The Effects of Decentralization on Education in Indonesia:

Education for All?

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List of Acronyms and Abbreviations

APBD Anggaran Pendapatan dan Belanja Daerah (District’s Revenue and expenditure budget)

APBN Anggaran Pendapatan dan Belanja Negara (State/National’s Revenue and Expenditure Budget)

BOS Bantuan Operational Sekolah (School Operational Aid)

BPS Badan pusat statistic (Central statistic Agency)

DAK Dana Alokasi Umum (General Allocation Fund)

DAU Dana Alokasi Khusus (Special Allocation Fund)

DI Daerah Istimewa (Special district/ region)

DPRD Dewan Perwakilan Rakyat Daerah (Local Representatives assembly)

ILO International Labor Organization

MONE Ministry of National education

MORA Ministry of Religious Affairs

SD Sekolah Dasar (Primary School)

SMP Sekolah Menengah Pertama (Junior Secondary School)

SMU Sekolah Menengah Umum (Senior Secondary School)

UNESCO United Nations Educational, Scientific and Cultural Organization

UNDP United Nations Development program

UU Undang-Undang (Law)

UUD Undang-Undang Dasar (National Constitution)
Abstract

Providing education service in Indonesia is extremely challenging for its large size of population, high diversity in terms of ethnicity, languages/dialects, religion and geographical position. The government’s responsibility is not only to ensure the availability of a good education service in term of quantity and quality but also the accessibility to education itself. This is in line with the national education objective to provide education for all. The emergence of decentralization in 1999 and a new education policy in 2003 alters the mechanism on how the government provides the education service. This paper examines how the central government spends the education budget within the new system to three education levels, namely Primary school, Junior Secondary and senior secondary School. The analysis focuses on who is better off and worse off with the education spending. On aggregate level, the primary education is better off relative to Junior and senior secondary education. However, on disaggregate level, within the primary education level; inequity between the regions is stark. The finding shows that there are widening gaps between the eastern and the western part of the country in terms of education service provision. Possibilities to tackle this issue within the context of decentralization are presented.

Keywords: New Education Law, Fiscal Decentralization, Education spending, Disparities
I. Introduction

Education in Indonesia has many “faces” and these faces have been changing over the last 62 years since the country has gained its own independence in 1945. The faces of education in Indonesia can be drawn from 33 provinces and 440 districts which consist of around 300 tribes with different languages/dialects, religions and cultures. These provinces and districts are geographically spread out in five main islands; Sumatera, Jawa, Kalimantan, Sulawesi and Irian Jaya and they are parts of the 17, 508 islands that made the whole Indonesia as one of the largest archipelago in the world. With a population of almost 227 million people (BPS, 2008), about 28 percent is from age 0 – 14 and more than 60 percent is from 15 – 65 years old. Providing education service in a vast country with diversity in term of ethnics, geographic and languages such as Indonesia is extremely challenging. The challenge is not only to provide education services in quantity but also quality. Quantity issues can be referred to the availability of education infrastructures and teachers all over the provinces. This has been the issue between the Eastern and the Western part of the country, rural versus urban and unreachable areas (or remote areas).

It is probably quite common to see a primary school with a permanent building, good tables and chairs in Medan (capital city of North Sumatera); however in Nusa Tenggara Timur this is not the case. The students in some parts of Nusa Tenggara Timur might have to be satisfied with a school building with old roofs with leakages and limited adequate tables and chairs. In some sub districts in North Sulawesi and Papua, the primary school students from different grades have to be squeezed in two or three classes because they do not have enough teachers. Even though decentralization which took place in 2001 is believed as one of the solution to improve the education service in these areas, the situation has not been improved much. The situation is even worse in remote areas, there are school buildings built in area but there are no teachers present to teach the students. There are still 13 million children that do not go to school and according to the research conducted by ILO in 2004, 71 percent of children with age 15-17 drop out from school and became unemployment. Among the countries, Indonesia ranks 111 in Human Development index 2004, this was a lower rank compared to the position of 109
in 2000. These are faces of education in Indonesia and the other faces of challenge still remain to be overcome by the government.

The government has put a lot of efforts to overcome these challenges and to put a more positive nuance to education in Indonesia. The issuance of new education policy in July 2003, which is also called UU or law no.20/2003 is a promising foundation to improve the quantity and quality of education in the country. The main change that is highly expected from this new education policy is the financing for education. In article 49, it is stipulated that the government has to allocate at a minimum 20 percent of the national and regional budget for education; and educators’ (or teachers) salaries should be excluded from the 20 percent. This means both the central government and the regional government have the responsibility to put 20 percent of their budget for education sector, which is also explicitly written in the national constitution 1945 (Undang-Undang Dasar 1945).

The **problem statement** is – non compliance of the government with the new education policy. Since the issuance of the new policy, the government has not complied with the 20 percent earmarking for education budget. The government has been receiving a lot of critiques and demand for compliance from the public concerning the education budget. This non compliance is also brought to the constitutional court by the national teachers association and the government is accused of violating the new education policy and the constitution. The government, of course, has reasons for this non-compliance. The main reason for this is the deficit in the national budget, but this is not as simple as it is.

The sufficiency of the budget is the common problem in all governments financing system. From a public policy discourse, the question that needs to be asked is to what extent the budget for education has been efficiently managed by the government. It is important to look at the problem beyond the reason for budget insufficiency and this study tries to investigate how the central government manages and distributes the education budget. The intertwined relation between the decentralization with this new education policy will also be touched upon because this issue cannot be separated from this analysis. However, given the limitation of pages and lacking of data on the regional level, the study will be focused on the central government level.
I.1 Research Question

How is the central government funding used (or allocated) in providing education service in the country?

Sub questions to this main question are:

1. How does the central government allocate the “20 percent?” education to three different levels of education in Indonesia, namely Primary School, Junior Secondary and Senior Secondary School?

2. Who is better off from the budget allocation at the central level?

3. Who is worse off from the budget allocation at the central level?

4. What are the policy implications of the budget allocation mechanism implemented by the central government?

I.2 Methodology

A conceptual framework is used to specify the key concept used for this case study. This approach incorporates literature review of the policy documents, related reports, journal, articles, and books. The research will also make use of quantitative secondary data. To start, I will look at policy document itself as an initial effort to seek the relevance of the content in answering the problems. Secondly, the policy will be closely analyzed from a public policy discourse and elaborate the analysis with the actual education data in the country.

I.3 Data

The data sourced from the National Statistic Agency, Ministry of National Education, World Bank, UNESCO and UNDP reports will be used in this study. In addition, the data and information from local non-governmental organizations and foundations that focus on education programs will also be used.
II. Conceptual Framework

II.1 Introduction

This chapter will explain the conceptual framework for understanding the education service provided in Indonesia within the context of decentralization. The main objective is to explain and reveal the relationship between the new law no. 25/1999 on Fiscal decentralization and the new education law no. 20/2003. The relationship between the two laws will enable us to understand how the decentralized system that is adopted in Indonesia influencing the existing education financing system. The problem that is still highly debated to date is the non-compliance of the central and local government to the new education policy. According to the new law, the central government has to allocate 20 percent of the national budget for education, and the same rule applied to the local government. However, since the law is enacted, the 20 percent earmarked has not been fulfilled at both levels, national and local government. Therefore, to understand what are the major concerns or issue related to this problem, some important aspects will be presented in this chapter.

