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Even when notoriously difficult reforms such as adjusting transfer mechanisms, MoEC can still improve the system significantly, in addition to exploring some strategic programs such as BOS, MoEC can move to incentivize and assist districts in teacher management through clear guidelines and by helping districts to implement multigrade teaching and other reforms.

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Strategic reallocation of performance-based transfers, are largely out of the control of MoEC—falling instead under the Ministry of Finance and the Ministry of Home Affairs. Such recommendations may have consequences for many sectors, not only education; balancing incentives and the interests of various stakeholders will be complex and require improved advocacy and coordination.

The sequencing of reforms is important. Some issues are more pressing or politically sensitive than others. Teacher management should be dealt with urgently in order to free up resources and stop the trend of unwise hiring and uneven teacher distribution. Improving budget planning and transparency are important in the context of the 20 percent "rule". These two reforms would set the stage for a more sustainable expansion in the future. Other reforms may require further reflection and planning—for example, safer increasing spending on IDD is desirable, funding sources need to be explored.

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Expanding and improving the Scholarships for the Poor (Barangin Siswa Miskin, BSM) will increase equity of access in education, increasing the scholarship amounts.

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200

number of teachers

Dealing eff ectively with small schools through the reallocation of

Figure 5: Distribution of additional funds from the 23 percent rule by program, 2009

with Quality of Education.

Implementing all these reforms will be challenging due to the

4. Indonesia needs to spend better to ensure that resources are translated into improved effi ciency (adequate), equity (in performance and education)

Figure 4: Distribution of the budget by level of education, 2006-2016

3. Ineffi cient spending, particularly on teachers, helps to explain why increased resources have not resulted in suf fi cient improvements in learning outcomes.

On the quality side, learning outcomes are still low and there are worrisome trends in math and science. The share of top performers is extremely low.

The central government, therefore, can play a more

The 20 percent rule makes holding spending agencies accountable more challenging because the pressure to show results at the sub-national level is counterbalanced by the lack of clear incentives for these transfers to make real effi ciencies and equity gains diffi cult to achieve in the short term. The Central Government is more likely to retain these gains. Thus the increased allocation of resources to basic education is likely to lead to more effi cient spending, and increasing the quality of education must be a top priority.

Judging by international comparisons, after the 20

the program improved the livelihoods of teachers, it did not lead to improvements in learning outcomes for students.

It is clear that this composition will have to change in the future. The priorities of the budget planning process in education will likely become more effi cient in the future

The central government can be more effi cient in creating and implementing some of the reforms. For example, it can be more proactive in using annual reports to...
more efficient spending in other areas, such as basic education and the Bantuan Siswa Miskin, BSM) will increase equity of access to education. Increasing the scholarship amounts, using the latest government teacher allocation guidelines, we estimate that about 340,000 teachers, or 17 percent of the Geser Guna Pendidikan (GGP) goal, could be used to deal with shortages more strategically.

Dealing effectively with small schools through the reallocation of resources, especially in small schools, as they are based on teaching groups as opposed to student-teacher ratios. By increasing the mobility of teachers and expanding the performance-based component of its spending, the central government can improve the efficiency of education spending.

3. Inefficient spending, particularly on teachers, helps to explain why increased resources have not led to sufficient improvements in learning outcomes.

Between 2006 and 2009, spending on education increased by 17 percent in real terms but basic education still received less than 50 percent of the total education budget. Spending on secondary and higher education are underfunded by international standards, and scholarships received only 1 percent of the total budget in 2009. Increasing funding for these levels will require using the latest government teacher allocation guidelines for district governments to focus more on teachers and less on managing and funding schools. The central government needs to provide the right incentives for district governments to reallocate resources more equitably and introduce more active district involvement in school management.

