



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 09-Aug-2018 | Report No: PIDC159572

**BASIC INFORMATION****A. Basic Program Data**

Country Indonesia	Project ID P163217	Parent Project ID (if any)	Program Name Improving Efficiency and Effectiveness in Education Expenditure
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date 06-Nov-2018	Estimated Board Date 30-Jan-2019	Does this operation have an IPF component?
Financing Instrument Program-for-Results Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Education and Culture	Practice Area (Lead) Education

Proposed Program Development Objective(s)

To improve learning conditions for students in the first nine years of formal education in selected districts by strengthening governance and management practices in the education sector.

COST & FINANCING**SUMMARY (USD Millions)**

Government program Cost	12,800.00
Total Operation Cost	300.00
Total Program Cost	299.25
IPF Component	0.00
Other Cost	0.75
Total Financing	300.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	300.00
World Bank Lending	300.00

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Total Non-World Bank Group and Non-Client Government Financing	300.00
Private Capital and Commercial Financing	300.00
of which Private Capital	300.00

B. Introduction and Context

Country Context

1. Over the past decade, Indonesia has seen strong growth and job creation, supporting poverty reduction, but the end of the commodity boom exposed structural weaknesses.¹ Since 2000, Indonesia has had a strong record of economic growth. With an average rate of 5.3 percent, total GDP more than doubled in the last fifteen years. As result of the strong economic growth from 1999 to 2016, the national poverty rate more than halved to 10.8 percent. However, the rate of poverty reduction has begun to stagnate. The number considered vulnerable (i.e., those between the poverty line and 1.5 times the poverty line) in 2016 remains high, at 24 percent of the population, mainly due to a lack of productive employment and vulnerability to shocks. Together, the poor and vulnerable account for 35 percent of the population. Inequality, as measured by the Gini coefficient, increased from 30 points in 2000 to 41 points in 2014, by far the fastest widening of inequality seen in East Asia.

2. The government budget doubled over the last 15 years in tandem with economic growth, benefitting all sectors, particularly education. From 2001 to 2016, the government budget more than doubled in real terms. The growth in the government budget coupled with a constitutional mandate to allocate 20 percent of the budget to education, which was included in the Constitution in 2003 and enforced since 2008, expanded education resources significantly. The education budget grew threefold in real terms during the same period.

3. Indonesia is a decentralized country and the provision of public services is the responsibility of the local governments, with heterogeneous capacity and generally low achievement of objectives. As established by the Law 22/1999 and revised by Law 32/2004 and Law 23/2014, the provision of public services is the responsibility of the 516 districts and 36 provinces. Local government expenditures are financed by transfers from the central government as well as their own tax collection. The transfers from the central government to local government represent 45 percent of the national budget (2016). The capacity of local districts is heterogeneous, in part as a result of the different resources per capita that districts receive.

4. Local governments are required to provide public services meeting the national Minimum Service Standards (MSS) set by the Ministry of Home Affairs (MoHA). However, achievement of

¹ World Bank (2015), "Indonesia Systematic Country Diagnosis: Connecting the Bottom 40 percent to the Prosperity Generation."



MSS is extremely low, reflecting: i) lack of accountability and follow-up mechanisms between local and national levels of government; ii) limited understanding of MSS objectives by local government officials; iii) limited capacity at the local level for technical planning and budgeting execution; and iv) the local government budget constraints (Khairi, 2015)². These minimum standards are complemented by sector-specific standards in education, the National Education Standards (NES). The MSS are intended to set the floor for quality, while the NES are more aspirational (OECD/ADB 2015); the MSS are currently under review.

5. Improving governance and outcomes in education is high on the list of priorities given the central importance of human capital to economic growth of the country and the fundamental right to education enshrined in the Constitution of Indonesia. The Indonesian government has a strong interest in improving the efficiency and effectiveness of current spending levels in education. This program is expected to deliver measurable returns in the form of improved achievement of Minimum Service Standards, improved teacher quality and improved levels of teacher effectiveness.

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Sectoral and Institutional Context of the Program

6. The Government of Indonesia (GoI) has taken major steps to improve the education system in the past two decades. The Law on National Education (20/2003) and the Constitutional Amendment III emphasize that all Indonesian citizens have the right to education, and the government has an obligation to finance basic education without charging fees. In addition, since 2002 the government is constitutionally mandated to allocate 20 percent of its expenditure on education.

