

AUSTRALIA'S EDUCATION PARTNERSHIP WITH INDONESIA

A CONTRIBUTION TO THE GOVERNMENT OF INDONESIA'S
EDUCATION SECTOR SUPPORT PROGRAM

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Australia Indonesia Partnership

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Executive Summary

Education remains a challenge of the Government of Indonesia. The Government's goal is to provide nine years of good quality education for each child. But a third of school age children fail to receive this. And learning outcomes are variable, not least as a result of difficulties in getting good quality teachers into classrooms.

The Government has outlined a new policy to address these problems – the Renstra (2010 to 2014). This policy specifies five priorities across the education sector, including reducing disparities in access, particularly in junior secondary education (that is, grades seven to nine); improving the quality of teaching and learning; and improving management and accountability at all levels – national, provincial, district and school.

Australia's assessment is that the Renstra is a sound policy response to the challenges faced by Indonesia in this sector. It is comprehensive and realistic and pays careful attention to the monitoring of results. This is critical since the Government has now committed to spend 20 per cent of the national budget on education – a sum of around AUD26 billion in 2010. This is a major increase over previous levels – in 2001, the budget was around 12 per cent.

Australia has a strong record of achievement in the sector, including by constructing over 2000 schools under the AUD378 million Basic Education Program. Australia's assistance is valued by Indonesia not just for its additional financial resources but for the way in which Australia works. In essence, Australia is seen by the Indonesians as a donor that can help Indonesia problem-solve at the delivery level.

With a sound policy framework and substantial budget, but with significant challenges remaining in the sector, the conditions are right for an effective program of donor support. For this reason, Australia has been working closely with the European Union, the Asian Development Bank and the Government of Indonesia to design a new five-year program of education assistance. The new program would comprise budget support of up to EUR345 million (approximately AUD486 million) over five years from the European Union and a package of targeted assistance worth AUD500 million from Australia.

Australian support would focus on four areas: school building, training of principals and district officials, improvement of Islamic schools and strengthening policy research, with the bulk of the AUD500 million to be spent on the first two areas. Australian funds therefore squarely address priorities identified in the new Renstra.

The program will invest heavily in ensuring that it supports Indonesia to improve learning outcomes. There is a six-target results framework against which monitoring will take place. Monitoring will be undertaken by the Government of Indonesia, with the assistance of an independent contractor. The role of the independent contractor will include helping build monitoring capacity within the Government, as well as tracking probity across all four areas of focus.

Donor support is less than two per cent of Indonesian spending in the sector. So, the impact on children learning in classrooms across Indonesia will primarily depend on the capacity of the Government to address key dimensions of sector policy - including teacher quality. The program therefore includes AUD25 million to support policy research and analysis to address policy constraints across the education sector.

Overview

The purpose of this design document is to outline the rationale and framework for Australian assistance to the education sector in Indonesia over the next five years.

This document will be accompanied by a set of *Implementation Arrangements* which describes, in detail, the roles of implementing agents.

Part A: Rationale for support: Section 1 sets out Australia's interest in investing in education in Indonesia. Section 2 summarises Indonesia's strategic plan and core challenges in meeting its education goals. Section 3 establishes why there is a role for donors and Section 4 discusses Australia's comparative advantage in the sector and options for assistance.

Part B: Australian-funded program: Section 5 details the multi-donor Education Sector Support Program (ESSP) and Australian-funded components of this framework through Australia's Education Partnership with Indonesia. Section 6 describes what program success looks like and Section 7 outlines how AusAID will oversee the program and manage risks. Section 8 sets out the roles of the Government of Indonesia (GoI), AusAID, other donors and managing contractors in implementing the program.

Implementation arrangements: Details on how this program will be implemented are to be set out in four further documents. Note the first two are under negotiation with the Government of Indonesia:

- (i) *Grant Agreement and Procedures Manuals* with Government of Indonesia
- (ii) *Subsidiary Arrangement* with Government of Indonesia
- (iii) *Contribution Agreement* with the Asian Development Bank
- (iv) *Scope of Services* for AusAID managing contractors

Each Australian-funded component will undertake further design development to guide implementation once program-funded technical assistance is in place within the Government of Indonesia.

Part A: Rationale for support

1. Why should Australia support education in Indonesia?

Australia is currently the largest grant donor to education in Indonesia, providing roughly AUD100 million a year over the last two years. As Australia's assistance to education has grown, so has its influence. Australia is a trusted partner in Indonesia's educational development and reform process. The program described in this document will build on Australia's significant contribution to education in Indonesia to date. It is a substantial component of Australia's commitment to provide up to AUD2.5 billion in development cooperation to Indonesia between 2008 and 2013.

There is a clear rationale for Australia continuing to support education in Indonesia:

Education reduces poverty and facilitates growth. Improving the lives of the poor is the primary reason why Australians strongly support their taxes funding overseas aid programs.ⁱ Around 110 million Indonesians live on less than USD2 a day and around 32 million of those live under the national poverty lineⁱⁱ. The children of Indonesia's poor are 20 per cent less likely to complete nine years of schooling than the children of the middle classes. Basic education is a tool to bring these disadvantaged boys and girls out of poverty.

Indonesia needs a healthy, educated and productive workforce to transform itself into an upper-middle income country. Indonesia is the world's fourth largest country with 240 million people (only China, India and the USA are larger). It is now a lower middle income developing country with a GDP per capita of USD2,224 per annum; (for comparison Australia's is USD41,982).ⁱⁱⁱ Moderate growth is expected to continue – ranging from 5.5 to 6.5 per cent growth per annum over the next five years.^{iv} However, Indonesia's education system is still developing and cannot yet produce enough graduates with the knowledge and skills required by the economic sectors' with the highest growth potential.

Australia's and Indonesia's futures are interlinked. Indonesia is Australia's largest neighbour and one of Australia's most important bilateral relationships. Supporting education in Indonesia aligns with Australia's long-term national interests. Education lays the foundations for growth, stability, equality and stronger Australia-Indonesia business to business, government to government and people to people linkages. Working in partnership in an education program contributes to mutual understanding.

The investment in Indonesian education proposed in this document is significant enough in size and scope to influence access to the benefits of schooling for many of the country's poor. It will substantially and sustainably influence how education services are managed and resourced and through those improvements, affect educational outcomes for the majority of young Indonesians.

2. How is Indonesia delivering on its education goals, and what are the remaining challenges?

Section 2 sets out the core challenges for Indonesia's education system. It starts with an outline of its system, its education policy framework and budget as set out in its Education Strategy Plan (sub-sections 2.1 to 2.3). It then describes the nine core challenges for Indonesia in implementing and reaching its education goals (sub-sections 2.4 to 2.7).

2.1 Context

Indonesia's education system is the fourth largest in the world. Indonesian schools provide education to around 57 million students, delivered through a teaching service of over 3.8 million, through 314,000 schools across 491 districts.^v Under Indonesian law it is compulsory for children aged 7 to 15 to attend nine years of schooling, and the Government of Indonesia (GoI) is required to fund it.

Responsibility for delivery of primary, secondary and tertiary education in Indonesia is shared between national, provincial, and district level governments, with a critical role assigned to the districts. Education policy, strategy and standard setting are concentrated at the national level, under the direction of the Ministry of National Education (MoNE): the 33 provinces are responsible for planning and quality assurance; and the 491 districts manage the resources and delivery of education. In the Islamic sector, responsibility for delivery of services is assigned to the Ministry of Religious Affairs (MoRA) which retains responsibility for provision of services to the school level and Islamic teaching in the education system. MoRA provincial and district offices are charged with providing assistance to individual (often private) *Madrasah* to improve the quality of services.

Indonesia has made impressive gains in education over the last decade and is on track to meet Millennium Development Goals 2 and 3 (universal primary education and gender parity). It has a national net primary (years 1 to 6) enrolment rate of 96 per cent with equal enrolment for girls and boys.^{vi} Indonesia recognises it has not yet achieved its national 'Education for All' target of nine years of education for all boys and girls with around 27 per cent of the school-aged population (around 2.5 million) not enrolled in junior secondary school (years 7 to 9).^{vii} Indonesia acknowledges that access alone does not equal education outcomes. Once children are in school, the quality of education is variable across the country and of a lower standard than in other Asian middle-income countries.

Despite these challenges, Indonesia now has a solid platform from which to improve education results. It has political support, a budgetary commitment and a good policy framework set out in its Education Strategic Plan (section 2.3), and is continuing to increase access, improve learning quality and development approaches for better management of the sector.

2.2 Political and budget commitment

Education is a priority for the Indonesian Government. This is set out in its current *National Medium Term Development Plan 2010-2014* (MTDP), which identifies four main development targets for the education sector, including: (i) improving the standard of community education, (ii) improving the quality and relevance of education, (iii) improving the qualifications and competencies of teachers, lecturers and education staff, and (iv) increasing education funding in a just and equitable way.

The MTDP builds on bipartisan commitment over the last decade. In 2002, Parliament made a constitutional commitment to spend a minimum of 20 per cent of its budget on education. This requirement was further strengthened in the 2003 law on the National Education System (#20/2003) which specified that sub-national governments were also required to allocate a minimum of 20 per cent.

Education is now the biggest single sectoral outlay in the Indonesian budget. Since 2000, education spending as a proportion of GDP has increased in real terms from 2.4 per cent to 3.7 per cent, and education spending as a proportion of public expenditure has increased from around 12 per cent in 2001 to 20 per cent in 2009.^{viii} For 2010, this will translate to around AUD26 billion of education expenditure, with the majority spent on teacher salaries and allowances. **Annex A** provides a breakdown of education by sub-sector and level of government.

2.3 Indonesian education policy

Indonesia has developed a MoNE and MoRA Education Strategic Plan 2010-2014 (hereafter referred to as “Renstra”) to deliver on the MTDP and guide reforms. Renstra maintains the Indonesian Government’s focus on basic education and provision of nine years of quality education for all boys and girls. As MoNE has overall responsibility for the education system, its Renstra covers both public and private education, and its strategic targets include both public and private religious institutions. Its five key priorities are:

- Reducing disparities in access, particularly at junior secondary level
- Improving quality of teaching and learning
- Improving relevance of education, especially at senior secondary and higher education
- Improving efficiency and affordability, and
- Improving management and accountability at all levels – national, provincial, district and school.

Education strategic goals for the Islamic sector are further guided by the MoRA Renstra which covers the public and private *Madrasah* and other educational entities for which the Directorate General for Islamic Education is responsible. The vision of the MoRA Renstra is for *Madrasah* to become equivalent to secular schools in facilities, teaching quality and academic outcomes. MoRA’s focus is therefore on quality: to ensure that *Madrasah* meet standards and that quality and competence of *Madrasah* staff is improved to deliver on good practices in the classroom. To achieve this, MoRA will train teachers and educational personnel in management, leadership and professionalism, and require *Madrasah* to be accredited (see **Annex B** for an outline of the accreditation process).

The former MoNE and MoRA Renstra 2005-2009 were largely successful,^{ix} reflecting:

- achievement of universal primary education (years 1 to 6) at the national level;
- increased participation rates in all sub-sectors (early childhood to tertiary) and improved gender equity at all levels;
- improvement in the operations of MoNE and MoRA, and an upward trend in education quality standards; and
- an increase in the general level of teacher qualifications.