More important is the destination of these funds: more than half of the additional resource went to teachers and teacher certification. The increase in spending on teachers was driven mostly by increases in the total number of teachers, but the “regularization” of contract teachers to civil service status would increase the salary bill by at least 50 percent, while providing certification allowances would more than double the salary bill. Given the current number of teachers in Indonesia, teacher certification is a complex political economy.

The problem with spending on increasing the number of teachers is that this gives the current levels of student-teacher ratios, which new teachers do not load to better learning outcomes. At the school level, there is no correlation between small schools and learning outcomes in basic education. However, the provinces and districts, which have large differences in terms of per capita spending rates, still spend significantly more on students per capita at the district level (which is largely driven by district governments’ “master financial” budgets and contracts that are based on results in national exams. Both graphs suggest that adding teachers will not result in better learning outcomes.

4. Indonesia needs to spend better to ensure that resources are translated into improved efficiency and equity. What can the government do?

The amount of resources available for education in Indonesia is large. The key to the way that the resources are used is the governance arrangements and the way that the teacher certification program needs to be reassessed. The share of the budget going to non-basic education will likely increase more rapidly in the near future.

In the medium term, Indonesia will have to reassess the present composition of spending. When compared, with other countries in the region, Indonesia has a more equally skewed toward human services than the other countries. This is clear that this composition will have to change in the future. The teacher certification program needs to be reassessed. The share of the budget going to non-basic education will likely increase more rapidly in the near future.

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5. The central government must provide the right incentives for district governments to improve learning, management and budget planning. The central government can take several steps to allow for over 50 percent of the total education budget and manage two of the most important central government programs, senior secondary and vocational education.

Districts rely on central government transfers to pay for teachers. This central government, therefore, plays a critical role in district decision-making, including through more effective policy design, capacity building, and providing incentives to districts for improving school management, in particular on teachers and more in managing funding of schools.

Districts face incentive to overspend from two central government programs: the sub-national transfer formulas (DAI) and the guidelines for teacher distribution. The basic problem with the DAI formula is that it fails to take into account the sub-national government’s (Daerah Tingkat Atas or DTA) total expenditure on education, which the central government (Daerah Tingkat Pemerintah Pusat or DTP) uses to decide on the amount of DAI transfer. By doing this, which is what the guidelines for teacher allocation intends to support high teacher-to-student ratios, in small schools, and inefficient use of resources (governed as groups or in student-teacher ratios). By building these two into these operating the basic-teacher component of its spending, the central government can improve the efficiency of the education budget reporting at the sub-national level and to design and monitor policies per results at the local level.

Other important area’s include improving the literacy rate and the quality of the education budget reporting at the sub-national level and to ensure learning outcomes. Improved budget reporting is needed to ensure accountability and transparency in the planning and allocation of resources. The improvement in the learning outcomes. The improvement in the planning and allocation of resources.

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more efficient spending in other areas, such as basic education and basic education.

Basic Education

The teacher certification program needs to be reassessed, as teachers are less likely to hold second jobs, students of certified teachers do not perform significantly better on test scores. Thus the inclusion in 2012 of a competency-test to determine eligibility before a teacher starts the certification process.

More important is the destination of these funds: more than half of the additional resources went to teacher salaries and teacher certification. The increase in spending on teacher salaries did not increase, in the total number of teachers, but increased the number of contract teachers. Some regions in Indonesia, in particular the BOSDA program, which absorbs 9 percent of the education budget, has shown no significant impact on learning outcomes.

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4. Indonesia needs to spend better to ensure that resources are translated into improved efficiency, adequate equity, and good performance in education.

The amount of resources available for education in Indonesia is largely adequate -- the key is to ensure that the resources are used wisely. A recent study of the effectiveness of the teacher certification program found that only 60 percent of the available teachers were able to be certified for providing evidence of past teaching practice and the need for additional resources being made available. Sufficiently trained teachers, in addition to the right to become certified, do perform better on test scores. Thus the effects of certification on learning do not seem commensurate with the high cost of the program.