7. Student learning needs to improve further and at a faster pace for Indonesia to compete in the global economy and resolve the learning crisis. From 1st to 12th grade, the Indonesian formal education system comprises 53.3 million students across MoEC and MoRA (2017), an increase of 21 percent from the number of students since 2001 (WB calculation based on MoEC and MoRA published data). Net enrollment rates in 2017 were 97 percent, 74 percent, and 60 percent for primary, lower and upper secondary, respectively (see Figure 1).³ Much of this growth in enrollment was at the secondary level. However, learning is below expected levels given Indonesia's level of income based on an analysis of Program for International Student Assessment (PISA) scores and GDP per-capita.⁴ Standardized national tests show that 73.6 percent of Indonesian students are below the national education standard in 4th grade of primary education (AKSI or *Asesmen Kompetensi Siswa Indonesia*, the Indonesian Assessment of Student Competencies). The learning crisis continues through the end of primary and into secondary, where 75.7 percent of 9th and 10th grade students that took the PISA are below the minimum standard.

8. The Indonesian education system has modest levels of efficiency, and increased resources flowing to education greatly exceeded increases in student learning. Very large

² <https://www.tijoss.com/tijoss%2034th%20volume/1fajer.pdf>

³ Data source: UNESCO

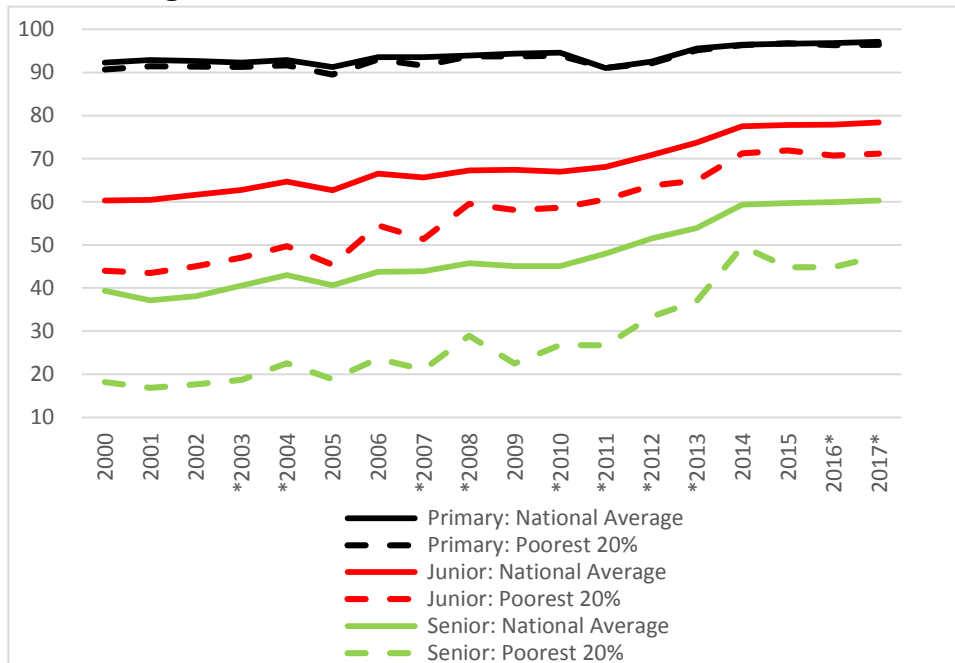
⁴ <http://documents.worldbank.org/curated/en/174691483501965340/pdf/Master-Indonesia-brief-31Jan2017.pdf>



increases have taken place in education expenditures, while student learning has increased only modestly. Teacher allowances doubled with no change in student performance (de Ree et al. 2017), and achievement of MSS remains low, despite large increases in BOS. As shown in Figure 2, expenditure per pupil increased 116% adjusting for inflation between 2003 and 2015, while student learning as measured by PISA increased 26 points in math, equivalent to less than a year's worth of learning. The number of students per teacher is very low compared to other middle-income countries at seventeen for primary and sixteen for secondary, indicating inefficient teacher allocation. Overall, investments in the education system are inefficient at producing student learning outcomes.

9. As Indonesia successfully completed the transition from an elite to a mass education system, learning has remained unequal. As enrollment grew in the last fifteen years and Indonesia completed the transition from an education system serving the children of elites to a system serving all children, it managed to maintain and even slightly improve its performance as measured on international assessments. This was an important achievement, as countries often show declines in learning as enrollment increases. However, using a socio-economic condition measure created by PISA, Figure 3 shows that while learning improved for students in all socio-economic deciles, they improved most for the richest deciles, evidence of increasing inequality.