To explain the whole picture, this chapter will be divided into four main parts. These parts will show the aspects which construct the relationship between decentralization and education in Indonesia. The first part addresses fiscal decentralization, and the second part the new education law. The third part describes the relation between law no. 25/1999 and the new education law no. 20/2003, which is the core point of this chapter. The last part provides the explanation of the type of decentralization adopted in Indonesia. Analyzing the typology of decentralization gives us useful insights and understanding how the governmental relationship is established. It also enables us to explain why a particular typology was adopted in a certain country. This needs to be understood well because countries are different in their characteristics and there are a lot of reasons behind the types of decentralization implemented in a country. Therefore, the typology will guide and help us to make a better analysis of the transferring of different kinds of government functions which take place under decentralization in a specific country.
II. 2 1. Fiscal Decentralization

Decentralization in Indonesia is based on two laws that were issued in 1999. The first one, UU (Law) no.22/1999 alters the structure of the relationship between the provincial and the district governments. The district governments will no longer report to the provincial government but they will be responsible to the locally elected assembly (DPRD). The provinces will retain a hierarchical relation with the central government (Alm and Bahl, 2001). The new law gives responsibility to the central government ministries at the provincial and the district level to provide public services (with the exceptions for defense and security, foreign policies, monetary and fiscal policies, judiciary affairs, and religious affairs) under their jurisdictions. In this respect, the regional government (provinces and districts) is given the discretion to establish their own system of managing and delivering public services for the people.

UU (Law) no.25/1999 is the second law and it provides guidance on fiscal decentralization in Indonesia. It arranges the fiscal balance between the central and the regional government. According to this law, the revenue of the regional government will be derived from three main sources:

1. The central government will allocate 25% of the national revenue to the regions which is known as general allocation funds (Dana Alokasi Umum or DAU) which are determined by a formula. Other funds that are distributed by the government to the regions are specific allocated funds (Dana Alokasi Khusus or DAK), which are based on the special needs of the region. The availability of this specific fund will depend on the status of the national budget.

2. Sharing of taxes on land and buildings, natural resources such as mining, fisheries, oil and gas.

3. Regional/local own sources revenues from fees and charges, profits from government enterprises and loan from the central government.
These revenues are the sources for regional government provisions, to allocate and manage public services (education, health, infrastructures, agriculture, etc) in their respective regions. This statement leads to some problems that are apparent in most of the regions at the implementation phase. Two major problems in which this paper will focus on are:

- Fiscal Balance
- Administrative capacity

These two problems will be described in detail in the following sections.

II. 1. A. Revenue –Expenditure Balance

Bahl (2001) argues that there may well be problems of mismatch between the revenues that are assigned to the local governments and their expenditure responsibilities. The local governments have to cover a broad range of expenditure functions with the revenues that they receive. A large portion of the revenues is likely to come from the 25 percent transferred from the central government and the share of natural resources revenue. Given the fact that Indonesia consists of regions (or provinces) that are highly diverse in terms of population size, natural resources, all these factors will directly and indirectly affect the local government’s capacity to manage the balance of revenue and expenditure. Provinces that are rich in natural resources such as Riau’s large oil reserves, and Aceh’s gas reserves will probably have more fiscal resources and will likely manage the balance of their revenue-expenditure.

However, under the national legislation for decentralization, the revenues from all the provinces including oil and gas (natural resources) has to be submitted to the central government first and then it will be re-allocated to each provinces through general and specific allocation funding. The allocation or distribution of these funding is based on a formula that will determine of how much grant will be distributed among the provinces/districts. However, the formula generalizes the amount of transfers for each province, and it is not sensitive and accurate enough to predict the changes that might happen within the provinces’ fiscal situation.
Provinces that are not rich are expected to have problems with their fiscal balance. In provinces such as Irian Jaya, NTT, and Kalimantan where the poverty rates are high, the local governments will have to make more of an effort to deal with this issue. This will involve the issue of local budget allocation and will largely influence the expenditure budget. Hence, different problems which require more funds become the “giants’ for local government dealing with decentralization.

In order to counter this, regional governments established new taxes and charges which were permitted by the new law. Critics perceived this as a too aggressive measure for establishing new revenue instruments, though. Lewis (2003) finds that the regional government authorized nearly 1,000 new taxes and charges in the run-up to and through fiscal year 2001. If we recall that Indonesia implemented decentralization in the same year (2001), it seems that the previous argument of the regional government being too aggressive is quite true. All of these new taxes and charges are focused on primary sector goods and factors. These tax instruments have two major problems.

Firstly not all of them fulfill the criteria of “good taxes”, Lewis analysis in his research shows that only 40 percent of the newly authorized sub national taxes and charges submitted to the centre for review as per law requirement and the remainder were presumed illegally implemented by the regional government. After some close inspection by the central level, some of the taxes are also considered as nuisance taxes which are refers to the taxes that might harm the economy of the districts and they were cancelled by the central government.

Secondly it is argued that these newly established revenue instruments are inappropriate and have significant effect in one respect or another (Ray 2001; SMERU 2001). This significant effect was found in the case of new revenue instrument in Central Sulawesi, Tolitoli district where the inspection of commodities tax (pajak komoditi) reveals that this tax has been levied on other products that are traded outside the district (Lewis, 2001). This is perceived as a disincentive for exports and it will constraint the economic growth of the province itself. Other effect is “double taxation”, that the new taxes established in the local level were already covered by another tax or charge at the central level. The new tax and charges are assumed to affecting the expenditures of local governments.
As previously mentioned, the legitimate reason argued by the regional government in establishing new tax instruments is fiscal need. However, Lewis (2001), offers no support for this contention. Based on the findings in his research, Lewis finds that the number of new taxes and charges authorized by local government is not explained by expected per capita expenditure needs or by the expected per capita revenue of local governments or by broader measures of fiscal capacity such as per capita regional development product and the incidence of poverty. The creation of new taxes and charges do not influence the revenue of the local government as expected and thus, it does not answer the fiscal need of the local government. Nevertheless, this is not because of the aggressiveness of the local government, but also the inadequate monitoring and evaluation from the central government.

Furthermore, Lewis infers to one interesting point that the success of fiscal decentralization depends on strong central government direction. It seems paradoxical to the nature of decentralization itself but in the case of Indonesia it appears to be true. Another important issue regarding the creation of new taxes and charges is the existence of “illegal” revenue instruments which are not mentioned on local government expenditure sheets and “nuisance” revenue instruments that is already explained previously. Therefore it is quite difficult to find accurate data on local government expenditure on Public services especially on education.

II. 1 B. Local Government capacity

Besides the fiscal balance, the other major problem that is embedded in the implementation of the new law is local government capacity. The local governments have to have adequate management and administrative capacity. The administrative capacity in this paper refers to skilled personnel (civil servants) with adequate capabilities of planning, and technical assets such as technology and other instruments that are needed to run the administrative functions. The local governments were used to a highly centralized system with many distribution problems for about thirty years. Given this situation, the local governments became very dependant on the central government in most of the aspects of public service provision. The table below gives a short description of the dependency:
Not only had they become dependant in terms of fiscal capacity but also in terms of availability of skills and administrative capacity. Under the new system, the local governments have to manage their own resources and the problem is that not all of the local governments have the same administrative capacity, they vary greatly across regions. In addition to this, the previous central government was also not able to provide training for improvement of local governments’ administrative capacity in all regions. Some regions on Java islands, Sumatera islands, for instance, have the administrative capacity to provide services in their regions and also to provide training for the local governments under their jurisdiction. In contrast to these regions, there are some regions that do not have enough personnel, while they are also lack with skill and technology to back their new administrative system. Bahl (2001) argues that this is an issue which refers to the incapability of provincial and district government to take up the
“back office” functions. One case that appears in his paper is North Sulawesi where the district governments were given 20 programs for roads, health, drinking water, primary schools, agriculture and market place development. The district government will not only have to address the issue of funding these programs but also to absorb the new employees that will run these programs.