The problem with spending on increasing the number of teachers is that it gives the current levels of student-teacher ratios in schools, which lower these ratios need not lead to better learning outcomes. At the school level, there is no correlation between the number of teachers and achievement in Bahasa Indonesia or math. At the district level, there is a slight increase in student-teacher ratios (this is largely driven by urban and suburban districts) and a slight increase in teacher-student ratios in the world in 2005 but the number of teachers has outgrown the number of students every year since 2004. Given the rate of growth, projections show that the salary bill will only approximately halve on reliance on contract teachers. The deployment of staff in one location has reduced the number of teachers every year since 2004.

Green cards are given to teachers in the public sector, but teachers in the private sector receive only 30 percent of the salary. In fact, the private sector salary is lower than the salary bill. Given the current number of teachers, the average salary in the public sector for a public school teacher is lower than the salary bill. The average salary in the private sector is lower than the salary bill.

More efficient spending in other areas, such as basic education and the teacher certification program (which absorbs 6 percent of the education budget) has shown no significant impact on learning outcomes. Thus, it is intended to improve teacher performance and attract the best and the brightest to the profession. The program may have been weakened by the simple stipulation for a fixed period of teaching practice and the need for additional resources being made available. Sufficiently trained teachers, in addition to the right to become certified, do perform better on test scores. Thus the effects of certification on learning do not seem commensurate with the high cost of the program.

Improved budget reporting is needed to ensure accountability in the transparency in the planning and allocation of resources. The government is making substantial progress in improving district support and funding to schools. The 20 percent rule makes holding spending agencies accountable more challenging because the pressure to show results at higher levels is not held at the lower levels. In 2008, the government increased the funding for education from 20 percent to 25 percent of total state budget. A 20 percent rule on spending for education is not aligned with the interests of local governments, which need to allocate resources in order to ensure better learning outcomes.

Given that 90 percent of funds are spent at the district level and school level, it is critical that district governments improve teacher management and budget planning. The central government can improve district support and funding to schools by allowing districts to allocate resources more equitably and increasing the number of teachers. Some districts may have more teachers than necessary, while others may have a shortage of teachers. This makes it difficult to improve teacher management and budget planning. The central government can also better support districts in managing and funding schools.

Moreover, a timely implementation of the national teacher certification program has been delayed. The program may have been weakened by the simple stipulation for a fixed period of teaching practice and the need for additional resources being made available. Sufficiently trained teachers, in addition to the right to become certified, do perform better on test scores. Thus the effects of certification on learning do not seem commensurate with the high cost of the program.

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The allocation of additional funds in 2008 increased by 17 percent in real terms but basic education still received worse than the average. The increase in spending on level of education changed slightly, with secondary and tertiary levels receiving slightly higher funding than elementary education. Compare to other countries in the region in

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Figure 5: Distribution of additional funds from the 2008 percent rule, by 2009

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Figure 4: Distribution of the budget by level of education, 2008-2010

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Figure 3: Indonesia PISA scores in mathematics, reading and science, average scores, 2000-2009

3. Inefficiency spending, particularly on teachers helps to explain why increased resources have not increased the rate of sufficient improvements in learning outcomes.
Teacher management should be dealt with urgently in order to free up resources and stop the trend of excessive hiring and uneven teacher distribution. Improving budget planning and transparency are important in the context of the 20 percent ‘smart’ rule. These two reforms would not only ensure a more sustainable expansion in the future. Other reforms may require further reflection and planning—for example, aligning increasing spending on EDD—while ensuring that funding sources are available and funding structures are maintained.

Even pending notoriously difficult reforms such as adjusting transfer mechanisms, MoEC can still improve the system significantly. In addition to exploring some strategic programs such as BSM, MoEC can move to incentivize and assist districts in teacher management through clear guidelines and by helping districts to implement multigrade teaching and other reforms.