Figure 1. Net student enrolment rates, 2000-2017

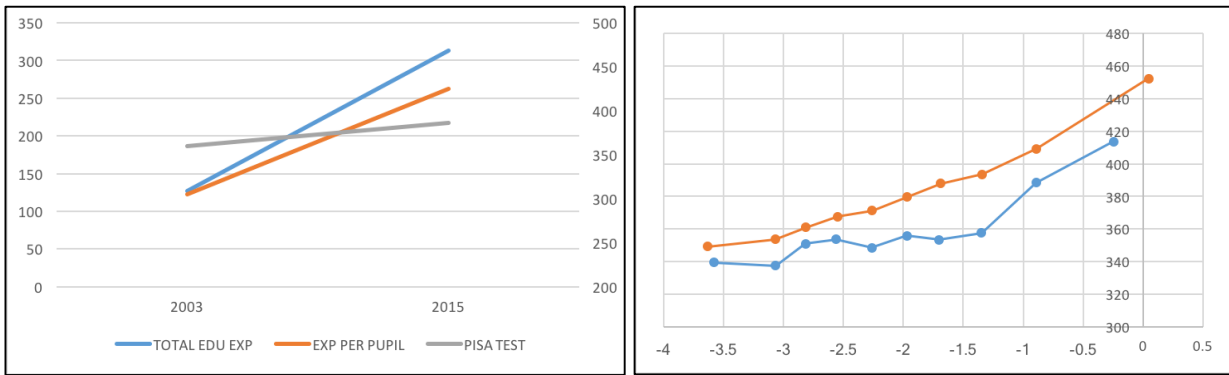


Source: World Bank calculations using Susenas (various years)

Figure 2. Total Education Expenditures and Per-Pupil Decile of Expenditures Compared to PISA Scores (2003-2015)

Figure 3. 2003 (Blue) and 2015 (Orange) PISA Scores by Socioeconomic Condition

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Note: Figure 2 left axis expenditure levels are in constant units (year 2000 = 100 expenditure units); right axis is PISA score

Relationship to CAS/CPF

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10. The Indonesia CPF 2016-2020 highlights the importance of equality of opportunity, getting reform priorities right, refocusing public administration on better implementation, and building in more accountability and transparency at the local government level to ensure better service delivery. There is a strong focus on the importance of working at the sub-national level, particularly in support of education. Engagement Area 4 of the CPF, Delivery of Local Services and Infrastructure, includes multiple pillars of activities. Pillar 2 of Area 4 specifically refers to an education project to ensure universal access to education services that meet minimum quality standards.⁵

11. The CPF’s focus on universal quality service delivery is closely linked to the priorities of the World Bank’s 2017 World Development Report (WDR) on Education, and the Education Global Practice’s Learning for All strategy. The recently published WDR, Learning to Realize Education’s Promise, refers to the learning crisis in Indonesia and other countries, and provides evidence for improving education systems at scale.⁶ This concept note has drawn on that evidence base to inform the proposed activities relevant to the Indonesian country context, linked to the GP strategy of learning for all.

12. The World Bank Group’s goals of ending extreme poverty by 2030 and promoting shared prosperity are directly related to the objectives of the proposed project. In addition, this operation will be recommended for the gender tag since it will explicitly seek to narrow a gender gap with a clear results chain to achieve it. Overall, girls outperform boys in the Indonesian education system in terms of both persistence and achievement (PISA 2015). Measurements of attainment at the national level show gender differences, but the differences are small; important sub-national variations based on gender or characteristics of vulnerability may not be visible in the national average. The team is working with the Social Development team, Poverty team and the Indonesia Urban Flagship team to mobilize or extend analysis on sub-national variations linked to education and gender and vulnerabilities. This

⁵<http://documents.worldbank.org/curated/en/195141467986374707/pdf/99172-REVISED-World-Bank-Indonesia-Country-Partnership-Framework-2016-2020.pdf>; page 32

⁶ <http://www.worldbank.org/en/publication/wdr2018>



planned investigation includes extending existing research by the Social Development team on gender, promotion and staffing in MoEC. Based on the findings of this research during the preparation of the operation, the team will propose specific activities linked to gender.

Rationale for Bank Engagement and Choice of Financing Instrument

13. Improving the efficiency and efficacy of education expenditures is essential to ensure Indonesia's economic and social future. If Indonesia's PISA scores were 100 points higher, a level close to Vietnam, the long term annual per capita economic growth could be 1.8 percentage points higher.⁷ Improvements in the nation's human capital through a more efficient and efficacious education system will require coordination across multiple ministries, mutually-reinforcing policy implementation and sustained political commitment to improve system management and outcomes in a context of fixed resources.

14. WB Cascade mandate: there are multiple possible ways to address this efficiency and efficacy challenge. There does not appear to be a sustainable private sector solution that is currently available to address the scope of these challenges, though working with the private sector will be important to improving overall efficiency, for example in the provision of goods and services to schools and Districts.