II. 2. New Education Law (UU no.20/2003)

The need for improving education quality is one of the main arguments on the issuance of the new education law in 2003. The other mission that it carries out is to empower society participation in the provision of education based on the autonomy. Hence, it is also part of the new decentralization system. However, the education decentralization issue is not specifically addressed in the new law, but it does refer to the laws no. 22/1999 and 25/1999. The law only states general issues of shared responsibilities between the central and the local government in providing education services. It is written in chapter 4, article 11 of the new law, “The central and local governments have the responsibility to provide and ensure the availability of education services with good quality”. The central and local governments also have to ensure the availability of funds for the education services for children aged (7 -15 years old), this serves as a part of the commitment to provide universal basic education.

The funding mechanism for the education services is stipulated in chapter 8, article 49 of the new law. It is stated that “Education funds, excluding salary of educators and service education, are allocated at a minimum 20 % of the APBN (National Expenditure budget) and a minimum of the APBD (Regional Expenditure Budget)”. The realization of the 20 percent budget allocation at both central and local government is a big debate in Indonesia. Since the law was issued in 2003 until 2007, the governments at both levels have not been in compliance with the new law in regard to education funding. The percentage of budget allocated for the education sector by the central government in the last four years is presented in the following table:
The data above shows that the increasing of budget allocation seems to be planned in such a way given the budget constraint within the government fiscal sources. The data for local governments budget allocation for education is very limited, therefore it is will not be representative to present only a few numbers of local governments data given the fact that Indonesia consists of 33 provinces, with 349 districts and 91 cities (Kota). The feasibility of this 20 percent to be fulfilled within the next years is still questioned. The World Bank (2007) sees that there are three basic dimensions that entail in the analysis of the 20 percent benchmark:

1. The adequacy of the level earmark at 20 percent and the very existence of a target of this type (as opposed to an expenditure formula based on education needs).

2. Clarifying various interpretations of the 20 percent benchmark.

3. Defining how to allocate additional spending to different programs and other inputs if it would be required.

The adequacy of the 20 percent budget to covering education expenditure brings us to the question of how much is actually needed for providing education services in Indonesia. This paper will not specifically address this question but this question leads us to the next important point of what is the main objective of education provision in the country. As it is mentioned in the law that the government has the responsibility (or obligation) to provide basic education
(pendidikan dasar) for citizens aged 7 -15 years old. This basic education right is also stated in the national constitution (UUD 1945, article 31), therefore we can also call it as a constitutional right. This basic education is translated in the form of one national program that is “Wajib Belajar Sembilan Tahun” (9 years compulsory education). The 9 years consists of 6 years of primary education and 3 years of secondary school. But aside from this basic education, the government also has to provide the higher level of education, which is senior secondary school and universities. The new law implies new task for the local government to provide mainly basic education services with their budget, whereas the central government takes more responsibility for the higher education level such as senior secondary school and universities. This responsibility is lessened because of the some of the universities are now become a self-funded universities (privatized).

II. 3. Relation between the law no.25/1999 and law no.20/2003

These two laws are closely related in the light of the new decentralization system. The new education law states that both the central and the local government have the responsibility to ensure and guarantee the availability of education service. It is specified by the obligation for both level of government to allocate 20 % of their budget (national and regional) to the education sector. The following explanations will try to describe the relation:

- According to the law no.25/1999, the local governments will receive 25 percent transfers from the central government and it will serve as a big share of the local revenues plus the share of tax revenues from natural resources and own local revenue from fees and charges, etc. By the new education law, the local governments will be responsible to allocate 20 percent of their budget for education. This 20 percent benchmark by law should exclude teachers’ salary, and this already creates a big debate at the local level. Teachers’ salaries constitute the major share in local governments (sub-national) expenditure on education (World Bank, 2007). These salaries are part of the nondiscretionary routine expenditures. The table below shows the composition of the total shares of the education expenditure which for somehow have been stable since 2001.
Table 3 Nominal Education Expenditures per level government 2001-2005 in Trillion Rupiah

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>%</th>
<th>2002</th>
<th>%</th>
<th>2003</th>
<th>%</th>
<th>2004</th>
<th>%</th>
<th>2005*</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>12.6</td>
<td>31</td>
<td>13.8</td>
<td>27</td>
<td>21.3</td>
<td>34</td>
<td>19.4</td>
<td>31</td>
<td>28.3</td>
<td>38</td>
</tr>
<tr>
<td>Development</td>
<td>8.5</td>
<td>67</td>
<td>7.2</td>
<td>67</td>
<td>16.0</td>
<td>75</td>
<td>12.3</td>
<td>63</td>
<td>17.1</td>
<td>60</td>
</tr>
<tr>
<td>Routine</td>
<td>4.1</td>
<td>33</td>
<td>4.6</td>
<td>33</td>
<td>5.4</td>
<td>25</td>
<td>7.1</td>
<td>37</td>
<td>11.3</td>
<td>40</td>
</tr>
<tr>
<td>Provincial</td>
<td>1.9</td>
<td>5</td>
<td>4.0</td>
<td>8</td>
<td>3.9</td>
<td>6</td>
<td>2.6</td>
<td>4.1</td>
<td>3.8</td>
<td>5</td>
</tr>
<tr>
<td>Development</td>
<td>1.4</td>
<td>70</td>
<td>2.6</td>
<td>66</td>
<td>3.1</td>
<td>80</td>
<td>1.8</td>
<td>69</td>
<td>2.9</td>
<td>77</td>
</tr>
<tr>
<td>Routine</td>
<td>0.6</td>
<td>30</td>
<td>1.4</td>
<td>34</td>
<td>0.8</td>
<td>20</td>
<td>0.8</td>
<td>31</td>
<td>0.9</td>
<td>23</td>
</tr>
<tr>
<td>District</td>
<td>26.2</td>
<td>64</td>
<td>32.6</td>
<td>65</td>
<td>38.3</td>
<td>60</td>
<td>39.8</td>
<td>64</td>
<td>41.8</td>
<td>57</td>
</tr>
<tr>
<td>Development</td>
<td>3.0</td>
<td>11</td>
<td>4.6</td>
<td>14</td>
<td>5.3</td>
<td>14</td>
<td>4.6</td>
<td>12</td>
<td>5.1</td>
<td>12</td>
</tr>
<tr>
<td>Routine</td>
<td>23.2</td>
<td>89</td>
<td>28.0</td>
<td>86</td>
<td>33.0</td>
<td>86</td>
<td>35.2</td>
<td>88</td>
<td>36.8</td>
<td>88</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>40.8</td>
<td>100</td>
<td>50.4</td>
<td>100</td>
<td>63.6</td>
<td>100</td>
<td>61.8</td>
<td>100</td>
<td>74.0</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Computed by World Bank staff based on data from MoF. Note: * Due to the reform in the budget system the 2005 central development spending figure reported here is an approximation of the old format equal to capital spending (Rp 20 trillion) plus social aid (Rp 15 trillion).