Whole-of-Government education sector partnerships improved over the last Renstra period: MoNE, MoRA, the Ministry of Finance, Ministry of Home Affairs (MoHA), Ministry for National Development (Bappenas), and the Ministry of State Administration Reform were increasingly involved in education performance evaluation, policy dialogue and Renstra formulation.^x

2.4 Major implementation challenges

Although Indonesia has made steady progress in reforming the delivery of education over the last decade and has sound policy settings at the national level, its reforms are only partially implemented. This is acknowledged in the Renstra. Nine of the key access, quality and governance challenges are discussed in turn.^{xi}

2.5 Access

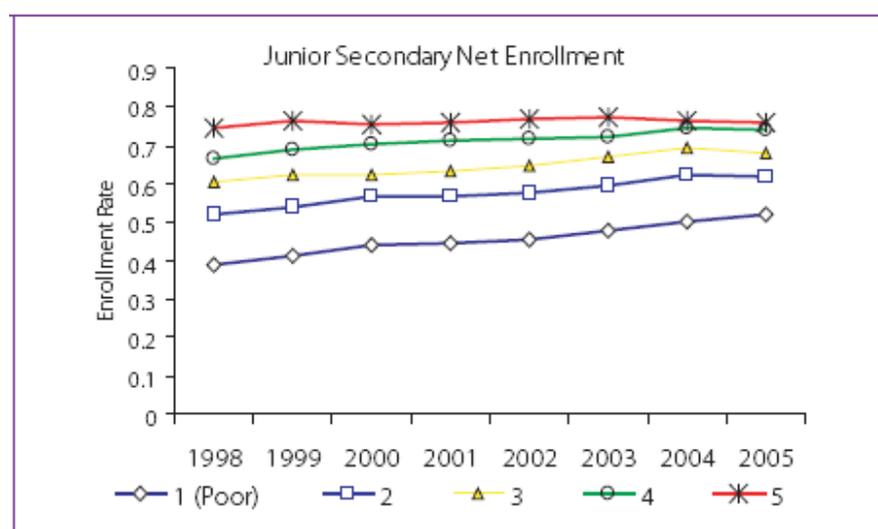
(i) Junior Secondary

About 27 per cent of Indonesian 13 to 15 year old children are not enrolled in junior secondary school, mainly because schools are too remote, too expensive or the schools they can access are of poor quality.^{xii} This cohort of children is predominately from poor districts and families. For example, there are significant disparities in access between districts and households. Net enrolment rates vary from about 41 per cent on average in Papua districts to approximately 77 per cent in Yogyakarta.^{xiii} Renstra aims to improve the Indonesian workforce's human capital; increasing the number of workers with junior secondary school qualifications and raising the national average number of years of schooling from 7.5 in 2009 to 8.25 by 2014.

(ii) Access for all – targeting the poor

Disparities in access are even greater within districts. A child coming from a poor family is 20 per cent less likely to be enrolled in a junior high school than a non-poor child. The largest drop out occurs in transition between primary and junior secondary level. Chart 1 shows net enrolment rates by poverty quintile for primary and junior secondary schools.

Chart 1: Enrolment rates by poverty quintile for junior secondary schools



Source: World Bank^{xiv}

There are both supply and demand constraints to school enrolment. On the supply side, the major reasons are lack of access – especially in poor and remote areas – and perceptions of low quality of education. This is premised on the availability of qualified teachers, teacher absenteeism and the quality and relevance of teaching. On the demand side, the major reasons include economic factors – poor families cannot afford it, often citing the ‘need to work’ – and limited understanding by families and students of the value of junior secondary schooling. There exists a trade-off for households, between investing in their child’s education for future income and the income they can earn now by putting them to work through formal or informal employment.

Indonesia is addressing these access challenges on the supply side by:

- funding an expanded junior secondary school construction and rehabilitation program in unserved and underserved areas; and expanding non-formal and informal primary and junior secondary school programs for school dropouts.
- funding a program to upgrade teacher qualifications (see sub-section 2.7).

And, on the demand side by:

- providing operational school funds and financial support for poor families (see sub-section 2.6 below)
- increasing the relevance of school curricula.

In addition, most districts operate a selection system for junior secondary schools based on students’ abilities. Places in the best schools are allocated on the results of primary school tests. This often leaves poorer students (in achievement and economic terms) in the worst schools or forces them to move into the private sector, as places in desirable schools are filled by more able students. This often results in less able (including those with a disability) and poorer children having to pay for lower quality education.^{xv}

Indonesia has piloted the National Program for Community Empowerment (*PNPM*) *generasi* program in 2,121 villages (across six provinces) since 2007, with the specific aim of providing conditional block grants to villages to fund education and health. Early education results indicate that the program has positively impacted on school participation rates in the primary age group.^{xvi} Indonesia is also trialling a conditional cash transfer program that targets around 3 million of the poorest households so they can afford basic education and essential medicines.

(iii) *Gender equity and inclusive education*

Gender equity: Indonesia has largely achieved gender parity in education with a gender parity index of 0.99 at primary level, 1.02 at junior secondary and 0.98 at senior secondary level. A slightly higher proportion of female students are enrolled in *Madrasah*. Indonesia has strong gender policies in education. For example, its Ministerial Regulation on Gender Mainstreaming in Education requires equal access for men and women to be incorporated into all aspects of planning and management. Nevertheless, there are significant variations in gender parity at the sub-national level. Junior secondary school gender parity ranges from 1.08 in Western Sulawesi to 0.89 in Papua.

Inclusive (disability) education:^{xvii} UNESCO estimates that in Indonesia, around 1 million school age children have disabilities and the World Bank estimates that up to one-third of children not enrolled in school have a disability. Renstra has specific targets to increase disability inclusiveness over the next five years and has formulated a disability strategy

focusing on accommodating disabled students in mainstream, rather than only in special schools; and including creation of education resource centres with a regular school twinned to a special school. This strategy is embryonic and needs donor support.

2.6 Quality of education

(i) Teaching

International studies have found that the quality of teaching is the most important factor in improving literacy and numeracy standards.^{xviii} In particular, primary school teaching quality is critical. If primary school education is sub-standard it is difficult for students to catch up in later years.

Indonesia's education system is still not producing graduates with high quality knowledge and skills. As an example, around half of those tested in the International Mathematics and Science Study were below the defined basic proficiency level and lower than other students from other middle income countries after adjusting for household income.^{xix} Literacy standards are also comparatively low, with only 46 per cent of year 9 graduates attaining full literacy.^{xx} Combined with low junior school completion rates, this means that around 68 per cent of Indonesian 15 year olds are not fully literate. Although these results are comparatively low, Indonesia's results have consistently improved (albeit from a low base) since 2000.

Indonesia is implementing policies to tackle this problem. In 2005, Indonesia introduced a new *Teacher Law* that requires all teachers (including in the Islamic sector) to be qualified to bachelor degree level equivalent (four years) and to undergo a certification process by 2015. By 2015, Indonesia plans to allow only certified teachers to hold positions. Further, the Government is doubling the basic salary for qualified teachers, including additional allowances to create a system of incentives for teachers in remote schools. The Government is investing around USD1.9 billion in 2010 implementing this program.

This program faces a number of implementation challenges:

- The bulk of Indonesia's 3.3 million teachers are not yet compliant with this requirement. In 2006, 37 per cent held a degree, but only 16 per cent of those qualified at the primary school level possessed such a qualification.^{xxi} In conforming to these legislative requirements there are significant risks that the certification process will be rushed and quality compromised. There is also no mechanism for managing underperforming teachers.
- Absent teachers undermine this law, and produce poor education results. Absentee rates have improved from 19.6 in 2002/2003 to 14.1 per cent in 2008.^{xxii} However rates remain high in remote areas with absenteeism at around 23 per cent.^{xxiii}
- Teacher distribution is sub-optimal. There is an excess of Government paid teachers in urban and rural areas and an undersupply of 66 per cent in remote areas.^{xxiv} The Government has tried to address distribution by introducing higher wages for remote area teachers in 2005. However, this policy is not solving the problem, with a high rate of absenteeism amongst this cohort of teacher recruits.^{xxv} This suggests that financial incentives are not sufficient.

Indonesia is trying to address these issues by implementing its teacher law, including through the teacher certification program, with assistance in piloting, monitoring and assessing progress from the World Bank, USAID and local policy think tanks (i.e. SMERU).

(ii) Islamic schools (*Madrasah*)

The Islamic sector educates around 22 per cent of Indonesian students in 40,000 primary, junior and secondary *Madrasah* across the country. Around three quarters of these are in rural areas. *Madrasah* are often the schools of choice because of their focus on family values. Sometimes *Madrasah* is the only option in remote areas. Poor children, especially girls, are concentrated in *Madrasah*. Of these 40,000 schools only around 10 per cent are administered by MoRA schools and are provided with a budget for teacher salaries and maintenance. The other 90 per cent are fully dependent on limited government operational funds, private grants and parent paid fees to operate *Madrasah*, often with quality of teaching and education attainment suffering.

The immediate challenges in the Islamic system are:

- Helping those *Madrasah* that are not currently accredited (around 72 per cent) to meet Indonesia's national minimum quality standards. To be an accredited school, all public and private schools need to meet eight quality standards in curriculum, teaching and learning processes, learning outcomes, personnel, physical facilities, management, finance, and performance assessment processes (see **Annex B** for an outline of the system). MoRA intends to use the accreditation system as a mechanism to regulate and monitor funding flows.
- Upgrading teacher qualifications and management of funds to improve the quality of *Madrasah* and student learning outcomes.

2.7 Governance and management of the sector

(i) Spending efficiency- whole of sector

The Renstra Medium Term Budget Framework (MTBF) (2010-2014) is an important step towards providing a predictable planning tool for funding education priorities and measuring results.

The new Renstra advances the results focus through a narrowing down of priority programs with specified outputs and outcomes. This is in line with the Government's broader program based budgeting reforms. An action plan for the Renstra MTBF implementation is advancing, demonstrated by: clearer performance indicators; castings based on minimum service standards; greater prioritisation; and, a clearer accountability framework for outcome and output monitoring by senior managers in MoNE. This MTBF needs to be delivered by all levels of government, ultimately delivering results at the school level. See **Annex D** Part I for an overview of funding flows from the Ministry of Finance to sub-national governments and schools.

A breakdown of projected education sector flows by sub-sector and level of government is not yet available. Indonesia is currently developing a budgeting and reporting system that captures district level expenditure (breaking it down by salaries, operational spending and investment). It will be approximately three years until the system is fully operational.

There are several major challenges in transforming increased funding into services:

- Districts are responsible for around 57 per cent of total education funds.^{xxvi} The majority of the national education allocation is expended on salaries, primarily for teachers. At the district level, this translates to around 80 per cent of funds being allocated for salaries (calculated in **Annex A**). This means there are limited funds

available for maintenance of classrooms, teacher training, books and operational funds to run schools. In addition, the World Bank predicts that without reform, the cost of the new teacher law means that teacher salaries and allowances will crowd out the fiscal space for operational funding.^{xxvii}

- There is not yet any financial incentive for districts to constrain teacher numbers and costs. This is because the general allocation fund (DAU) allocated to districts for education is predominately tied to teacher numbers. If a system was put in place whereby savings from teacher salaries could be used for operational costs, districts would have a greater incentive to undertake reform. This reform could have a larger impact on poor districts because rich districts currently can draw on large internal revenues to supplement national grants and solve local problems, while poor districts often cannot.
- The number of teachers employed and paid by the government is 21 per cent above the optimal national level, costing Indonesia an additional USD725 million (IDR 5.8 trillion) per annum.^{xxviii} Official policy is for student teacher ratios of 32 to 1 for primary and 28 to 1 for junior secondary levels.^{xxix} The actual student teacher ratio in 2007 was 17.7 to 1 in primary schools and 12.7 to 1 in junior secondary schools.^{xxx} Indonesia is seeking to reform this by changing class sizes and requiring minimum teaching loads.