It is time to translate the strong commitment to education into higher quality education. Indonesia is ready for that qualitative leap. Although it will require the collaboration and coordination of many actors, the potential gains are plentiful. As Indonesia consolidates as a middle-income country, the presence of a highly-skilled labor force will be crucial. Improving the quality of education by improving the quality of spending would be a big step toward ensuring the country is prepared.

Teacher Management
- Reform the BSM and use the performance-based formula
- Provide incentives for teachers
- Redistribute before hiring
- Provide support for low capacity districts

School and District Management
- Provide incentives for BOSDA
- Program development to improve performance
- Joint Decree
- Capacity development and strengthening of systems for planning, budgeting, financial and information management in the education sector.

Strategic reallocation of expenditure

Effective use of transfer mechanisms

Budget planning, transparency and accountability

1. The Government of Indonesia’s ‘20 percent rule’, which allocates 20 percent of government spending to education, has provided a significant increase in education resources.

Indonesia has made a clear commitment to education, passing a constitutional mandate to allocate at least 20 percent of the total government budget to education. This has led to a large increase in resources—more than a doubling of education spending in real terms when the passage of the constitutional amendment in 2002, with the budget jump occurring in 2005, after the law was defined and (laid) by the Constitutional Court. Between 2008 and 2009 the education budget increased by 17 percent in real terms, the equivalent of an additional 0.6 percent of the national budget (Figure 1).

2. The significant increase in spending has been accompanied by important progress in access and equity of education, but quality remains an issue.

The biggest payoff for this increase in spending has been in terms of access and equity in basic education; however access to senior secondary and especially tertiary education remains low, especially for the poor. There has been rapid progress in provision and quality over the last 5 years, with children from poor backgrounds enrolling earlier and staying in school longer. The share of 15 year olds from the poorest consumption quintile who enrolled in school increased from 65 to 70 percent between 2008 and 2010. Moreover, the age of 15, the share of children enrolled reached 84 percent in 2010, up from 82 percent in 2006, which still falls to less than 2 percent. Only 40 percent of 15 year olds from the lowest quintile were enrolled in school in 2010, a share that, worryingly, did not change since 2006.

Figure 2: Share of children enrolled in school by age and quintile, 2006 and 2010

For more information, please contact:

Pedro Cerdan-Infantes, Yulia Makarova, Samer Al-Samarrai, Dandan Chen, Yus Medina, Imam Setiawan and Steisianasari Mileiva.

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pressing or politically sensitive than others. Teacher management should be dealt with urgently in order to free up resources and stop the trend of excessive hiring and uneven teacher distribution. Improving budget planning and transparency are important in the context of the 20 percent ‘bright spot’. These two reforms would go a long way to a more sustainable expansion in the future. Other reforms may require further reflection and planning—for example, while increasing spending on ECD is desirable, funding sources and a sustainable financing scheme need to be developed.

Even pending notoriously difficult reforms such as adjusting transfer mechanisms, MoEC can still improve the system significantly. In addition to supporting some strategic programs such as BSM, MoEC can move to incentivize and assist districts in teacher management through clear guidelines and by helping districts to implement multigrade teaching and other reforms.

It is time to translate the strong commitment to education into higher quality education. Indonesia is ready for that qualitative leap. Although it will require the collaboration and coordination of many actors, the potential gains are plentiful. As Indonesia consolidates as a middle-income country, the presence of a highly-skilled labor force will be crucial. Improving the quality of education by improving the quality of spending would be a big step toward ensuring the country is prepared.

Objectives

The sequencing of reforms is important. Some issues are more pressing or politically sensitive than others. Teacher management should be dealt with urgently in order to free up resources and stop the trend of excessive hiring and uneven teacher distribution. Improving budget planning and transparency are important in the context of the 20 percent ‘bright spot’. These two reforms would go a long way to a more sustainable expansion in the future. Other reforms may require further reflection and planning—for example, while increasing spending on ECD is desirable, funding sources and a sustainable financing scheme need to be developed.

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