In 2005, around 62 percent of the education expenditure was executed at the sub-national (regional level). This was more than half of the education budget, and the main spenders of this expenditure are the district governments. The share was 57 percent for the district governments and 6 percent spent by the provinces. The 57 percent expenditures at the district levels, in fact, are non discretionary routine expenditure as aforementioned. This shed a light for our understanding that under the decentralization law, the responsibilities for education is formally devolved to the sub-national (local level), but the according to this data, the majority of the development expenditures is spent at the central level.

Due to the mechanism of general allocation funds (Dana Alokasi Umum or DAU), the local government do not have any discretion over their routine expenditure (World Bank, 2007). If we exclude the non discretionary expenditure such as the teachers’ salaries, the local government might need to add up more funds to reach the 20 percent which will have serious implication for other sectors. It means that the shares for other sectors would have to be reduced significantly. On the one hand the local governments have to comply with the new education law with the 20 percent bench marking, but on the other hand, the local governments also have to be responsible to provide other public services that are needed by the people. Other important remark is the differences in local governments’ capacity in terms of fiscal and administration. Poor regions will have some difficulties in fulfilling this demand of 20 percent. The contextual needs of
the regions should be also taken into consideration. For the regions faced with health problems in their areas, will probably prioritized the budget allocation to improve the health services, thus, they will have to reduce their education budget. Regions that have very bad infrastructures such as roads, transportation will probably put more funds for building infrastructures which might need to improve the local economy.

Demographic composition contributes important a point to the provision of education services which can be influenced the size of the funds allocated to education sector. Having the budget constraints and priorities setting and also the responsibilities under the fiscal decentralization law, again, it might not feasible for the local government within the current context to comply with the 20 percent benchmarking. The administrative functions that have been given under the decentralization system to the local government will be largely influenced by the local governments’ fiscal and human resources’ capacity. This also has implication on the little discretion that the local governments have in managing the budget allocation the education in particular with regard to the development budget.

- The central government, as stated in the law no.25/1999 has to transfer 25 percent of the national budget to the local governments. Then, the new education law obliges the central government to allocate 20 percent of the national budget to the education sector. If a simple calculation is made, $25\% + 20\% = 45\%$. It means that the central government left with the rest of 55 percent of the national budget to be spent for other sectors. In the last four years, the central government has included the personnel spending in the national education budget which is against the new education law. In 2006, the central government allocated an estimation of 9.4 percent of the budget for education (Rp. 44.1 trillion). If the personnel spending are excluded, then it declines to approximately 6.7 percent. It seems that the central level, the government is also having fiscal constraints to comply with the new education law even though there were some increases in the education budget in the last four years.
II. 4. Deconcentration or Devolution?

Indonesia is a country with a large population, approximately 227 million (BPS, 2008) and total area of 1,919,440 km². The country is also very diverse in terms ethnicity, religion and cultural background with 300 different ethnic groups which have their own languages/dialects. Despite all of these facts, the country is formed under a multi-tier unitary state system. Highly centralized governmental system has been adopted in the country since 1950s. After the fall of new order regime under Soeharto’s presidency in 1998, a lot of reforms in governmental sector have been taking place in the country.

Reformasi 1998 (Reformation 1998) was the turning point for a new phase for democracy in Indonesia as a country and also for the people. The democracy that the people want was considered as almost non-existence or false democracy in the era of Soeharto’s government. Decentralization is one of the major reforms and it has been a fundamental foundation that alters the governmental structure in Indonesia. The decentralization that took place in January 2001, right after the new government was established is also known as a “big bang” approach for its large scale and rapid move. Moving from a highly centralized government system to a decentralized one within a very short of time is a very remarkable change in the country. The central government devolved public service provisions to the local governments except for defense, International relation, justice, police money, religion and development planning. Within this new system, the provinces have their “freedom” to manage their own resources and services for the people under their jurisdiction. This has over-arching ramifications for Indonesian society. This decentralization is strongly argued as the will of the people when the reformation 1998 took place and it is perceived as one of the solutions to maintain the stability in the country politically after the crisis. The new decentralization system is described in the form administrative decentralization and this is primarily based on public policy, administration and finance concerns.

Cohen and Peterson (1999), classify the administrative decentralization into three types: deconcentration, devolution, and delegation. Out of the three types, Indonesia adopts deconcentration for its decentralization system. Deconcentration is defined as “the transfer of authority over specified decision-making, financial, and management functions by
administrative means to different levels under the jurisdictional authority of the central
government”. The ministries retain the power over key tasks at the center while transferring the
implementation roles to the field offices. Furthermore, Cohen and Peterson argue that this type
of activities for political reason is believed as an effective way to control or supervise the field
level implementation. The central government has greater control in terms of political,
administration and technical in reaching the lower level of the government. Law (Undang-
Undang or UU) no.22/1999 and no.25/1999 specify that the central government transfers the
authority to the regional government (or local) to manage and administer public service
provision (education, health, agriculture, fishing, mining, etc) and governmental functions.

The central government placed officials from different line of ministries to overseeing the
policies that are implemented in the lower level. These officials are the state representatives
and play a political role for law and order. They have to ensure that the local governments
follow the standards established by the central government accordingly. Hence, this supervising
mechanism will promote political stability in a very diverse society in a country such as
Indonesia. In the implementation stage, it is clear that the central government still has a greater
role and control over the regions. It might be in contrast to the nature of the decentralization
itself, but politically it may be reasonable. The transition stage from a highly centralized system
to a decentralized system will need a strong central government’s guidance.

Interestingly, devolution as a second type of decentralization can also be seen as the
characteristic of the new system. Devolution refers to the transfer of authority from the central
government to autonomous local government units holding corporate status granted under state
legislation.( Cohen & Peterson,1999). In Indonesia, it might be referred to special autonomy
that is given to Nanggroe Aceh Darussalam, Papua (Irian Jaya), West Papua. A long period of
conflict in these three provinces which almost created disintegration as Timor-Timor case
eventually persuaded the government to grant special autonomy to the these provinces. Other
two provinces that are granted with special status is Jogyakarta special Region and Jakarta
Special Region which is the capital city of Indonesia. This raises a question of the feasibility
adopting two decentralization types in a country. The impact of these decisions to other
provinces is still not clear or probably “not yet” emerged. Riau was also asking for a special
autonomy and urging the government to increase the share of oil and gas to 60 percent since
Riau contributes more in this sector. If more provinces ask for a special autonomy, then the unitary system might be transformed into a different form. Instead of having a unitary system, the country might be shifted to a federal system if all the provinces are granted the same special status as the five provinces.

Devolution in most developing countries is not common, in particular with the unitary system. One of the reasons for this is because of the central government wary of losing political or administrative control to local government levels. This assumption does not hold for the Indonesian government. Special autonomy is given to these regions so that national integration can be maintained. The spirit of unity or *kesatuan* as a nation is reflected in *Pancasila* (the ideology of five main foundations for Indonesian society). This spirit have to be kept within the context of decentralization and even though these regions are given special autonomy, they still have to follow the central government “rules of the game” which is described clearly in the two laws. Therefore within the devolution that is adopted in these regions, deconcentration elements are also strongly apparent.

Therefore, based on the explanation above, it is concluded that the type of decentralization that is adopted in Indonesia is a hybrid between deconcentration and devolution. These two types are obviously embedded in the decentralization system with the presence of special autonomy granted to five provinces in the country. Having these two systems in place seems to be one of the solutions so far to redeem the disintegration issue in some provinces and creates a national stability. Nevertheless, there is no single best type of decentralization, since countries are different; the government has to choose what works better in regard to the situation and condition in the country. As in the case of Indonesia, having two types of decentralization in the system might works well to answer the political need of the country, but in other countries one type of decentralization might considered enough to respond to the needs of the country. Once again, it depends on what the country needs and the objectives of the decentralization itself.

