Perda	see Regional Regulation
	Peraturan Menteri/Permen	see Ministerial Regulation
	Peraturan Pemerintah/ PP	see Government Regulation

English	Indonesian and abbreviation	Meaning
	Peraturan Presiden/Perpres	see Presidential Regulation
Peoples' Consultative Assembly	Majelis Permusyawaratan Rakyat/MPR	Highest governmental authority. Members consist of all members of Parliament + representatives of "functional groups" (stakeholders). Has authority to amend the Constitution and impeach the President.
Planning Law	Undang-undang 25/2004 tentang Sistem Perencanaan Pembangunan Nasional	Law 25/2004 concerning the National Development Planning System
Presidential Decision	Surat Keputusan Presiden/SK	Implementing regulation issued by the President, used primarily to provide legal foundation for "policy" packages
Presidential Instruction/PI	Instruksi Presiden/Inpres	Implementing regulation issued by the President, used primarily for making appointments, creating "teams", etc.
Presidential Regulation/PR	Peraturan Presiden/Perpres	Implementing regulation for a Law or Government Regulation, issued by the President
Province	Propinsi	Geographical sub-division of the unitary state of Indonesia, which has its own Executive and Legislature. Consists of districts but the hierarchy is only geographical.
Provincial Development Planning Agency	Badan Perencanaan Pembangunan Provinsi/Bappeprov	Agency responsible for provincial development planning. Part of the provincial government. Not subject to authority of Bappenas and not having authority over district planning agencies.
Provincial office of a central (sectoral) ministry	Kantor Wilayah/Kanwil	Provincial office for sectoral activities in a non-decentralized sector, e.g. Provincial Office of MORA which oversees madrasah. Not part of Provincial Government.
	Provinsi	see Province
Regency	Kabupaten	A type of district which does not meet the criteria of urbanization required to become a Kota. Note: these criteria are different from those used for the "urban-rural" classification of statistics. Regencies can be "urban" for statistical purposes.

English	Indonesian and abbreviation	Meaning
Regency Development Planning Agency	Badan Perencanaan Pembangunan Kabupaten/ Bappekab	Agency responsible for district development planning in regencies. Part of the regency government; not subject to authority of Bappenas.
Regent	Bupati	Chief executive of a Regency.
Region (Provincial or District)	Daerah	Geographical unit with its own government (executive and legislature) outside the center. Includes both Provinces and Districts (Chartered Municipalities and Regencies).
Regional government	Pemerintah daerah/pemda	Governmental unit outside the center. Opposite of "central" government:
Regional Government Law	Undang-undang 32/2004 tentang Pemerintah Daerah	Law 32/2004 concerning Regional Government
Regional Inspectorate	Bawasda	Internal auditor for regional government agencies
Regional Legislative Assembly	Dewan Perwakilan Rakyat Daerah/DPRD	Regional (provincial or district) legislative agency.
Regional Regulation/RR	Peraturan Daerah/Perda	Law passed by regional (provincial or district) legislature.
Regional (Provincial or District) Education Office	Dinas Pendidikan	Unit of regional government with responsibility for education in the region.
Regional Financial Information System/RFIS	Sistem Informasi Keuangan Daerah/SIKD	Database in MOF to track regional budgets and financial statements WB assisted MOF to establish the system. Information can be submitted on-line. Most recent data available for public access is 2003.
Regional Sectoral Office	Dinas	Responsible to Head of Region, not to central sectoral ministry.
Regional Sectoral Office Annual Work Plan	Rencana Kerja Tahunan Satuan Kerja Perangkat Daerah /Renja-SKPD	Annual work plan for a regional sectoral office
Regional Sectoral Office Strategic Plan	Rencana Strategis Satuan Kerja Perangkat Daerah /Renstra-SKPD	Medium term (5 year) plan for a regional sectoral office
	Rencana Kerja Pemerintah/RKP	see Government Work Plan

English	Indonesian and abbreviation	Meaning
	Rencana Kerja Tahunan-Kementerian/Lembaga Renja-KL	see Ministry Annual Work Plan
	Rencana Kerja Tahunan Satuan Kerja Perangkat Daerah Renja-SKPD	see Regional Sectoral Office Annual Work Plan
	Rencana Strategis/Renstra	see Strategic Plan
	Rencana Strategis Satuan Kerja Perangkat Daerah /Renstra-SKPD	see Regional Sectoral Office Strategic Plan
	Renja-KL	see Ministry Annual Work Plan
	Renja-SKPD	see Regional Sectoral Office Annual Work Plan
	Rencana Kerja dan Anggaran – Kementerian/Lembaga RKA-KL	see Ministry [annual] Work Plan and Budget
	RKA-KL	see Ministry [annual] Work Plan and Budget
School Operational Assistance	Bantuan Operasional Sekolah/BOS	Program (budget line) in MONE budget. Provides central government budget funds direct to schools based on school enrolment.
Sectoral Block Grant Allocation	Dana Alokasi Khusus/DAK	Central transfer to regional budgets in the form of a block grant tied to specific activities in a specific sector.
Shared revenues	Dana bagi hasil/DBH	A revenue source in regional budgets, consisting of the region's share of revenues generated on the region's own tax base (in the case of provinces, revenues generated from the districts comprising the province) and shared with the central government and/or other regions.
	Sistem Informasi Keuangan Daerah/SIKD	see Regional Financial Information System
	Standard pelayanan minimum/SPM	see: Minimum service standards/ MSS
State Auditor	Badan Pemeriksaan Keuangan/BPK	Independent agency for external audit of government agencies
Strategic Plan	Rencana Strategis/Renstra	Medium term (5 year) plan for a central

English	Indonesian and abbreviation	Meaning
		ministry OR a regional government sectoral office (<i>dinas</i>)
	Surat Keputusan Presiden/SK	see Presidential Decision
Treasury Law	Undang-undang 1/2004 tentang Perbendaharaan Negara	Law 1/2004 concerning the State [Government] Treasury
	Undang-undang/UU	see Law
	Walikota	see Mayor