(ii) Spending efficiency- school operational funding

In 2005, the Government introduced a new primary and junior secondary school funding mechanism (BOS) to offset parental school fee contributions, through direct operational budget support to schools and direct support to poor students in the form of scholarships or grants for materials, books and equipment. BOS was also designed to increase the volume of non-personnel spending at the school level, with oversight of spending decisions by school management committees. The program costs Indonesia around USD2 billion per annum which is partly funded by a World Bank loan.^{xxxi}

A review of BOS^{xxxii} found it effective in providing more operational funds for schools. It has also largely achieved its objective of removing monthly tuition fees particularly in public primary schools, with 83 per cent of schools exempting students from tuition fees. But further reform of BOS is needed to have more impact on learning outcomes for the poor.

Major challenges, include:^{xxxiii}

- There is a need both to increase the transparency of BOS expenditure for parents and the community and to make more widespread use of the school committee to oversee spending decisions. For example, policy is for all schools to use blackboards to advise the community how BOS funds are allocated, but implementation of this measure has been low.
- Notwithstanding overstaffing in most Indonesian schools, an average of 30 per cent of BOS funds have funded casual ('honoraria') teachers and allowances, reducing available funds for critical school maintenance, books, and training. In contrast, schools are only allocating small shares of their BOS funds to core operational expenses and targeted spending on the poor (such as subsidies for transportation to school).
- BOS needs to evolve to ensure that funding matches the minimum costs of service delivery, which differ across the country. Inadequate school level funding is more

acute in remote, rural areas; poor private schools; special education schools; and especially in private *Madrasah* with funding insufficient to hire fully qualified teachers. The GoI is assessing the feasibility of variable BOS to deal with these inequity concerns.

(iii) Accountability - decentralisation to district governments

In the non-Islamic sector, primary responsibility for delivering and funding education services lies at the district level (excluding tertiary). Education Law 20/2003 transferred the principal responsibilities, the authority and the resources for delivering education to a minimum service standard to sub-national levels of government, and in some cases, to schools themselves. Decentralisation provides opportunities to respond more readily and efficiently to local needs but has not yet translated into better education outcomes across the country.

Major challenges include:

- Effective implementation of the national level Renstra needs to be undertaken at the district and school level (whilst recognising the local responsibilities and authority under the education law). In practice, district governments have limited discretion in managing funds and shaping the key education sector decisions. MoNE has no direct representation in districts and relies on coordination with MoHA. The system for MoRA public schools is separate, with education delivery still centralised at the national level.
- There is enormous variation in the public financial management capacity (i.e. systems, incentives and accountability) of education district offices. Renstra recognises that the capacity of sub-national quality assurance units needs strengthening along with: (i) school leadership and management capabilities through the school principal; (ii) school governance oversight through enabling school committees; and (iii) technical support through school supervisors.
- The Indonesian Government recognises that uneven sub-national governance standards have created an incentive for MoNE to bypass the district in implementing major programs by delivering funds directly to schools. The Government is committed over the next five years to expand management of national programs through the districts. For example, school operational funds (BOS) will be delivered in 2011 through district governments. This change in funds channelling is only likely to be effective if accompanied by strengthened district leadership and capacity.
- Funding minimum service standards is challenging for the least developed districts. These districts, and remote schools within these districts, have difficulty delivering outcomes (e.g. student exam performance) and inputs (e.g. school infrastructure standards and textbooks). Matching funding with the cost of services needs reform (for example, in remote areas materials and transportation prices are significantly higher).

(iv) Accountability- school level

Improvements in exam results are linked to well run schools. Under the 2003 Education Law, schools and school committees were delegated significant authority in the running of schools to increase their accountability to communities. All Indonesian schools are required to have a School Management Committee as a condition of registration, and to approve the annual school budget. This policy has only been partly implemented across the country.

Improving accountability faces several major challenges:

- In practice, this policy has been unevenly implemented across the country: some School Management Committees are highly engaged in all expenditure decisions, others are not involved.
- There are a large number of uncoordinated school-based training programs being implemented across the country. These need to be harmonised and good models shared.^{xxxiv}

In summary, Indonesia's national-led reform agenda is solid. As outlined in its Renstra, Indonesia is aware of its challenges and has strategies to resolve them. But, progress will be reliant on a high degree of national, provincial, district and school cooperation to resolve implementation challenges across Indonesia's 491 districts.

3. How can development partners help?

This section outlines why there is a role for partnership between Indonesia and development partners in the education sector (sub-section 3.1). It then sets out the development rationale for this partnership, including provision of financing and good advice based on past successes (sub-sections 3.2, 3.3 and 3.4).

3.1 Why is there a case for development partner support?

Indonesia has an enabling environment for donor partnerships that can deliver results. It has strong political commitment, and through Renstra, a solid platform for partnerships that can be effective in improving education opportunities for the poor. Indonesia recognises it has many obstacles to overcome before it will achieve its education goals and has clearly stated its' continued need for international assistance over the next five years – for both funding and international advice. This assistance can help it deliver on its Renstra goals more rapidly and more efficiently. In particular, Indonesia has requested assistance in:

- external financing to create the fiscal space for Indonesia to fund important reform programs, including infrastructure in lagging districts;
- policy and technical support to increase the efficiency and effectiveness of MoNE and MoRA to deliver on performance targets. This support would accelerate the pace of education reform through piloting and dissemination of good models, particularly at the sub-national level. This support should build on and replicate previous successful programs; and
- assistance to develop a comprehensive nationwide accredited training system for district officials, school principals, school supervisors and school committees to improve the quality of student outcomes and management of schools.

3.2 External financing

Development partner assistance is around two per cent of total financial resources to the sector. Although this is not substantial, development partner financing is important for funding reforms, making up around seven per cent of discretionary funds available in the education sector (see **Annex A**). MoNE has indicated that development partner funding has enabled it to allocate its own funding to essential reforms over the next five years. This includes: (i) around USD2 billion per annum for BOS; (ii) USD1.9 billion in 2010 is budgeted

to implement teacher certification; and, (iii) improving teacher distribution. These programs are critical to improving literacy and numeracy results.

Indonesia reached its education allocation target of 20 per cent of total budget spending in 2009. While Indonesia's education budget has grown as a percentage of national public expenditure, it is still insufficient to deliver on all performance targets in Renstra over the next five years. Indonesia has factored in ongoing development partner support to fund junior secondary school enrolment targets, quality improvements and provision of operational funds for schools.

Development partner funds are counted as part of Indonesia's national expenditure and contribute towards Indonesia meeting its 20 per cent budget allocation to education. It is acknowledged that by development partners contributing to the sector, this could have a displacement effect with Indonesia reallocating funds away from education, or allocating it to lower priorities within the sector. This risk is low, and being managed through policy dialogue on the Renstra MTBF. The 2003 law on the National Education System (#20/2003) further mitigates against this by requiring districts to allocate a minimum of 20 per cent of their budgets to education.

3.3 Good advice accelerates progress

Indonesia's decentralised education system came into existence in 2003 and is still under development. It needs international assistance to develop systems that work across the country, particularly at district level where the bulk of education services are delivered. Through the provision of advice and piloting new models, development partners can help improve Indonesian policy and practice and therefore improve the efficiency of Indonesia's AUD26 billion annual investment in education. A USAID study into donor support for basic education concluded that donors cannot have an impact on systems change without trialling new approaches.^{xxxv}

Areas where development partner resources could help Indonesia achieve better results include:

- Development and testing of new systems that would not be trialled without donor support. For example, Indonesia currently does not have a comprehensive training system for school principals, committees and district officials enabling them to more efficiently plan, budget and deliver education to minimum service standards at the district and school level. Where new systems work, they provide models for Indonesia to adopt and roll-out across the country.
- Identification, dissemination and systemising good practice at district and school level across Indonesia. For example, following the successful construction of over 2000 schools through the Australia-Indonesia Basic Education program (AIBEP), Indonesia has now adopted the AIBEP asset management and maintenance manual as Government recommended practice for school maintenance, and has distributed this manual to districts across the country.
- Supplementary monitoring and analysis of education delivery allowing Indonesia to make more informed evidence-based policy decisions. For example, the World Bank and Netherlands Government have undertaken monitoring and analysis of BOS effectiveness to provide an evidence base for changes to BOS so it maximises educational access for poor Indonesians.

If this advice was not provided by development partners, it is unlikely that Indonesia would be able to source and fund this additional expertise within Indonesia in the short-term. Indonesia's knowledge sector institutions (e.g. within Ministries, universities, independent think tanks) are still being built, and are less developed than in other middle income countries. Whilst Indonesia builds this analytical capacity over the long-term, development partners are supplementing Indonesian resources. Without this support, Indonesia would meet its Renstra goals at a slower pace.

3.4 Development partners have a track record of success in the sector

Australia and other development partners have been assisting Indonesia through a range of programs in the sector.^{xxxvi} **Annex C** outlines current and future development partner programs. These programs have largely been effective, but have not realised their full potential. For instance, the Independent Review of AIBEP concluded that it was effective, but more support is needed to consolidate work on both quality in schools and monitoring performance for assistance to have a sustained impact on the sector.^{xxxvii}

Examples of development partner funded successes in the sector, include:

- Australia, through AIBEP, has funded the construction of 2075 junior secondary schools, estimated to provide around 330,000 new school places in poor districts that previously had limited access to years 7 to 9. This contributed towards Indonesia increasing net school enrolment rates from 63 per cent in 2003 to 73 per cent in 2008.^{xxxviii}
- The World Bank and the Netherlands have supported Indonesia as it implements BOS, which provides around 8.3 per cent of total education expenditure. BOS has increased access to basic education by poor families by reducing school fees;
- The United States, through its Decentralised Basic Education Program, worked with around 50 districts and 1,200 schools to promote the use of school-based management. This encouraged collaboration with school committees to improve oversight of planning, budgeting and monitoring of school results;
- The EU, through its ADB implemented Education Minimum Service Standards (MSS) initiative, has assisted the GoI to develop a set of standards. The MSS aims to reduce disparity by ensuring basic standards across the country in teaching and learning processes, infrastructure and equipment; and
- Australia's Learning Assistance Program for Islamic Schools has worked closely with MoRA central in developing a teacher training model. This is a best practice model that is now recommended by MoRA to be used by institutional providers of teacher training. The model has been distributed to over 60 institutions. Section 4 contains a comprehensive list of other Australian-funded successes.

Table 1 links the major access, quality and governance challenges for the sector (detailed above in section 2), to requests for development partner support.

Table 1: Linking key challenges in meeting education goals and requests for assistance

Challenge	Government of Indonesia policy response to addressing challenges	Has Indonesia requested development partner support?
Access- see 2.5		
Junior Secondary	Building and rehabilitation of more junior secondary schools in poor districts and improving teacher quality to increase demand.	Yes- Australia
Poor households	Provision of operational funding (BOS) for schools and PNPM to fund poor families.	Yes- Australia; World Bank (loan)
Gender equity and inclusive education	Policies that promote access for vulnerable groups, including females and disabled students	Yes –integrated into a number of development partner programs
Quality- see 2.6		
Teacher certification	New law and funding to upgrade teacher qualifications	Yes - World Bank (loan), Netherlands and US
Ensuring a minimum standard of education quality in all schools	Preparation and adoption of Minimum Service Standards for education, approved by the Ministry of National Education, 9 July 2010.	Yes – EU (grant) through ADB
Improving quality in Islamic schools	Requirement that Islamic schools become accredited to national standards to remain licensed and access government funds	Yes - Australia; ADB (loan)
Governance and Management		
Spending efficiency- see 2.7		
Medium term budget (national and sub-national)	Improved efficiency of expenditure at all levels	Yes - EU (budget support); Australia, EU and ADB.
Operational funding for schools (BOS)	Continuing to fund BOS and improve its operation	Yes - Australia, World Bank (loan) and Netherlands
Accountability- see 2.8		
District level	Introduction of nationwide training system	Yes, Australia. US, Japan, UNICEF also working at district level.
School level	Introduction of nationwide training system and mandating school committees to oversee school decisions	Yes, Australia. US, Japan, UNICEF, New Zealand and Netherlands also working at school level.