15. The Task Team considers a PforR approach as the most appropriate given the sector context, particularly financing. The GoI nominally allocates 20 percent of funding to the sector, so the rationale for WB engagement is focused on the ability to encourage ministries such as BAPPENAS, MoF, MoEC, MoRA and MoHA to work together, something the PforR instrument is particularly suited to with its engagement with a governmental program. This is particularly important in this context where the majority of education financing comes as transfers to the Districts in the form of various DAKs and the DAU, and it is then executed at the local level. In 2018, the portion of the education budget under MOEC excluding tertiary institutions and MoRA education institutions was approximately IDR 319 Trillion. Of this amount, MoEC directly administers IDR 40 Trillion, or 12.5 percent, with the remainder spent by Provinces and Districts. With a US\$300M operation, the PforR mechanism will enable leveraging for a US\$12.8 Bn Government program, a ratio of 1:42; if implemented as an IPF, the expected leveraging is expected to be far less.

16. Another benefit of the PforR approach is the signaling power of clearly defined objectives across government. While overall expenditures on education are large, the efficiency and efficacy of these investments are not clear to all stakeholders. This instrument explicitly focuses on results and will provide a high degree of visibility and accountability for targeted system improvements over the entire governmental program. The IPF approach is less appropriate as it focuses on inputs rather than a broader program of engagement possible with a PforR instrument. IPF operations in Indonesia also

⁷ The analysis presented in this paragraph is similar to that performed by Hanushek and Woessman (2011). The analysis assumes an average working life of 40 years.



have specific processing requirements that do not apply to PforRs, enabling this operation to move forward rapidly.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

17. The Program Development Objective (PDO) is to improve learning conditions for students in the first nine years of formal education in selected districts by strengthening governance and management practices in the education sector.⁸

18. The program will achieve these objectives by supporting the government program as stated in the current and future education sector plans (RPJMN and RENSTRA).⁹ The program will support the government's goals to align, allocate and make accountable selected investments for improved system performance at the district and national level. This investment will support the following specific areas of the Government program: (i) scaling up improved planning and budgeting tools in schools (primarily impacting effectiveness); (ii) mobilizing resources at the district level for capacity building and improving achievement of MSS through conditional transfers of BOS funds (primarily impacting effectiveness); (iii) establishing and enforcing minimum standards for teacher hiring (primarily impacting effectiveness); (iv) scaling up performance conditionality for existing allowances for certified teachers (primarily impacting efficiency); and (v) improving information availability on student achievement and education expenditures at the sub-national level and publicly tracking it (impacting both efficiency and effectiveness).

PDO Level Results Indicators

19. Progress towards achieving the PDO will be measured by four proposed indicators below:

- 1) Number of schools with improved achievement of Minimum Service Standards
- 2) Increased management quality of targeted District education offices
- 3) Enhanced teacher effectiveness
- 4) Inclusion of efficiency measurement in National Education Quality Index

20. These PDO level indicators will be supported by the following intermediate indicators:

- Number of new civil-service teachers hired that meet minimum requirements
- Student assessment system for a primary grade representative at the District level
- Number of schools implementing e-RKAS
- Number of districts participating in BOS supplemental performance-based allocation
- Proportion of teachers participating in performance-based teacher allowance system

⁸ For the purposes of this investment, efficiency is producing the desired education sector outcomes while minimizing waste. Effectiveness refers to the degree to which the investment or policy produces the desired outcome.

⁹ RPJMN or *Rencana Pembangunan Jangka Menengah Nasional* is the National Medium-Term Development Plan developed by BAPPENAS which includes education among other sectors; MoEC's RENSTRA or *Rencana Strategis* is the Strategic Plan for education.



- Publication of the National Education Quality Index

21. Working with the Kiat Guru Urban Pilot (P167281), an expanded evaluation is proposed to measure changes in teacher effectiveness in order to identify the impact of the civil-servant teacher performance-based allowance activity as well as, if possible, the changes in teacher hiring and teacher competency measures. These evaluation and monitoring activities will be designed to provide actionable information about implementation at the national and local levels throughout the period of implementation, and evidence of the impact of implementation will be available by the end of the project. If trust fund financing is available, this could be paid for using non-program funds and carried out as a linked activity executed by the WB.