This conceptual framework highlights the issues that are related to the problem of fulfilling the education budget as stated in the new law. It also tries to build a “map” to identify the government structure and gaps in providing the education service at the national and regional
level and explains. Therefore, this conceptual framework will also be used as guidance in the next chapter. The next chapter will be describing and analyzing how the central government allocates the education budget at the national level and who benefits from the spending.
III. Benefit Incidence of Education Spending

III. 1. Introduction

Since 1945, providing education service throughout the country has been one of the main focuses of the government. The government has committed to improve and enhance the education in the country through a lot of efforts. This commitment is realized through budget allocation that used to finance the levels of education in the country. Under the new education policy, the central government should allocate 20 percent of the national budget for education and the regional government also has the same responsibility. The rest of the budget needed for the education services are derived from the private sector such as parents and donors/ NGOs.

Figure 1 Fraction of education funding between the governments and the private sectors

<table>
<thead>
<tr>
<th>Fraction of Education Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>central government</td>
</tr>
<tr>
<td>Regional government</td>
</tr>
<tr>
<td>parents, donors</td>
</tr>
</tbody>
</table>


There are two kinds of education that are provided, namely formal and informal. The main focus in this paper will be the formal education. Briefly, education in Indonesia is begun from the kindergarten level (age 4-5) which comprised of two years, then followed by primary school for 6 years. After primary school, the next levels are Junior and senior secondary school, each of this level comprised of 3 years of schooling. Senior secondary graduates then can continue to a higher education level such as college (Diploma) and other graduates program in the university. The education budget covers all the cost to providing the education services. This chapter will explain how the central government allocates the education budget to each
education level and then, the analysis of who benefits from the expenditure will be presented. In the first section, national public expenditure on education will be explained, in the second section, spending by education programs will be discussed along with the analysis of the benefit incidence. The analysis will be focused on three levels, starting from the primary, junior secondary, senior secondary school. The kindergarten is not discussed because the private sector is mainly the service provider of this education level and the issue of the lacking of data, thus it will be quite difficult to have the analysis on this education level. The third section will touch upon the equity of the education expenditures across regions.

**II.1.2 Aggregated National Public Expenditure on Education**

On a national scale, Indonesian government has put a lot of efforts to increase the education budget. This is shown by the increasing real government expenditure since mid 1990’s up till now. According to the data from the World Bank, the national education expenditure was moving upward and it appears to be positively reaching toward the 20 percent if the economic growth is stable. In 2004, the budget share for education was slightly decreasing but the expenditure gained an increase by 8.4 percent in 2005 and 41.6 percent in 2006. The decrease was due to the low budget execution and the increase in fuel subsidies causing decreasing in most of the social sectors’ budget.

Table 4 National Public Expenditure on education (Central + Province + District) for 2001-2007

<table>
<thead>
<tr>
<th>Rp trillion</th>
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<tbody>
<tr>
<td>2001</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Nominal national education expenditures</td>
</tr>
<tr>
<td>National education expenditures (2001 prices)</td>
</tr>
<tr>
<td>Growth real national education expenditures (%)</td>
</tr>
<tr>
<td>Education exp. (% of total of national exp.)</td>
</tr>
<tr>
<td>National education exp. (% of GDP)</td>
</tr>
<tr>
<td>Total nominal national expenditures</td>
</tr>
<tr>
<td>Total real national expenditures (2001 prices)</td>
</tr>
<tr>
<td>Government size (total exp. as % of GDP)</td>
</tr>
</tbody>
</table>

*Source: World Bank staff calculations based on MoF and SIKD data.

*Note: * = preliminary realization of APBN and estimates for sub-national spending, ** = central government budget (APBN) and estimates for sub-national governments.

In 2005, from the 74 trillion budget allocated for education, the central government spent 28 trillion Rupiah, the province spent 4 trillion and the largest share was spent by the district
government, accounted for 48 trillion. However, the spending of the district government mostly constitutes of teachers salary which are still regulated and set by the central government and other routine expenditures. It is posited that the district governments have limited discretion to manage and decide the education budget that are distributed to them through the General Allocation Fund (Dana Alokasi Umum or DAU). The detail of the districts government routine expenditure can be seen in the following table:

Table 5. Routine Expenditure Distribution by Level of Sub-National Government 2002-2005
(In percentage)

<table>
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<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Composition of Routine Expenditure</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Personnel Expenditure</td>
<td>94</td>
<td>95</td>
<td>96</td>
<td>95</td>
<td>69</td>
<td>62</td>
<td>71</td>
<td>72</td>
</tr>
<tr>
<td>Goods Expenditure</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>22</td>
<td>25</td>
<td>21</td>
<td>17</td>
</tr>
<tr>
<td>O&amp;M Expenditure</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.6</td>
<td>6</td>
<td>9</td>
<td>5</td>
<td>8.3</td>
</tr>
<tr>
<td>Travel Expenditure</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.3</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>2.8</td>
</tr>
<tr>
<td>Miscellaneous Expenditure</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: World Bank staff estimates based on data from MoF
Note: Development expenditures include non-formal and vocational education sub-sector for 2001-02. For 2003-04 reclassified from capital and operation and maintenance (O&M) expenditures. The percentage may not completely 100 percent due to the rounding.

The pressure to meet the 20 percent earmarking at the district level will be even harder because the personal expenditure or the salaries are part of the education budget. If the districts have to exclude the salaries, the share for education of the district budget will be very small. On the other hand, if the district governments have to fulfill the 20 percent earmark, it means that more budgets have to be increased and it will crowd out the budget for other sector. This will likely to be a problem because the different fiscal capacity of the districts is an apparent obstacle for the compliance as already elaborated in the second chapter of this study. Other problem is even if the districts have allocated 20 percent of their budget for education, they still cannot have a “freedom” to spend the budget according to the need of the districts. The different needs of the districts for education should be taken into account. This should be in line with the nature of the decentralization itself; to deliver a more effective and efficient public services (or basic services) to the people. In regards to education, the need for primary schools in Kalimantan province might differ to the need of primary schools in Sulawesi.
The rural areas in Kalimantan, for example, needs more teachers while primary schools in Sulawesi might need more school equipments such as tables, chairs or even a typewriter for the teachers to be able to write their students’ report. In Muaro Jambi district, Jambi province, the schools needs more books for students (the ratio is 4:1) and for the teachers, and other supportive equipments for learning activities. Spending the budget according to the need of the regions is argued to have an efficient result for education. This line of argument does not only hold for district governments but also for the central government.

III. 3 Central Government Spending by Programs

To analyze the education spending at the central level, first of all, we need to understand the mechanism used by the central government to execute the budget. The budget is channeled through two ministries: Ministry of National Education (MONE) and Ministry of Religious Affairs (MORA). These two ministries are responsible to distribute the budget to all education levels. Ministry of Religious Affairs is responsible for the religious schools (Islamic Schools) that are also considered as public schools and funded from the education budget. In 2005, the central government spending for education was Rp. 25.1 Trillion (World Bank, 2007). The budget was distributed to the Ministry of National education and it is accounted for Rp.19.7 Trillion, the remaining budget of Rp. 5.4 Trillion was executed by Ministry of Religious Affairs. Out of this budget, 47 percent was accounted for the spending in Primary Education, whereas 27 percent was allocated for Junior Secondary education, and 15 percent for Senior Secondary School. Spending for tertiary education was only accounted for 12 percent of the national budget.