4. How can Australia help, and what are the options for delivery of Australian assistance?

This section outlines why and how Australia can best partner with Indonesia to improve education results. Sub-section 4.1 sets out why Australia has a comparative advantage. Sub-section 4.2 lays out the proposed rationale for harmonising with other donors and sub-section 4.3 describes the options for how Australia could support Indonesia.

4.1 Australia's comparative advantage and experience

Australia is a trusted partner in education. Indonesia has welcomed more Australian assistance over the next five years to deliver on Renstra, based on three clear advantages:

- Australia is a trusted bilateral partner based on its delivery of successful programs in partnership with Indonesia over the last five years. This includes the Australia-Indonesia Basic Education Program (AIBEP) and Learning Assistance Program for Islamic Schools (LAPIS). As a result, Australia is in a strong position to assist Indonesia in implementing policy changes.
- Ministers and senior officials appreciate the way that Australian assistance provides practical help in solving problems.
- Australia provides grant funding for education support. Grant funds complement loan programs provided by multilateral development banks and Japan. They can be used to support capacity, and address weaknesses and gaps in Indonesia's education systems, including at the local level, therefore making loan funds more effective.^{xxxix} For example, the World Bank has provided loans of around USD1 billion to help Indonesia finance BOS. These loans are complemented by donor grants that help Indonesia train school principals and committees on the effective use of BOS funds, and monitor and assess the BOS program.

Over the last five years, Australia's assistance has helped to improve Indonesian policies and systems, and ultimately the effectiveness of the AUD26 billion per annum Indonesia spends on education. Examples of the improvements delivered through this assistance include:

- Construction of 2075 schools through existing government systems, which was determined to be successful by a recent independent evaluation of AIBEP. The Government of Indonesia benefited from improved monitoring and quality assurance systems developed within AIBEP;
- From 2010, MoNE has adopted AIBEP's construction reporting database and is in the process of integrating the AIBEP complaints procedures as the official government system for managing all publicly constructed schools. Indonesia will use these tools to monitor construction and tracking of any complaints relating to construction;
- From 2010, MoNE incorporated AIBEP guidelines into construction policy on: banning the use of asbestos; mandating disability-friendly schools; and the use of sustainably harvested timber in all GoI built schools;
- MoNE have adopted the AIBEP manuals for asset management and training as official policy on school management and maintenance. In 2009, MoNE delivered manuals to 10,000 schools, as part of their own expenditure, to promote quality standards; and

- AIBEP assisted MoNE to work with districts to develop a system to monitor teaching quality against national standards. This system is now reflected in Indonesia's Ministerial Regulation on national standards.

There are lessons from Australia's last five years of assistance that will improve the impact and efficiency of Australia's next phase. These lessons are as follows:

Policy dialogue: Development of stronger networks and policy dialogue with civil society groups and Indonesian research institutions will support a broader and sustained Indonesian coalition for reform. This dialogue would then better inform demand-side programs that address the specific needs of provinces, districts, schools, teachers, students and communities, and lead to stakeholder ownership and commitment.

Indonesian systems: The independent review of AIBEP found that Australia could make greater use of Indonesian systems and personnel for the delivery of the program. Under AIBEP, the loan for MoNE school construction was delivered through Indonesian systems, but the grant for construction of MoRA schools was implemented by a contractor through a parallel system. The independent review of AIBEP found there was no clear evidence of improved quality and reduced leakage under the parallel system compared with equivalent Indonesian systems.^{x1} Delivering school construction through MoNE is assessed to cost less, as well as strengthen Indonesian systems in the process. For example, employing engineers through MoNE to oversee construction is just as effective, but a lower cost to AusAID.

Coherence: A more holistic sectoral approach is required to ensure consistency and coherence across programs. All program components, including buildings, equipment, school teaching, and learning materials and training should be developed together. For example, a focus on building more schools in one sub-sector detracts from the development and implementation of a systemic planning approach that links junior secondary schools to satellite primary schools and higher education, all within a quality improvement framework. The former design and program manual risked 'projectising' the program within AusAID and Indonesia, by inhibiting development of coherent and linked program components.

District Governments: District capacity needs to be addressed to optimise investments in construction and teacher training. There is a need for an integrated system to support planning, budgeting and management at district level and addresses issues such as teacher recruitment and deployment and building maintenance. This requires support to develop improved school governance, management, and quality of teaching and learning. In a decentralised system, capacity building activities need to work at central and sub-national level, with primary activities trialled and tested at the school and district level.

Systems-strengthening is critical to improving education service delivery, and ultimately the learning environment for children in schools. Australia has helped improve Indonesia's systems for construction and education quality through AIBEP and LAPIS. The next phase continues to strengthen Indonesia's education systems, with an increased focus on quality so that the majority of children that complete the full nine years of schooling are fully literate, numerate and can use these skills for their livelihoods.

4.2 Why harmonise with other development partners?

Indonesia has requested that donors comply with the Jakarta Commitment on Aid Effectiveness which requires better alignment with Indonesian policy, budgets and systems, and calls for further harmonisation and use of Indonesia's systems for delivery. As outlined in section 2, the policy environment in Indonesia is now conducive to more coherent and harmonised donor

support to the education sector, presenting an opportunity to work in partnership with Indonesia to eliminate bottlenecks in the system. In education, this means donors directly supporting Renstra priorities and delivering on-budget,^{xlii} through national and sub-national systems.

Eight major bilateral and multilateral donors currently provide support to Indonesia in education (see **Annex C** for details on other donors' programs). A multi-donor partnership with other major donors to the education sector meets Indonesian requests and reduces transaction costs for institutions. Australia, the Delegation of the European Union (EU) and the Asian Development Bank (ADB) have agreed to work together through one program to support Renstra in their next phase of education assistance. This will include close collaboration with the World Bank, the Netherlands, the United Nations' agencies, Japan and the United States.

4.3 Aid delivery options for Australian support

In designing this new phase of assistance, Indonesia has specifically requested that Australia contribute to funding and implementing Renstra priorities by:

- funding planned junior school construction and rehabilitation in underserved areas
- supporting the development, trialling and roll-out of a comprehensive accredited district and school level training system
- supporting accreditation for *Madrasah* to ensure they meet minimum service standards and become more integrated within the national education system, and
- supporting MoNE and MoRA to implement Renstra by increasing capacity in analysis, planning, evaluation and monitoring.

Indonesia has **not** requested Australian support for teacher upgrading because it is funding the program with its own money, and already receiving assistance from other donors. But, Indonesia has highlighted that its teacher investment needs to be supported by good school and district level management to deliver the benefits. In the future, the GoI has indicated it may request further support for teacher quality: this would be subject to further negotiations and growth of the Australian aid program to Indonesia.

Australia has considered a number of delivery options to help Indonesia deliver on its Renstra priorities, and the above requests. The three main options are discussed in turn below.

Option 1 – Non-earmarked budget support for Renstra

This option entails Australia providing funds directly to the Indonesian Ministry of Finance – as part of the Government's education budget – linked to Indonesia achieving sector level performance targets. This option is not preferred for Australian support for a number of reasons:

- Non-earmarked budget support is considered a high fiduciary risk for Australia, while earmarked support has proven successful through AIBEP.
- Australia has limited experience in funding non-earmarked budget support of this scale.
- Australia's experience has shown that partnerships with Indonesia to help solve bottlenecks can have a significant impact on the efficiency of the system.

Option 2 - Traditional project

Australian funded projects have typically been delivered in parallel to partner government systems by a third party service provider, often a managing contractor. Projects are most effective where partner systems are systemically weak and cannot be used for service delivery. This option has been ruled out because:

- there is potential for increased development impact by working within Indonesian's systems. Australia's annual contribution of an average of AUD100 million is small in comparison to Indonesia's investment (around 0.3 per cent of total resourcing). By using Australian funds to complement and support large Indonesian programs, our assistance is more effective in helping Indonesia efficiently spend its annual education expenditure of AUD26 billion a year, than working in parallel
- international development experience strongly supports the use, where feasible, by donors of partner systems and highlights that where donors create parallel approaches, they confuse and undermine national systems. Australia previously worked through Indonesia's systems for school construction through AIBEP and this was largely successful and led to improvements (see sub-section 4.1 for examples).
- the overall cost to AusAID is less when working through Indonesian Government systems, than in parallel. For example, the AIBEP Independent Completion Report highlighted efficiencies generated by partnering with MoNE to build schools, with the overall cost to AusAID being lower than those directly delivered outside the system by managing contractors.

Option 3- Policy support to Renstra through a mix of targeted budget support with technical support

This option provides earmarked budget support to Indonesia for core Renstra programs with technical assistance and pilot programs delivered through managing contractors and the Asian Development Bank. Earmarked budget support would be complemented by an independent oversight managing contractor to safeguard and audit funds delivered through the Indonesian system. The downside of this option is that there are higher transaction costs for Indonesia in delivery of the program, than with non-earmarked budget support.

However, given Australian fiduciary responsibilities and Indonesia's request for advice, this option is preferred because: (i) it has been proven to work under AIBEP; (ii) it provides sufficient safeguards for Australian funds; and (iii) it supports Indonesia to strengthen its systems and effectiveness of Indonesian funds. Option 3, therefore forms the basis for this design.

Australia's program helps address a number of the education sector challenges outlined in section 2 (see Table 1 in sub-section 3.4) but does not address all challenges because:

- At this stage, Indonesia has only requested Australian assistance to address some sectoral challenges, and has requested support from other donors to address others;
- Indonesia is confident in its ability to deliver Renstra targets and has not requested donor assistance to address all its challenges; and
- Australian assistance is small, totalling around 0.3 per cent of Indonesia's education allocation. A clear focus on a small set of challenges is more likely to be successful.

Part B: Program Outline

5. What will Australia fund and deliver?

This section begins with an overview of Australia's Education Partnership with Indonesia. Sub-sections 5.2 to 5.6 outlines the development rationale for Australia's investment through four components and describe what Australia will fund, and how Australia will deliver this assistance over the next five years. Sub-section 5.6 explains how gender and inclusive education objectives will be delivered, and 5.7 describes Australia's approach to visibility of this investment. Sub-section 5.8 explains the principles for use of technical assistance.

5.1 The Education Partnership

Australia's Education Partnership with Indonesia is a new package of support that builds on the last five years of Australian aid. It will assist the GoI to achieve its Renstra priorities through contributing to the GoI's Education Sector Support Program (ESSP). The core objective of Indonesia's Renstra is to meet its 'Education for All' target – nine years of quality education for all boys and girls by 2014.