D. Program Description

PforR Program Boundary

22. The government program for the education sector is established in the medium-term development plan or RPJMN, approved every five years. The current RPJMN established the targets and policies for the education sector for the 2015-2019 period. The RPJMN for the period 2020-2024 is under preparation and the World Bank team is actively involved in supporting its elaboration. The main targets established in the RPJMN 2015-2019 are related to access indicators and participation, quality and relevance of education, and improvement in teacher workforce management and infrastructure (see Table 1, Annex 1). Linked to the RPJMN, MoEC’s own Strategic Plan (RENSTRA) for the period 2015-2019 also focuses on governance.

23. This program will support the Government of Indonesia’s education policy objectives in the RPJMN and RENSTRA, currently under preparation. The WB Education team is working with BAPPENAS and MoEC in the development of the education RPJMN and RENSTRA for the coming five years, taking into consideration progress and the main implementation challenges of the RPJMN 2015-2019 policies. Current discussions focus on issues of system efficiency and effectiveness, specifically including performance-based BOS, performance-based teacher pay, and improved student learning assessment tools and practices. We expect these components to become key parts of the next RPJMN and RENSTRA, along with the current goal increased quality of education services through district and school achievement of MSS. The timing of the operation may make it challenging to have an approved Government plan at the time of approval, since the RPJMN is expected in mid-2019 and the RENSTRA shortly thereafter. The specific elements of the government program that will be supported by the proposed operation are diagramed below.

Government Program RPJMN and RENSTRA 2020-2024 (planned)		
Govt Policy Area	Govt Program Objectives	Specific element included within Program for Results Boundary
Access	Ensure that all children complete 9-years of basic education, and accelerate availability of educated human resources to meet labor-market needs	X
Quality	Strengthen quality assurance, strengthen curriculum and its implementation, and strengthen a comprehensive and credible	<ul style="list-style-type: none"> • Expand AKSI student exam

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	assessment system	
Teachers	Improving professionalism, quality, and accountability of teachers and education personnel, improve the quality of teacher training, improve teacher management and deployment	<ul style="list-style-type: none"> • Performance-based teacher allowances • Use of competency assessments to establish minimum levels for civil-servant and non-civil servant teachers
Higher education	Expand equitable access to higher education; improve quality of higher education	X
Early childhood education	Improve access to Early Childhood Education; improve quality of ECE services	X
Skills	Improving access, quality, and relevance of education and job skills training	X
Adult education	Improving quality of adult education	X
Religious and character education	Expand quality religious education services; develop civic education	X
Budget efficiency	Improve efficiency of education budget utilization and strengthen financing mechanisms.	<ul style="list-style-type: none"> • Performance-based budgeting at the school level • Improved expenditure reporting from Districts
Governance	Improve effectiveness of education decentralization to improve performance on the provision of education; expand performance-based model of funding and budgeting for education at local government level; improve alignment of national educational planning based on valid and reliable data	<ul style="list-style-type: none"> • Performance-based BOS • District capacity investment • Education Quality Index

E. Initial Environmental and Social Screening

24. An initial screening has been undertaken based on a review of the activities associated with the proposed result areas and inclusion of result indicators to be achieved under the proposed program. This screening mainly serves as a preliminary diagnostic exercise to identify potential environmental and social effects as well as opportunities that may be associated with and/or leveraged through the program. Based on this initial review the proposed program will not have significant adverse environmental and social effects that are sensitive, diverse or unprecedented.

25. There are no construction activities included in the PforR. The program is built around two main intergovernmental transfers, the teacher allowance payments and the school per-student grants (BOS). BOS financing is specifically not allowed to be spent on construction. National regulation as part of the BOS technical guidance for 2017 specifies ‘no construction costs’, though it allows for very minor repairs.

26. The focus on district level reporting and systems strengthening has the potential for positive social outcomes. Furthermore, the Program will enable better understanding of achievement of



minimum education services and minimum service standards for those services as they relate to different groups especially in lagging districts. This will afford opportunities to address any barriers to access and participation by vulnerable and or marginalized groups or disadvantages groups.

As such the environmental and social risk is rated as low; please see the screening matrix in Annex 6.

27. An Environmental and Social System Assessment (ESSA) will be undertaken as part of Program preparation. The ESSA will review the existing environmental and social systems within key ministries and agencies relevant to the delivery of the activities for the implementation of the result areas. Aspects that will form the social systems assessment as part of the ESSA, will include grievance and complaints handling and management, as well as potential effects and benefits with respect to social inclusion including where relevant a specific focus on gender, disability, remote communities, disadvantaged groups as well as Indigenous Peoples and Adat communities. The assessment will also require a consideration of capacity at the subnational level. The results of the ESSA will inform the Program design including the Program Action Plan. Engagement with beneficiaries and those affected will also inform the ESSA and the Program design overall. The draft ESSA, including the draft actions, will be disclosed and consulted on.

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