Table 6 Central Government spending by education programs (2005)

<table>
<thead>
<tr>
<th>Education Level/Program</th>
<th>Government spending (in Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary School</td>
<td>47</td>
</tr>
<tr>
<td>Junior Secondary School</td>
<td>27</td>
</tr>
<tr>
<td>Senior Secondary School</td>
<td>15</td>
</tr>
<tr>
<td>Tertiary Education</td>
<td>12</td>
</tr>
</tbody>
</table>

The data above is the estimated percentage of education budget allocated to each schooling level. The total of the percentage is 101 percent and it might be caused by the rounded number of the percentage. However, this figure provides us clear picture on how the central government allocated the budget for each level. The budget was concentrated at the primary school level and followed by Junior and Secondary school and tertiary education with the least percentage of the total budget. This has been the pattern of central government budget allocation in the previous years. The data taken in 1998 of consolidated education budget from 1984 -1997 shows that the largest share of the education budget was distributed at the primary school level and followed by Junior secondary, and then the Senior Secondary.

The focus for Primary and Junior secondary school is also realized through a new allocation mechanism in July 2005, and it was a new budget allocation to school levels for these two education levels. The central government takes the responsibility to allocate the budget for the schools’ operational fund. This means that the central government distributes the resources directly to school for the operational expenditure, hence bypassing the province and the district governments. The fund is given in the form of block grant for the operational cost through a program called Operational Aid to Schools (BOS or Bantuan Operasional Sekolah) which is transferred directly to the schools.

This program is implemented only at two levels; Primary and Junior Secondary school. Besides this program, other program called Scholarship program for poorer families that began in 2001 is still partially run by the central government. This fund is sourced from the fuel subsidy savings, and it is also intended to the two levels of education as referred in the BOS program. Approximately 40.6 million students is covered by this program, with the primary school level taken up the share by 62 percent of the budget and followed by Junior Secondary School level by 38 percent (World Bank, 2007). Furthermore, the basis for the amount of BOS fund transferred to the schools is based on the per pupil allocation formula. Per pupil in primary schools receives Rp. 235,000 (equivalent to US$ 25) per semester, and for Junior Secondary schools is Rp. 324,500 per semester (US$ 35), this is based on 2003 fixed nominal price. The schools that receive these funds are expected to reduce the school fees and if the grant can cover the whole operational cost, it will be possible to eliminate the school fees.
It appears that Primary school levels (group) benefit most from the education expenditure as they have the largest share of the overall education budget. The allocation to school levels that are managed by the central government is also mostly absorbed at primary schools level by more than half of the budget (62 percent). Junior secondary education benefits less than primary education, but it is better off relative to Senior Secondary and Tertiary Education. Secondary and tertiary education benefited the least from the education expenditure. This might be a very simple thing to understand if we just have a look on the figures presented above, but we need to ask the “why” question so that we can understand what lies behind this figures. There are two lines of argument that can be given to answer this question.

### III.3.1 National Education Goal

One of the most prominent goals in Indonesia’s education is to achieve enrollment for all students at the basic educations which is primary and Junior Secondary Schooling. It is obvious that the government will put more effort and funds to achieve this objective. The nine year compulsory education (Wajib Belajar Sembilan tahun) program is the part of the new education policy (UU no.23/2003). This nine years consist of six years in Primary School level (starting from 7-12 years old) and continued to Secondary level (13-16 years old). Therefore, the education expenditure is mostly directed to the primary and Junior Secondary level since the policy stresses the objective towards the basic schooling for all the students. This national objective is also related to International commitment to provide basic education for all and to reach the universal primary education as a part of the Millennium Development Goals. Hence, it is in the interest of the government to fulfill the International commitment. The target of the government is to reach the 100 percent enrollment for the primary schools and 96 percent at the junior secondary schools education in 2009. This target seems to have reached the intended
goal through the enrollment rates achieved in these two education levels. The gross enrollment rates for the primary school were 105 percent and in net percentage decline to 91. This is a significant achievement as the net enrollment will be expected to be reached the 100 percent by 2009. The enrollment rates for junior secondary school were smaller than primary schooling; it was 81 percent and this number had quite a significant gap with the net enrollment rate that was fallen into 62 percent. The education expenditure allocated for these two levels can be argued as having a positive impact on the students since the enrollment rates are considered high. The senior secondary school enrollment rates were smaller, 41.6 percent on the net scale. This level has the smallest percentage compare to the two basic education levels. The low share of the education budget for this level seems to be the major reason for this. It might be too early to assume that more spending in certain level of education will likely to produce a higher enrollment rates on the specific level. It means that there would be a change in the policy, and it would likely to affect the whole system.

Changing the financing mechanism in the education system will require the alteration of the policy objective and targets. As Demery (2000) points out, changes in expenditure will have complex effects. Having the change in the education spending mechanism at present seems to be quite difficult for the government. Given the fact that the enrollment rate for primary schools is almost reaching the target, the government needs to shift the focus on the junior secondary level. To reach this focus, a progressive step has been undertaken by the government in the last two years by increasing the budget share for secondary school in order to boost the enrollment rates at this education level.

Table 8 Gross and Net Enrollment Rates for Different Levels of Education in Indonesia

<table>
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<tbody>
<tr>
<td><strong>Net enrollment rate</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary level</td>
<td>72 (a)</td>
<td>88</td>
<td>91.5</td>
<td>92.3</td>
<td>92.4</td>
<td>92.7</td>
<td>93.0</td>
<td>90.9</td>
</tr>
<tr>
<td>Junior secondary level</td>
<td>17 (a)</td>
<td>--</td>
<td>51.0</td>
<td>58.4</td>
<td>61.7</td>
<td>60.9</td>
<td>65.2</td>
<td>62.1</td>
</tr>
<tr>
<td>Senior secondary level</td>
<td>17 (a)</td>
<td>--</td>
<td>32.6</td>
<td>36.9</td>
<td>39.5</td>
<td>36.8</td>
<td>42.9</td>
<td>41.6</td>
</tr>
<tr>
<td><strong>Gross enrollment rate</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary level</td>
<td>80</td>
<td>107</td>
<td>107.0</td>
<td>109.3</td>
<td>110.1</td>
<td>106.1</td>
<td>107.0</td>
<td>104.9</td>
</tr>
<tr>
<td>Junior secondary level</td>
<td>16</td>
<td>29</td>
<td>65.7</td>
<td>70.3</td>
<td>76.0</td>
<td>79.5</td>
<td>82.2</td>
<td>80.5</td>
</tr>
<tr>
<td>Senior secondary level</td>
<td>16</td>
<td>--</td>
<td>42.4</td>
<td>46.4</td>
<td>51.5</td>
<td>50.4</td>
<td>54.4</td>
<td>52.6</td>
</tr>
</tbody>
</table>

*Source: WB Education Sector Review 2005; various years of Susenas; (a) data points correspond to the year 1975.*
This high achievement is expected to give a positive improvement in the literacy rate in the country. The government has a target to increase the literacy rate by devoting the budget to basic schooling. The literacy in Indonesia 89.51 percent in 2002, however, in 2003, there was still 10.12 percent of adult illiteracy and the government has a target to decrease this number to 5.0 percent by 2009. Literacy, in Indonesia’s context simply means the ability to read and write simple sentences of Indonesian language in Latin scripts (UNESCO, 2006) and it is believed as one of the crucial elements to improve individuals’ life, which will enable them to involve and participate in the economy and society.