Donor support to the ESSP has been formulated based on Indonesia's requests for both budget support and targeted assistance for Renstra priorities. Donor partners to ESSP will disburse an estimated AUD987 million over five years starting July 2010. This includes approximately AUD500 million from Australia and EUR345 million (approximately AUD484.6 million) from the EU.^{xlii} The Asian Development Bank (ADB) will provide up to USD2.2 million (AUD2.3 million) in technical assistance in grant funds to the partnership.^{xliii}

Australia's contribution, through AusAID, will be delivered as earmarked budget support (76 per cent of funds), with targeted technical assistance and block grants to help strengthen government systems, delivered through four components:

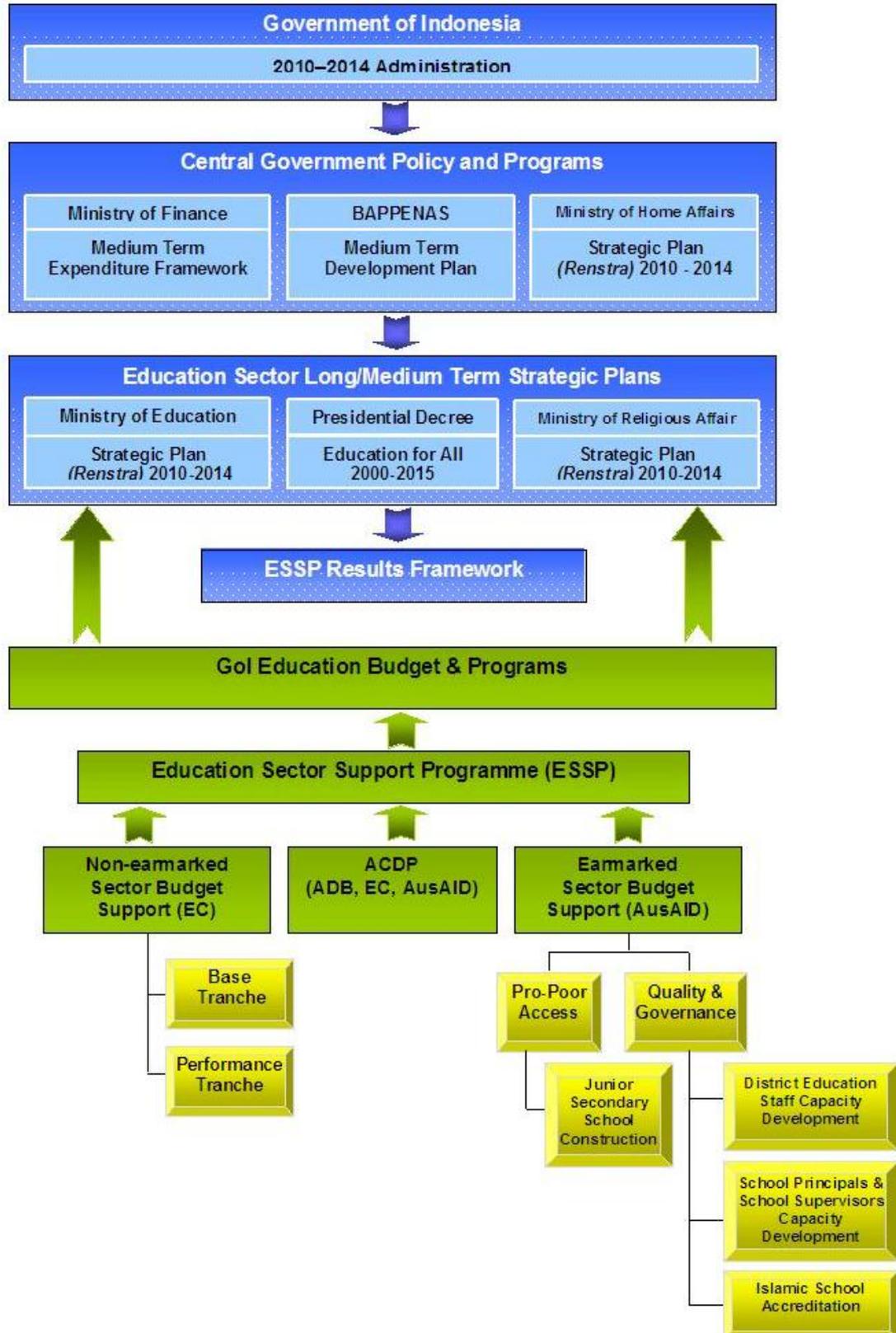
- Component 1- Junior secondary school construction and expansion (around AUD\$222 million in earmarked budget support to Indonesia);
- Component 2- School and District Level Staff Management (around AUD182 million in earmarked budget support and technical assistance to develop the system)
- Component 3- Islamic School Accreditation (around AUD47 million in block grants and technical assistance to reach accreditation); and
- Component 4- Analytical and Capacity Development Partnership (ACDP) (around AUD25 million).
- Independent monitoring and Australian visibility: an estimated AUD24 million will fund performance monitoring and education learning and outreach. **Annex E** provides an indicative budget breakdown by year for Australia's contribution.

The **EU's contribution** will be delivered as non-earmarked budget support to Indonesia for Renstra. This will include a base and a performance tranche. Performance tranches will be triggered following Indonesia reaching ESSP Joint Results Framework targets (set out in Section 6.3). The EU will also fund the ACDP.

The **ADB** will manage the multi-donor ACDP that supports Government delivery of Renstra (see Section 5.6). The ADB also provides loans (worth around USD100 million) to support *Madrasah* quality and has a pipeline of around USD230 million for assistance to polytechnics

development and tertiary education. Refer Figure 1 for an outline of the guiding policy framework for the ESSP.

Figure 1: Indonesia’s policy framework for the ESSP



ESSP has been designed as one program. The strategic value of ESSP is that each of the individual four components contributes to the others, thereby together strengthening Indonesia's systems and programs. For example, the investment in construction of junior secondary schools helps Indonesia address access, but these children will not receive a quality basic education unless Indonesia improves sector planning, teacher training, and implements stronger district and school management practices.

The direct and indirect beneficiaries of Australia's support are outlined in Table 2 below.

Table 2: Who benefits from Australia's investment?

Beneficiary group	How groups benefit	How it supports
Students, in particular poor and disabled students, without access to junior secondary school	Better managed and funded schools/ <i>Madrasah</i> which leads to higher quality education Greater access to junior secondary schools which provides greater income earning potential and productivity	School-based management training for newly constructed schools will include an inclusive education module. Professional development training for all school principals and supervisors facilitates improved school management, including providing for students with special needs. Better quality learning environments for students in approximately 1,500 <i>Madrasah</i> assisted to achieve national accreditation. Construction of 2000 junior secondary schools in poor and remote areas with low enrolment rates, including provision of facilities for the disabled.
Communities (including parents)	Higher participation in school decision making and oversight	School community members and treasurers to be included in BOS training. School community members to be included in school-based management training for newly constructed schools. Community members to be involved in construction of new schools through School Construction Committees.
Teachers	Better managed schools and overall sector planning	Teachers in Australian-funded schools to participate in school-based management training. Teachers to indirectly benefit from BOS training through greater access to BOS funding for learning and development materials. Teachers to indirectly benefit from nationwide professional development training for school principals leading to improved school (and staff) management. Teachers in <i>Madrasah</i> to benefit from support for accreditation of <i>Madrasah</i> , particularly in areas of learning and curriculum development.
Principals	Enhanced knowledge to manage schools and staff	All school principals to participate in BOS training. School principals of Australian-funded schools to attend school-based management training. Nationwide professional development training program for all school principals. Support to principals for national accreditation of their <i>Madrasah</i>
Provincial and District officials and supervisors	Enhanced knowledge to oversee schools, solve problems and manage resources	Development and delivery of a nationwide accredited professional development training to all school supervisors. Planning and financial management training for provincial and district education officials.
Central Government (MoNE and MoRA)	More efficient management of the sector based on stronger performance monitoring and	The ACDP will help Indonesia strengthen performance monitoring and evidence-based policy decision-making. Support to Indonesia to construct 2000 schools will be through its systems, which will be strengthened as a result.

	evidence based policy decisions	Support for <i>Madrasah</i> accreditation will include support for MoRA systems to administer a national accreditation program for <i>Islamic Schools</i> .
Taxpayers	More efficient use of Indonesian resources	<p>BOS training to education service delivery stakeholders to enhance the transparency and effective use of Indonesia's funds.</p> <p>ACDP will help improve human and financial resource planning by improving the evidence base for decision making.</p> <p>Support development of a nationwide training for education service delivery personnel, including training in school planning and financial management, to enhance capacity for the efficient and transparent use of education funds.</p> <p>Training provided through Islamic School Accreditation will include school budgeting and efficient use of school funds.</p>

5.2 Component 1- Building or expanding around 2000 junior secondary schools

(i) Why is construction of junior secondary schools a priority for Australian funding?

Around 96 per cent of children attend primary school, and therefore at the national level, Indonesia has reached the Millennium Development Goal 2 of universal education. The remaining four per cent are hard to reach, and are generally concentrated in poor households across the country rather than targeted geographic areas (with the exception of Papua and West Papua). Indonesia is seeking to reach these children through targeting poor households through PNPM and BOS funding to poor students. Construction of primary schools is therefore not a solution or a priority for Australian funds.

However, access to junior secondary school is still a widespread problem with around 27 per cent of school-aged children not enrolled in nine years of school. Access is uneven across the country with around 59 per cent of districts in the poorest quintile with gross enrolment rates of lower than 90 per cent.^{xliv} In addition, the number of children eligible for junior secondary school is expected to increase by 2.5 million over the next four years, requiring more school places.

Due to the success of AIBEP, Indonesia has requested that Australia continue to fund construction of new schools, or expand existing schools, over the next five years. Indonesia plans to construct or expand around 4,700 junior secondary schools by 2014. Of these, around 3,500 will be upgrades of primary schools to include junior secondary schools (called one-roof schools) on existing sites, and 1,200 will be stand-alone schools on new sites. This component aims to further improve Indonesia's school construction systems, with the expected result of higher quality and safer schools that last longer. This result would apply to both donor and government constructed schools.

MoNE has advised Australia that, by funding around 2,000 of these schools, it will free up Indonesian funds for teacher quality improvement programs and operational funding for schools. If Australia does not fund these schools, the Government would need to reduce its funding for its teacher certification program.

(ii) What will Australia fund?

Australia will provide (around AUD222 million) to construct approximately 2000 new junior secondary schools in districts experiencing significant enrolment gaps – these districts are the poorest and most remote. Over 300,000 new places will be created through this construction, including infrastructure access to promote inclusive (disability) education. Australian funded schools will be a combination of one-roof schools, and new sites. The average cost of one-roof schools built through Indonesian systems for 2011 is around AUD105,000 – these costs will vary depending on the location of the school.

Australia will also work with MoNE (through the Schools System and Quality Managing Contractor) to compare the cost benefit of building new schools against expansion of existing schools. If the benefits of expansion or rehabilitation are greater in terms of net enrolment, Australia will dialogue with Indonesia about program changes. Australia will support Indonesia in the first year of the program to assess its school construction program noting that Indonesia currently plans to construct around 2,700 schools over the period with its own funds (Indonesia’s APBN program). If it is found that over the life of the program that Indonesia’s current analysis of needs is not optimal, Australia will dialogue with Indonesia about program changes, which could shift funding to other infrastructure needs or access constraints in the sector.

Australia will support the sustainability of this investment in schools by:

- helping Indonesia strengthen how it delivers its APBN construction program;
- working with Indonesia through BOS and PNPM to help reduce or eliminate fees and other cost barriers (i.e. transport) that could restrict access for poor students to new schools;
- supporting MoNE and sub-national governments to strengthen its school construction system; and
- supporting districts and schools to ensure there is adequate budget and training for asset maintenance and management (through Component 2 and 4 outlined below).

(iii) How will Australia deliver it?

Over the last five years, AusAID has used the Indonesian Government’s grant system to construct schools under AIBEP. Based on lessons learnt from these efforts, (outlined in sub-section 4.1) AusAID will move away from the managing contractor having a ‘hands on’ role in implementing the program and rely more directly on the GoI’s management for future construction and rehabilitation, with supplementary independent audit and monitoring to protect Australia’s investment.

This program will be delivered by MoNE which will establish contractual relationships with three entities, all of which play an essential role in the construction process:

- *School Construction Committees (SCC)*: These are established at every school construction site and elected from and by the local community. Each SCC will receive block grants disbursed directly from the central Ministry of Finance on the advice of MoNE and use this funding to procure construction materials, equipment and labour. The SCCs will oversee and manage the day-to-day construction of the school, and will not be permitted to sub-contract their functions. A small percentage of the block grant is used to cover their overhead costs.