The study conducted by UNESCO finds that the rise of literacy is also due to the schooling program, such as presidential assistance program for Elementary school in 1974 and six years compulsory education program in 1984. After the programs implemented, the rise of enrollment rates was increasing and thus, the illiteracy rate was decreasing. The difference of literacy rates between female and male was also decreasing due to the increasing enrollment rates of females at the basic schooling level. This is perceived as one of the driving factors for the government to invest in basic education level.

Figure 2 Illiteracy rates among Population age 10 – above (1971 – 2003)

Source: UNESCO, 2006
However, enrollment rates are not the only parameter used to measure the efficiency of the education policy and how the students benefits from the spending. There are other important measures that need to be highly considered to analyze the benefit incidence of the education expenditure. Education quality, teachers supply, Infrastructures, the quality of materials (books, teaching methods, training), are some of the issues that have to be addressed. However, given the limited time and scope of the analysis, these topics will not be discussed in this paper.

### III.3.2 Pro Poor Spending

The second argument for benefits that are on average accrued to Primary and Secondary level is the target to reduce inequality between the poor and the rich. The government needs to ensure that the poor people (or group) have access to basic education. As have been shortly discussed above, through the access to basic educations, they are expected to be able write and read, and thus will be able to participate in the economy and the end objective is improving their life condition. Hence, the end objective is to help the poor out of poverty, and it is perceived as a long term poverty reduction strategies. Spending for primary and junior secondary education is targeted to the poor and it is also correlated to the increasing enrollment rates in this group.

On the aggregate level using the enrollment rates, we arrive to a point that the poor have a large share of the education budget. However, there is also an interesting finding that presents other reason for this; the poor have a disproportionate of primary school-aged children (Demery, 2000). It is represented by the higher percentage of primary school aged children that come from the poorest families, by 24 percent compare to 14 percent from the rich families. Therefore, their needs for education services will likely to be greater than other income groups. This might create a bias if we want to do an exhaustive study on the benefits across income group levels. in terms of benefits to education level analysis it appears that the spending at the primary level is more likely to give benefit the poor people. Hence, we can also argue that this is a part of the pro poor spending mechanism.
Figure 3 Enrollment rates by Income Groups- Primary and Junior Secondary Education

![Figure 3 Enrollment Rates](image)

Source: World Bank staff calculations with Susenas 2005 core data.

Even though the enrollment rates in Primary level of the poorest quintile is quite high, but in terms of junior secondary enrollment rates it is positioned at the lowest level. The children from the poor family are less likely to continue to junior secondary school than the children from the non-poor. The transition from primary school to junior secondary school is the problem that is being addressed by the government. Besides increasing the budget share for this level as part of the progressive step, the existence of other program such as scholarship and BOS also play an important role to help the poor families. With these programs, the poor is expected to have access to these two levels of education. These two programs are also considered as part of the social protection policy to help the poor.

The BOS program in particular is established to eliminate the school fees, cost for books and other fees that have to be contributed by the parents to the school. Having to pay these costs, the poor families tend to have difficulties to send their children to school. Therefore, through this program, the poor will be able to send their children to school. It is argued that the share in education budget for basic educations represents a large share of the poor’s income (or total expenditure) compared to the higher income groups (Demery, 2000). It simply means that the share of education spending that is allocated for the poor families will have a big impact on their access to education. This is a very critical point in term of poverty reduction program.
III.4 Regional Gaps

Despite of the impressive achievement for enrollment rates at the primary and junior secondary level, prevalence of this enrollment differs a lot across regions. There are wide gaps lagging between the province and some are quite severe. For primary education, the difference is considered modest; however, the most prominent gaps occurred at junior and secondary school. In 2002, net enrollment rates for primary education in Sumatera Utara was 94.4 percent, while Gorontalo differed by 83.5 percent. It was higher in Papua, which was approximately 80 percent in comparison to 95 percent in Kalimantan Tengah (central Kalimantan), according to the data in 2004. For junior and senior secondary school, net enrollment rates in Nusa Tenggara Timur are 40.9 percent and 24.5 percent respectively. The enrollment rates for Junior Secondary school in this province are almost of the enrollment rates in Jakarta which is 77.2 percent, while the senior secondary school enrollment rates are even worse in comparison to DI Yogyakarta by 58.4 percent.

The enrollment rates gaps are likely to be found in the eastern part of Indonesia such as Papua, Sulawesi, and Nusa Tenggara Timur. The children in these provinces are less likely to enroll in primary education, and it is more obvious at junior and senior secondary level. Higher enrollment levels are more prevalent in Jakarta and Yogyakarta which are estimated around 90 percent, then followed by other provinces by 80 percent and it falls to 70 percent for central and South Sulawesi. Between the income quintiles among provinces, net enrollment rates are also quite stark. The poorest quintile in Sumatra is better off than the richest quintile in Papua (World Bank, 2006). In general, the children in Sumatera have bigger opportunity to access education than the children in Papua. This is due to the fact that the availability of infrastructures and personnel is still found to be the problems in Papua.
III.4 1 Disparities within the provinces

In terms of the difference within the provinces, the gaps are widening. In fact, the differences are bigger and it’s increasing. In 1997, for example, at the primary level, disparity among provinces averaged 46 percent, whereas among the districts, the disparity averaged 54 percent (World Bank, 2007). The disparity within the districts was increased to 69.5 percent in 2002, and between the provinces it is decreased to 30.5 percent. This means that if we disaggregate the enrollment rates between the districts, we will find a profound gap. Therefore, even if a province has a high enrollment rates for primary school on an aggregate level, but if we disaggregate the number according to the districts, then a wide variance emerges. Despite the high net enrollment at the primary education in Kalimantan Tengah Province, the percentage of net enrollment rates in Kota Palangkaraya, one of the districts, is 87.4 percent and it is lower than the overall enrollment rate of Sulawesi Barat which is the second lowest of all the provinces by 88.5 percent. Hence, the inequality within the provinces is actually masked at the aggregate level.

Table 9. Source of inequality in enrollment rates: between and within provinces

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary</th>
<th></th>
<th></th>
<th>Junior secondary</th>
<th></th>
<th></th>
<th>Senior secondary</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Between Provinces Variance</td>
<td>%</td>
<td>Within provinces Variance</td>
<td>%</td>
<td>Between Provinces Variance</td>
<td>%</td>
<td>Within provinces Variance</td>
</tr>
<tr>
<td>1988</td>
<td>31.5</td>
<td>11.4</td>
<td>36.8</td>
<td>20.5</td>
<td>64.2</td>
<td>387.6</td>
<td>62.8</td>
<td>30.2</td>
</tr>
<tr>
<td>1990</td>
<td>23.3</td>
<td>9.1</td>
<td>30.1</td>
<td>14.2</td>
<td>60.9</td>
<td>313.2</td>
<td>100.2</td>
<td>34.9</td>
</tr>
<tr>
<td>2000</td>
<td>21.0</td>
<td>7.0</td>
<td>37.5</td>
<td>13.1</td>
<td>62.5</td>
<td>293.8</td>
<td>96.8</td>
<td>30.6</td>
</tr>
<tr>
<td>2001</td>
<td>21.4</td>
<td>8.0</td>
<td>37.2</td>
<td>13.5</td>
<td>62.8</td>
<td>295.6</td>
<td>78.5</td>
<td>26.6</td>
</tr>
<tr>
<td>2002</td>
<td>10.5</td>
<td>4.2</td>
<td>40.2</td>
<td>6.3</td>
<td>59.8</td>
<td>186.7</td>
<td>64.5</td>
<td>34.5</td>
</tr>
<tr>
<td>2003</td>
<td>19.7</td>
<td>7.1</td>
<td>35.9</td>
<td>12.6</td>
<td>64.1</td>
<td>161.3</td>
<td>57.3</td>
<td>35.3</td>
</tr>
<tr>
<td>2004</td>
<td>13.2</td>
<td>4.0</td>
<td>30.0</td>
<td>9.2</td>
<td>70.8</td>
<td>158.1</td>
<td>57.7</td>
<td>36.5</td>
</tr>
</tbody>
</table>

Note: The between and within mean of squares are weighted by the share of their respective degrees of freedom (i.e. between No. provinces, and within No. districts).