- *Construction Development Consultants (CDC)*: Procured by, funded by, and contracted to MoNE, the CDCs are companies based at the national or provincial level, who send individual field engineers out to each construction site to assist SCCs with the technical aspects of implementation. A CDC field engineer should be present at each construction site for six days a week during implementation and will be responsible for quality.
- *District Government Education Offices*: MoNE will select sites for schools in consultation with district education offices. MoNE will sign Memoranda of Understanding with beneficiary district governments to ensure they assume responsibility for funding teachers and resources for new schools. During construction, the district is required to provide independent supervision of construction progress and ensure any defects are corrected. After the school is constructed, MoNE will transfer control to the District Government Education Office, which will then be responsible for managing and maintaining it as a school for at least twenty years.

MoNE will retain overall responsibility for the construction process, including: (i) the provision of Government construction and asset management and maintenance manuals; (ii) management of the construction reporting database; and (iii) management of the complaints procedures system.

AusAID will engage technical assistance under the Schools System and Quality Managing Contractor to support MoNE strengthen its community-based school construction model (APBN program). This assistance goes beyond Australian funded construction to improve in the long term the construction quality of schools funded by GoI's national budget.

Specific support will include:

- Strengthening MoNE's transparency and accountability mechanisms, including operation of the complaints handling system;
- Support for site screening and site selection;
- Strengthening and streamlining MoNE's construction reporting system, including training of staff; and
- Support to MoNE to improve construction supervision and monitoring, including improving engagement by sub-national governments.

To supplement system strengthening, AusAID will provide the services of approximately 25 Field Monitors through the School Systems and Quality contractor to provide additional supervision of school construction. The Field Monitors will report to MoNE and conduct spot checks of school sites to ensure CDCs are fulfilling their services and agreed construction quality is being met. The Field Monitors will support all school construction with priority given to Australian-funded schools. AusAID will fund the Field Monitors in the first year of the program with a view to scaling back as MoNE's systems are strengthened.

AusAID will engage auditing services under the Performance Oversight and Monitoring managing contractor to conduct financial and compliance audits, with a view to transitioning towards using greater use of GoI audit bodies; MoNE and MoRA Inspectorate Generals, Board of Finance and Development Control (BPK-P) and the Supreme Audit Agency (BPK), where possible.

There are fiduciary risks in delivering this program through Indonesian systems. **Annex D** provides an overview of Indonesia's system and a summary fiduciary assessment. Further

details on the mechanism, systems and funds flows will be set out in the *Grant Agreement* and *Procedures Manual* as agreed with the GoI. It is acknowledged that during the five years of this program, Indonesia may decide to channel infrastructure expenditures through district governments, in line with laws for fund transfers to sub-national governments. If this eventuality occurs, AusAID will work closely with MoNE and pilot districts to adapt relevant aspects of programming and budgeting.

5.3 Component 2 – School and District Management

(i) Why is school and district management a priority for Australian funds?

Quality is now the key priority for Indonesia. Australia has been supporting quality improvements through AIBEP and LAPIS over the last five years, but the focus on financial investment and management resources was considerably less than that on school construction. Indonesia has now asked Australia to substantially increase its focus on quality by helping to develop and implement a new accredited training system for principals and district officials. This component builds on Australia's support through AIBEP for school-based management which has been successful at the school level.

Education is planned and delivered at the district and school level, with around 57 per cent of Indonesia's budget allocated to the district level. Indonesia's limited capacity for performance monitoring and oversight means that these funds do not always have the desired impact on the quality of education at the school level. Indonesia has developed national standards for school management and accreditation that have been operational since 2005 (although to date, they are inconsistently applied).

The Renstra has prioritised the need to better train and equip school principals, treasurers, school supervisors and district education officials to ensure that education resources deliver better quality schooling, including promotion of inclusive (disability) education. The training of principals and school supervisors was elevated to a higher priority under Presidential Instruction 1/2010 by promising delivery of 30,000 accredited trainees in the first year of Renstra. MoNE will deliver this training over 2011.

Over the Renstra period, Indonesia aims to develop a new nationwide training accreditation system, with a focus on leadership and management. Indonesia currently has an extensive range of institutions that provide staff development at the provincial and district levels, and MoRA and MoNE already provide significant finance for the professional development activities of district and school education personnel, including teachers. In addition, teachers and principals are allocated 10 per cent of their salary annually for training. Indonesia has decided to reform these systems with the new accredited system being introduced in 2011/2012.

(ii) What will Australia fund?

Australia's support for Component 2 will benefit all schools in Indonesia – secular and faith-based, public and private – that deliver education in line with the national system. It will be delivered in three parts. Indicative funding is summarised in Table 3 below:

Table 3: Component 2 Funding (estimated)

Component 2- Total	AUD182 million
Part I- Technical assistance to develop, test and monitor accredited system	AUD15 million
Part I- Funding through Indonesia to implement accredited training across Indonesia	AUD134 million (with around AUD3 million of this for pilots during testing phase). Note that AUD131 million is subject to further AusAID fiduciary assessment.
Part II- Interim school-based management training for schools constructed under Component 1 (2011/12) and support for District management of Australian-funded schools	AUD13 million
Part III- BOS training (2011)	AUD20 million

Part I - Australia will first provide technical assistance (estimated at AUD15 million) to support Indonesia's efforts to evolve its existing systems into a nationwide accredited training system for school principals, school supervisors, provincial and district government officials. The aim of the accredited training is to improve capacity of school personnel and education administrators to manage education resources at school, district and provincial levels.

This nationwide accredited training system will provide professional development that is focused on competencies, and a coherent progressive planned program, led by accredited providers and facilitators. Assessment outcomes would be registered under such a program, and training would be recognised by universities and can be used for accreditation for higher degrees (for example: S2 or Masters Degree in Education Leadership and Management). Where possible, this training system will incorporate elements from other current training programs, such as the Presidential Instruction 1/2010 Program; and help to operationalise MoNE regulations on school principal and supervisor professional standards (Permendiknas 12 & 13/2007). Support will also be provided for continuation of existing activities, such as those related to key GoI education quality assurance institutions at central, provincial and district levels.

Australia's support will help develop and test appropriate models that work at the district and school level. This work should take around 18 months to complete. Once Indonesia's nationwide accredited training system is developed, tested, and necessary regulations are in place, Australia will provide funds (up to AUD134 million) to support Indonesia to roll-out the training across the country.

During this development and testing phase over 2011, Australia will provide interim support through two existing Indonesian training programs. This interim support will cease once Part I is operational.

Part II - Australia will provide training to the principals and other staff entering newly constructed or expanded schools under Component 1. This program will train staff and the communities using them in maintenance, management and community and government responsibilities. The training will cost around AUD13 million over two years. This will replicate the 'whole school development' assistance provided to schools under AIBEP which was found to be successful by its independent review. Provision will also be made to support districts to manage Australian-funded schools.

Part III - Australia will contribute around AUD20 million to MoNE to support the delivery of BOS to develop revised guidelines and fund immediate training in using BOS to every school

principal, treasurer and school committee representatives nationally (around 650,000) over 2011. This training is essential – over eight per cent (about USD2 billion a year) of Indonesia’s education budget is spent on BOS. These funds will only be utilised effectively if principals, treasurers and school committees understand how it can be used and if funding effectiveness is monitored.

This investment is sustainable because accredited training is a priority in the Renstra. It will complement Indonesia’s resources by supporting the first five years of this reform to develop the system and enable Indonesia’s 293,000 principals, district officials and supervisors to reach base level accreditation in school and district management. Indonesia acknowledges that raising accreditation standards beyond base level is a long-term process, which will need to be continued by Indonesia beyond the life of this program.

(iii) How will Australia deliver it?

Part I - All technical assistance to help Indonesia design, test and roll-out a nationwide accredited training system will be delivered through the School Systems and Quality Managing Contractor. Further details will be set out in the Scope of Services.

The AUD134 million flagged to pilot and roll-out accredited training is intended to be delivered through the GoI. At this stage, Indonesia has not designed its national system, and it is not clear what level of government and which organisations will be responsible for implementing the program. Under its decentralised system, however, provincial and/or district level institutions will have a key role. The fund flows and associated procedures are yet to be determined. Over the development phase in 2011 and 2012, AusAID and the School Systems and Quality Managing Contractor will support Indonesia to undertake:

- an assessment of the existing training system (including the 30,000 trained principals and school supervisors in 2010), funding, capacity of Indonesian institutions and curricula;
- a public financial management review of the existing systems at the provincial, district and school levels based on sampling in a range of high and low capacity provinces;
- development of operational and financial guidelines for any district level goods/services procurement (e.g. for facilities, equipments);
- development of specific operational and financial accounting guidelines for the training costs component where funds will be handed over to training beneficiaries, taking account of MoNE’s previous experiences (e.g. with BOS training, and block grants to school principal associations);
- strengthening district level offices to enable day-to-day monitoring of program operations so that any bottlenecks, non-compliance or potential disputes are dealt with quickly rather than waiting for annual compliance audits;
- piloting and testing of the proposed system in sample provinces, districts and schools (around AUD\$3 million in 2011);
- revising the *Procedures Manual* and *Grant Agreement* to cover this component; and
- information to support an independent AusAID fiduciary risk assessment of the proposed system.

Once the nationwide system is designed, AusAID will undertake a further review of this component's funds flows before the proposed AUD131 million^{xlv} is transferred in tranches to the GoI to roll-out this training program.

Part II- The school based management program will be delivered to all schools constructed by Australia through the School Systems and Quality Managing Contractor over 2011 and 2012. Further details will be set out in the Scope of Services.

Part III- Australia will provide around AUD20 million in grant funds to MoNE through the Ministry of Finance for BOS training in 2010. MoNE has been delivering this training (previously funded by the Netherlands) since 2005. MoNE will continue to guide the delivery of this training, in concert with provincial and district education offices. The MoNE Central BOS Training Team is responsible for delivering the following to every province, district and school/*Madrasah*: (i) training the BOS trainers; (ii) planning and coordinating overall monitoring and evaluation of all BOS training; (iii) handling complaints and monitoring the settlement of complaints; and (iv) consolidating provincial reports of BOS training activities into a comprehensive national report on BOS activities. Training for community awareness groups will be included in the program to strengthen the accountability mechanisms between the school and its community. The World Bank will continue to provide monitoring and evaluation support to MoNE.

As up to AUD154 million will be delivered through Indonesian systems, these funds will be subject to the normal monitoring, reporting and audit requirements of the GoI. In addition, to safeguard Australian funds, the Performance Oversight and Monitoring Managing Contractor will have responsibility for monitoring and auditing Australian funds provided through this system in accordance with the approach outlined in sub-section 6.5.

5.4 Component 3 – Islamic School Accreditation

(i) *Why should Australia support accreditation of Islamic schools?*

Islamic schools are an important part of Indonesia's education system, with a slightly higher proportion of girls attending than boys. These schools have often been established by local communities because no formal public education is available due to their location – typically in poor and remote areas. And for this reason, there is usually a concentration of poorer students in Islamic schools. The quality of schooling is often lower than that in public schools. Australia has a strong interest in improving the quality of Islamic education in Indonesia because it has a disproportionate impact on poor students.

Australia has been working with the Islamic sector since 2005 to improve quality and construct 504 *Madrasah*. Indonesia has identified assistance for accreditation of *Madrasah* as the highest priority. Accreditation integrates Islamic schools into the national system by requiring them to meet national minimum service standards. This will ensure consistency of teaching quality and predictable access to Indonesian government funds. MoRA has indicated that, by 2014 (not yet a regulation), only accredited schools will be entitled to receive operational budgets and be authorised to issue school leaving certificates. There are approximately 40,000 *Madrasah* (almost all of which are private): 22,600 primary; 12,500 junior secondary, and 4,900 senior secondary.^{xlvi} Of these, around 29,000 schools (72 per cent) are not accredited. If this accreditation requirement is mandated, unaccredited schools will be closed or merged with other schools in 2014 which could impede access for poor families.

This assistance to *Madrasah* accreditation will build on support through the ADB-funded loan for *Madrasah* Education Development Project (MEDP). This loan targets assistance to 500

disadvantaged junior and senior secondary *Madrasah* in 3 provinces and 27 districts to meet national education standards through improving teacher performance, school resources and school governance. This loan ends in 2012.

(ii) What will Australia fund?

Indonesia's target through MoRA is to have all *Madrasah* accredited by 2014, with 50 per cent accredited at Rank B. Australia will provide around AUD47 million to support *Madrasah* accreditation. This is a two-pronged approach – direct support for targeted *Madrasah* and indirect support to a nationwide network for education quality in the Islamic education sub-sector that can assist 40,000 *Madrasah* to lift education standards.

Direct: Australia will directly target support to approximately 1,500 private *Madrasah* in their preparations for national accreditation (see **Annex B** for further details on Indonesia's accreditation system). This program will support *Madrasah* in each province, selected by MoRA on a competitive basis. Australia will provide block grants of up to AUD10,000 (in two tranches) to each selected *Madrasah* to implement an agreed work plan. The total cost of these block grants to the 1,500 selected *Madrasah* will be up to AUD15 million.

Indirectly: Australia will assist other *Madrasah* in two ways. Firstly, it will support provincially-based *Madrasah* Development Centres (MDC) and/or other designated accreditation support entities to provide training and capacity building to unaccredited *Madrasah* within their respective provinces. This assistance will directly improve the quality of learning for approximately 250,000 students, many from rural and remote areas. These institutions are charged with assisting *Madrasah* to: (i) identify their needs against the education minimum service standards and the eight national accreditation standards; and (ii) develop a plan to achieve accreditation against eight standards relating to: (i) curriculum; (ii) teaching and learning processes; (iii) learning outcomes; (iv) personnel; (v) physical facilities; (vi) management; (vii) finance; and (viii) performance assessment processes.

Secondly, Australia will provide technical assistance and financial support to build the capacity of other institutions responsible for supporting the accreditation process. This includes MoRA, the National Accreditation Board for Schools and *Madrasah* (BAN-SM) and their respective provincial/district offices, and teacher and principal associations.

Financial support to MDCs and/or other designated accreditation support entities across 33 provinces will be approximately AUD20 million.

This funding will strengthen the management capacity of these entities, enabling them to provide socialisation of the accreditation process and delivery of training to enable *Madrasah* to undergo the accreditation process. This assistance will enable MDCs and/or other designated accreditation support entities to provide sustainable accreditation support services to all *Madrasah* within their provinces, including the 1,500 *Madrasah* selected to receive Australian-funded block grants.

This component helps operationalise an existing Indonesian policy and system. It supports the long term sustainability of MoRA's own capacity to manage education quality improvements in the 40,000 *Madrasah* across the country for which they carry responsibility.

(iii) How will Australia deliver assistance to Islamic Schools?

Provision of technical assistance and disbursement of the grants will be delivered by AusAID's School Systems and Quality Managing Contractor working in partnership with MoRA and relevant civil society institutions. The beneficiary *Madrasah* will be bound through a

Memorandum of Understanding with MoRA to complete the accreditation process within an agreed time. The contractor will be responsible for the fiduciary risks of grants to *Madrasah*, MDC and/or other designated accreditation support entities.

This program will be developed in close collaboration with MoRA. MoRA has indicated it will likely have funds in future budgets to support accreditation and will use this system as its model to further support the remaining unaccredited *Madrasah* (around 27,500).

Through this program adequate safeguards will be applied to ensure selected *Madrasah* are committed to pluralism. These safeguards will be implemented in cooperation with MoRA, AusAID, and other Australian Government agencies, and will utilise the successful models applied under previous Australian Government programs in the education sector.

The Managing Contractor for this program will work with the Directorate General for Islamic Education and civil society stakeholders to further articulate the *Madrasah* accreditation delivery system. The Managing Contractor and the Directorate General will lead coordination with central and provincial-level accreditation bodies and civil society organisations; contribute to the development of a data collection system, baseline data, data analysis, selection guidelines for *Madrasah*; and support the review of *Madrasah* accreditation plans, and participate in monitoring and evaluation of the program.

5.5 Component 4 – Analytical and Capacity Development Partnership (ACDP)

(i) *Why should Australia support a multi-donor analytical and capacity development partnership?*

The Indonesian Government has requested continued support from experts to help them assess, improve and test programs and policies that deliver on Renstra. This facility would provide timely analysis and research support to MoNE, MoRA, Bappenas and selected sub-national governments to achieve and monitor progress against Ministerial and Renstra goals.

The World Bank's 2007 *Public Expenditure and Financial Assessment* (PEFA) determined Indonesia's sector level data collection to be medium/low^{xlvii} and identified the need to improve sector information collection and management. This includes data on school enrolments, literacy and numeracy attainment, and teacher/student ratios. This is critical to the provision of timely and accurate data in order to inform Indonesian policy and program choices.

Donor support, which draws on international best practice, helps Indonesia achieve better results with the AUD26 billion it intends to spend each year. Under AIBEP, Australia supported the development of analytical capacity in MoNE. This assistance was particularly valued for its provision of timely policy analysis to help senior Government officials make decisions.

Evaluations of past support have highlighted donor fragmentation in the provision of advice to Indonesia's education sector. Supporting a multi-donor facility to provide advice reduces transaction costs for the Indonesian government and optimises dissemination of policy advice.

(ii) *What will Australia fund?*

The Facility will make available resources and expertise to inform the GoI's policy, performance systems and allocation of education spending. A workplan for the first year of

funding has been developed with Indonesia in 2010, based on sector capacity development needs. This will cost around AUD10 million in the first year.^{xlviii} Australia and the EU have provided around AUD8.7 million a year over the last three years to MoNE and MoRA in analytical and capacity support. This program replaces this assistance. The scale-up to around AUD10 million a year is premised on this package being available to a wider range of stakeholders, including more support to sub-national governments and other national agencies.

Examples of policy tasks that the Facility could support over the five years include:

- analytical support to the Government to monitor progress towards the achievement of Renstra targets and the objectives contained in the ESSP Joint Results Framework (outlined in section 6);
- ensuring new schools are built or expanded in the most disadvantaged and high-need areas, and analysis of Indonesia's capacity to provide teachers, maintenance and recurrent funding for these new schools;
- provision of analysis to improve the quality of school curricula at primary, junior secondary and senior secondary levels;
- assessments of the effectiveness of Indonesia's programs, such as early childhood education, teacher upgrading program and minimum service standards through targeted policy development support and evaluations;
- assisting the development of a public communications strategy for Renstra that includes posting sector performance progress reports and publishing regular progress reports on Renstra targets and information on relevant program work plans and budgets;
- early childhood development planning and resourcing so Indonesia can meet its Renstra targets;
- assisting in reforming assessment systems at provincial level, developing school assessment systems, strengthening public financial management at school and district level, and improving accreditation systems for schools and *Madrasah*; and
- assessment of increased use of Indonesia's audit bodies to oversee and monitor the sector, including through performance audits.

The ACDP is designed to align with MoNE and MoRA's own research and development plans. Given this focus, the Facility will be located in, and will work through the National Office of Education Research and Development (Balitbang). The ACDP will provide complementary support to Balitbang, based on a human capacity assessment of gaps and skill requirements. It is anticipated that by the end of this program, Balitbang will be able to depend on more reliable education sector data, and will have improved its knowledge and skills base to fulfil its research function, with less reliance on international assistance.

Australia and the EU will each make annual contributions to an Asian Development Bank managed Facility trust fund. The EU has committed EUR20 million over five years. Australia will provide up to AUD25 million.

For the first year, Australia will provide AUD5 million. After 12 months, and each subsequent year, the level of this contribution will be assessed, and may be altered depending on assessments of ACDP's effectiveness and demand for technical assistance. In the event that there is limited absorptive capacity or demand for this assistance in future years, the partnership may reassign these funds to other components, or other organisations outside the

GoI that contribute to analysis and monitoring of results in the sector (for example, policy research think-tanks).

(iii) How will the multi-donor Facility be delivered?

The Facility will be managed by the ADB and sit within MoNE in the National Office for Research and Development (Balitbang).

Priorities will be set by the ACDP Technical Oversight Group (see sub-section 7.1). The ADB will procure all technical assistance using ADB guidelines.^{xlix} It is expected that domestic and international, and long and short-term experts will be recruited – the percentage mix for the five years is not yet known and will depend on the priorities of the Government.

Provision of technical assistance will be guided by the principles in sub-section 5.8.

The ADB was proposed to manage the Facility based on its experience in education sector analysis and dialogue and related policy-led budget support; its ability to deliver through a delegated management model; and its willingness to provide additional funding (USD2.2 million in grants) to the sector. The ADB is also an organisation that the EU and Australia could both deliver through. The ADB brings added sector dialogue value given its experience in post basic education (e.g. polytechnics and technical vocational education and training) and its effective working relationship with Bappenas, MoNE, MoRA and MoHA.

Further, ADB's experience in Indonesia and its familiarity with similar policy-led sector support makes it a complementary ESSP partner. The ADB has acknowledged Australia's and Indonesia's concerns over timely procurement of technical assistance. As a result, procurement will occur in Jakarta to ensure it is flexible and responsive to Indonesia's needs.

5.6 Cross-sectoral program objectives

Australia's Education Partnership with Indonesia will support gender equitable and inclusive (disability) education policies through:

Component 1

- An infrastructure program that helps improve gender parity in lagging districts that have not yet reached gender parity. The focus on construction of one-roof schools (on primary school sites) is specifically designed to safeguard against the risk of girls dropping out of school due to safety/security concerns if travel distances to the nearest junior secondary school are excessive; and
- Infrastructure that enables access for all, including access for disabled students.

Component 2

- Supporting the government to increase opportunities for women in education sector management and principal positions. Current disparity is due to the historical legacy of limited female access to higher education opportunities and qualifications which are a pre-requisite for appointment. The Government's strategy of ensuring all teachers acquire a bachelor degree means that over the medium term more females will be qualified for school principal positions with improvements in gender parity. Accredited training provided through this Partnership will promote gender parity; and
- Incorporating programs on inclusive education and understanding of existing legal/policy obligations in this area, as well as practical training on meeting needs of

children with disability for quality educational outcomes into national policy development and relevant training.

Component 3

- Advocating for selection criteria of *Madrasah* to include a focus on *Madrasah* that promote gender parity and inclusive education.

Component 4

- Supporting Government to develop gender parity and inclusive education policies, data analysis and monitoring;
- Supporting Indonesia to analyse the challenges faced by vulnerable groups unable to access education due to disabilities and develop inclusive education' policies and monitoring. This includes addressing socio-cultural factors related to disabled children being kept at home, including nationwide communication of inclusive education; and
- The Education Partnership will also promote environmentally friendly building standards, child protection policies and disaster risk reduction in line with Australian policy objectives. All of the above development objectives and policies will be incorporated into relevant grant agreements with the Indonesian Government, donor partners and managing contractors.

5.7 Partnership visibility

(i) What is the approach?

Australia's AUD500 million investment in education through this Partnership will be the face of the Australian aid program in Indonesia. With such a large scale engagement and investment, it is important to showcase the benefits of this investment and Australia's commitment to education in Indonesia.

Through this flagship education program, AusAID will attempt to increase the profile of Australia and its contribution to Indonesia's education sector through a concentrated public diplomacy strategy. There are four main audiences:

Indonesian public: As highlighted by the Indonesian President during his recent visit to Australia, Indonesians generally do not know or understand a great deal about Australia and its relationship with Indonesia.