The difference between the districts is caused by the level of spending for education that varies among the rich and the poor districts. Study by the World Bank shows that there are a positive correlation between education spending per student across level of educations and enrollment rates. Nonetheless, increasing the level of spending per student is not only solution for increasing net enrollment but also increasing the non-personal spending (goods and material
expenditures). In the decentralization context, the previous chapter explains that a large share of the district’s budget is spent on salaries for teachers which refer to personnel spending. The spending for non-personnel is so small and if the district is to increase this spending then there are only two choices on the way, either by lowering the share for personnel spending or increasing the budget for education. The first choice is not likely feasible because it is a routine expenditure and is expected to be increased if more teachers will be supplied. The second choice might be very complicated because the decision will involve other sectors’ adjustment.

Reallocation of the central education budget allocated for these areas need to be considered as one of the solutions, because some of the areas are too poor to raise their own budget. Unclear role division between the districts and central government leave some gray areas and this becomes one of the barriers in the decentralization system. In particular with the education budget, the districts are given the authority to spend the budget but to a large extent the districts’ spending does not reflect the discretion that is given to them within the system.

In general, we can conclude that in terms of education spending on an aggregate level, the primary school and junior secondary school are better off relative to the senior secondary school. This funding mechanism also allows the poor people to have access to basic education. However, on disaggregate level, observing the cost allocated per pupil in each education level, it appears that the spending for junior and senior secondary school are slightly higher than the primary school level. In terms of regional disparities, the data shows that the primary schools and junior secondary school students in some provinces, especially provinces in the eastern part of the country are worse off compared to other students at the same levels in other provinces.

Furthermore, the differences within the provinces are a big challenge that needs to be overcome, not only by the district but also the central government. If the national education goal is to ensure that all citizens have access to education, then both the central government and the local governments need to have a better coordination to reach those districts that are lagging behind.
IV Conclusion

The education spending at the central government is largely distributed at the primary school level and this is based on the national education goal which is to ensure a universal coverage for basic schooling level. This pattern of spending has been adopted by the government since the 1970’s and is considered as a success. High enrollment rates for this education level show that the budget appears to be efficient to provide basic or primary education in the country. However, the basic or primary education is only part of the national program, nine years compulsory education (Wajib Belajar Sembilan Tahun or Wajar). It means that the government still has to work on the next level of education which is junior secondary school.

Faced with low enrollment rates at junior and senior secondary school, particularly within the poor families and widening gaps between regions, the government and education stakeholders have two challenges. How can enrollment rates in junior secondary and senior secondary level be improved? How can regional gaps be reduced and to ensure equity in education spending across region?

On the first point, funding mechanism should be designed in a progressive way. The budget allocated for Junior and Senior high school need to be improved to reduce the inequality within these two levels of education. This may not be feasible to change the whole mechanism of budget spending in a radical way. Therefore it is suggested to be done in a more progressive way. This step has been undertaken by the Ministry of National Education with the plan to increase the budget for junior secondary schooling in 2009. Basic schooling in Indonesia is Primary and Junior secondary education. Therefore, increasing the education budget for upper secondary schooling is desirable. This statement compliments a growing body of literature that argues that human capital outcomes later in life are largely determined early in life (Cunha and Heckman, 2007; Heckman and Masterov, 2007). Therefore, it is important to invest in human capital through these early education stages. The investment in primary school only and neglecting the next steps, the government is likely building a class of people without proper skills to be productive and competitive in the labor market. This can create a problem in the future which will not only affect the individual personally but the whole society.
On the second point, to reduce the gaps between provinces and within the districts, my analysis can provide only tentative guidance. Conceptually, having decentralization system in place is already a good ground to address this problem. Deriving from this point, there are three broad strategies for moving forward. One approach would be to reallocate the education budget at the central level in the form of block grants to the districts level. Block grant (or transfer) is the money transferred by the central government among individuals while the local governments are free to again re-shuffle any resources they find within their borders (Dixit and Londregan, 1998). This essence of this system is having only few or no restriction on their use. The local government is given the “freedom” to allocate the block grants for education development within their jurisdiction. It will be more effective to respond to the needs of the regions. The schools that need to be rehabilitated do not have to wait for a specific fund for buildings from the central government. Thus, the local government can use the block grant to re-build deteriorating schools’ infrastructure in their areas in a timely manner. This system can be used not only to address the problem of equity between regions but also the inequality in terms of education level. The local governments would have the opportunity to open more access for upper secondary schools and hence more children from primary school level can continue to secondary schools.

The second approach would be allocation in the form of matching grants, which are made by the central governments to the local government on some sort of performance of the regions or the provinces. The central government allocates certain amount of grant under some circumstances, for instance, how good does the local government manage their education funding in the previous years. This system will induce the local government to be efficient and effective in managing their education funding. This alternative touches the issue of how much is enough for education. Often, the problem is not the availability of money but how the government manages the resources that are available to them in an efficient way so that they can provide the service to the people. However, some of the regions are lacking of money not because they do not have a good management, but simply because they do not have enough resources. For these areas, the central government has to allocate more resources and a wise first step would be to identify which areas are in real need.
The Final approach would be to give more discretion to the local government to spend their education budget which is derived from the general allocation fund (Dana Alokasi Umum or DAU). The critique about giving more discretion to the local government is the issue of corruption. However, corruption is only one part of the leakages that is apparent in public expenditure. In contrast, through decentralization, corruption issue can be mitigated since the local governments are directly responsible to the voters which are represented by the local Assembly. Although this assumption is still debatable, but the main focused should not only be on corruption because there are other things that might serve as causes to the leakages in the education spending.

The local government could not do much with the education budget they have because the burden for wage bill absorbed most of the budget and they only have a very little share for development. This might not be equal to the responsibilities had by the local government to provide education services to the people under their jurisdiction. The largest share of the development budget is still spent by the central government, therefore a mechanism that enables the local government to manage the development budget need to be established. This will allow the local government to provide adequate education services in the remote areas and the poor rural areas which might be difficult to reach and monitored by the central government. Besides this mechanism, a good monitoring and evaluation system needs to be put in place. Without a proper monitoring and evaluation system, the leakages and shortcomings in the implementation of the new mechanism will be difficult to track.

The national education goal is to provide education for all and decentralization is one way to step forward. The essence of the decentralization in term of education itself is to open access for every child to get education regardless the place they live and their economic status. Ensuring equity and equality in education service provision would be an effective way to reach this objective.
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