This Partnership will include a media campaign through print, radio (i.e. Kang Guru Radio Indonesia, TV, internet) to educate and inform Indonesians about:

- information on the need for better education and how this changes lives;
- the breadth and depth of Australian assistance particularly to the education sector; and
- confirmation of Australia's commitment to helping the poor of Indonesia.

A unique feature of the campaign will be mechanisms allowing local communities to lodge complaints and empower them to contribute to monitoring and oversight of the Education Partnership.

Government of Indonesia and international donors: As partners in Indonesia's education sector, it will be crucial for Australia to provide timely updates on the education program

progress to the Government of Indonesia and other stakeholders such as international donors and the UN.

The Education Partnership will undertake targeted advocacy – meeting face-to-face with government officials, donor representatives and UN agencies in Indonesia and overseas to promote the program and to highlight the benefits of the partnership.

Joint events with Indonesia stakeholders will include openings of schools, training program graduations, international and domestic conferences, workshops and launches with appropriate branding and media opportunities. This will include events in regional locations where the Education Partnership provides education results.

Australian public: Public funds are spent on education in Indonesia, and AusAID is accountable for these funds. The Education Partnership will inform and educate the public on the reasons for engagement in the Indonesian education sector and more broadly about the Australian aid program, why it is needed and what it is achieving.

As much as possible, the real faces (e.g. children, principals and teachers) of education in Indonesia will be promoted in educating key audiences – through media channels (e.g. newspaper articles, television documentaries, photos and websites including through new social media).

The relationship between Australians and Indonesians in the education sector will further strengthen people-to-people links that are currently fostered through established programs such as the Building Relationships through Intercultural Dialogue and Growing Engagement (BRIDGE) program (refer sub-section iii below); scholarships and volunteering programs, as well as the knowledge sector.

Australian Government: Recognition of development assistance within the Australian Government sector is imperative to whole of government objectives. The Education Partnership will work to achieve profile through a strong branding component. This will include substantial Australian branding in Indonesia attached to all new schools, regular updates on the progress of the program (internet and print based - with tangible results including statistics, anecdotes and human interest stories) and an annual report with a Ministerial foreword.

(ii) How will it be delivered?

This strategy will be delivered through a dedicated managing contractor, who will be required to have specialised public affairs and media expertise; learning and promotional product development and distribution expertise, and Indonesia experience.

Over the five years of the Education Partnership, the managing contractor will be responsible for three key management functions:

- *(I) Public Affairs and Media Management* – including print (newspapers, magazines), radio (including management of Kang Guru Radio Indonesia), media library (photo, video, good news stories) and web-based (through a dedicated Education Partnership website);
- *(II) Outreach and event management* - including school openings, awards ceremonies, launches, conferences and forums, and English language teacher work shops; and
- *(III) Product Development, production and distribution of learning and education materials* – including the ‘Australia Pack’ – containing support materials such as books,

maps, flags, soccer balls, brochures, English language learning materials produced in conjunction with Kang Guru Radio Indonesia) to beneficiary schools.

The estimated cost of the contract is AUD12 million. Most of these funds will support function III. The contractor will be required to work closely with AusAID, GoI, other managing contractors and donor partners, as directed, in order to promote the achievements of the Partnership to target audiences.

(iii) Supporting people-to-people links

Strong people-to-people links are currently fostered through established programs such as the BRIDGE program. BRIDGE currently links over 90,000 Australian and Indonesian students through internet-based education and provides opportunities for student and teacher exchange.

Australia will continue to co-fund a second five year phase of the BRIDGE program, partnering with the Myer Foundation. This program complements this AUD500 million partnership. Funding for the BRIDGE program will be provided in addition to the budget at **Annex E**.

5.8 Technical assistance - use of advisers

AusAID's definition of technical assistance is broad-ranging. It includes the provision of know-how in the form of advisors, training, institutional linkages, networks and research. This includes activities that build skills, knowledge and technical capabilities of individuals, groups, organisations and sectors.

The Jakarta Commitment identified the need for ongoing technical assistance from donors, including in the form of advisers. Indonesia has asked Australia to continue to provide technical assistance, including international and national advisers, because it provides international best practice, and complements finance provided by the EU budget support and multilateral development bank loans.

All advisers provided to Indonesia will be underpinned by three principles:

- Identification of adviser needs is required to be demand-driven and judged by both Indonesia and Australia to substantially contribute to the development of a system, policy or program. Indonesia will be required to know the overall cost of technical assistance to make informed decisions;
- Recruitment will be through market-based processes to ensure value for money. positions funded directly by AusAID and through AusAID funded managing contractor it will be required to be in line with AusAID's forthcoming guidelines on technical assistance and rates for short and long-term personnel; and
- It must be proven that technical assistance will not replace or substitute for positions that Indonesia can source, fund or recruit itself.

The overall cost of technical assistance and estimated managing contractors for program management and monitoring is around AUD64 million (13 per cent) of the Partnership. Managing contractors are only being recruited to undertake functions where: Indonesian systems cannot deliver to Australian fiduciary standards, or do not yet exist. For example, in comparison to AIBEP, this program reduces the managing contractor role in construction to a monitoring and audit function, with the GoI taking over implementation functions that were previously performed by a managing contractor.

5.9 Education Partnership as a flexible platform

The Education Partnership is intended to be responsive to Indonesian Government needs and priorities. These could change over the duration of the program, particularly as information starts to build around the relative effectiveness of different components of the program. If results from one component prove to be more effective than others, and/or Indonesian Government requests for donor support to Renstra priorities shift over the next five years there exists scope to reprioritise Australia's contribution, in consultation with the ESSP Governance and Oversight Group (sub-section 7.1). Furthermore, if the level of Australian support for education in Indonesia increases, there may be scope to expand this partnership to include additional reform priorities (for example, secondary or tertiary education).

6. What success looks like, and how will results be monitored?

This section establishes the desired results from the Education Partnership. . Sub-section 6.1 provides an overview of the performance framework and sub-sections 6.2 to 6.4 outline successes and how it will be monitored at three levels – against Renstra, the ESSP program level and the components level. Sub-section 6.5 sets out the independent monitoring requirement.

6.1 The Big Picture

Each year Indonesia will spend 20 per cent of its budget on education, from primary through to tertiary sub-sectors. The purpose of this massive investment is to improve educational outcomes for the people of Indonesia. Since there are multiple factors which influence the quality of these outcomes, the Government directs its resources across a wide range of end-uses, from teacher salaries to school buildings and from providing text books to equipping university laboratories.

Australia's assistance is small by comparison to this challenge –this partnership will provide around AUD100 million per annum against a GoI investment of around AUD26 billion. Australia's successful AIBEP has helped the GoI to address targets associated with low access to junior secondary schooling, particularly in the poorer districts. This success has led to a request from the GoI for a follow-up program of support in basic education. Again, Australia will focus on increasing access to junior secondary schools where it has developed expertise and networks, with a scale-up in assistance for quality (focusing on primary and secondary levels).

But even within a sub-sector, Australian resources are small by comparison to the spending of the GoI. So, Australia has decided to focus its activities on four areas – building schools, training principals and district supervisors, helping *Madrasah* to become accredited according to national standards, and supporting policy analysis and research.

Success is therefore going to be monitored at several levels. The goal of Australian assistance, just as with Indonesian assistance, is enhanced learning outcomes for Indonesian children. The purpose – that is, the specific changes which Australian money aims to bring about as a direct result of the program – is more specific, and includes, for example, increasing enrolment rates for junior secondary schools and increased numbers of district officials trained in relevant

education service standards. Below this, at output level, there will be a systematic process of monitoring that outputs have been delivered to specification and on time.

Figure 2 illustrates the interdependent relationship between the Australia's funded Education Partnership, its contribution to the GoI's ESSP and the link with helping Indonesia meet its Renstra performance goals.

Figure 2: Overview of performance framework



6.2 Monitoring high-level goals

MoNE's education Renstra includes a 120-indicator performance framework. This comprises a range of indicators of process, output and outcome targets; and covers all sub-sectors, including early childhood and primary, secondary school, non-formal education, quality and assurance, and research and development. Renstra prioritises four target areas: (i) reducing disparities and inequities; (ii) leadership training for all school principals; (iii) minimum service standards; and (iv) accreditation of schools and *Madrasah*.

Australia has a preference to use local systems wherever feasible and, in principle, this framework could be relied upon to generate information on high-level goals around learning outcomes. Nonetheless, in 2008 Australia and the EU assessed the feasibility of the GoI to generate accurate and reliable information on the education sector. The conclusion from this assessment was that whole sector level monitoring capacity was "moderate to low."¹ Capacity has, however, been growing, so the joint study concluded that the foundations existed for a locally-managed monitoring system that could be used as the basis for measuring success of the partnership.

Backing up this judgement, MoNE has ranked in the top performing group of Indonesian Ministries for accountability and effectiveness in 2007 and 2008. Further, MoNE and MoRA have both developed program performance indicators and unit cost standards. A clear

framework setting out the accountability of senior managers for monitoring outcomes and outputs has also been defined.

Australia and the EU will, nevertheless, invest additional funds through the ACDP to further consolidate monitoring capacity. This will assist MoNE and MoRA in data collection, analysis, and monitoring of targets and indicators, and reporting. This will include enhanced collection and analysis of broader development policy priorities such as gender parity. Broad sector progress will therefore be assessed with reference to the Renstra performance framework.

6.3 Monitoring program-level outcomes

Australia and the EU, in conjunction with the GoI, have adopted a sub-set of the 120-target Renstra framework as the basis for tracking progress of the ESSP. This subset of indicators will be known as the ESSP Joint Results Framework. The six targets are outlined in Table 4. The criteria for selecting the six indicators were that they were: (i) relevant to the changes that Australia and the EU are aiming to address, (ii) measurable through Indonesia's system, and (iii) achievable over the five year duration of ESSP. These targets have a dual role in the ESSP. They allow tracking of progress by all parties, but they also act as the basis for the release of EU budget support.

Table 4: ESSP Joint Results Framework (agreed targets and indicators)

Expanded equitable access
Target 1: Increase in percentage of districts with Early Childhood Development Gross Enrolment Rate of 50% or greater. <i>Indicator: Success requires an increase from a baseline of 28.4 % to 75% of districts over five years. Australia is not directly supporting: Indonesia is allocating full resources to this target.</i>
Target 2: Increase in percentage of districts with Junior Secondary School Gross Enrolment Rate ⁱⁱ of 90% or greater. <i>Indicator: Success requires an increase from a baseline of 55% to 85% of districts over five years. Australia is directly supporting through component 1.</i>
Improved quality/relevance
Target 3: Increase percentage of primary and junior secondary public and private schools/ <i>Madrasah</i> with National Board of Accreditation for Schools and <i>Madrasah</i> accreditation (minimum Rank C) over five years. <i>Indicator: Success requires an increase from a baseline of 59 % to 89% of schools over five years. Australia is directly supporting through component 3.</i>
Target 4: Increase in annual number of newly enrolled candidates involved in accredited in-service training courses for school principals and supervisors for early childhood, primary and secondary levels. <i>Indicator: Success requires 250,000 personnel to be trained by program end. Australia is directly supporting through component 2.</i>
Improved governance/accountability
Target 5: Increase in numbers of key district officials and school supervisors trained in Minimum Service Standards for Primary and Junior Secondary Education for all districts. <i>Indicator: The minimum service standards are currently under revision, targets have been identified for the first three years. Targets for 2013-2014 will be confirmed after approval of the minimum service standards. Australia is directly supporting through component 2.</i>
Target 6: Increase in annual numbers of newly enrolled candidates involved in specifically designed and accredited education planning and financial management in-service training courses for provincial and district officials. <i>Indicator: Success requires 9,500 personnel to be trained by program end. Australia is directly supporting through component 2.</i>

A more detailed ESSP Joint Results Framework, which sets out the baseline data and Indonesia's performance targets for each year is found in **Annex F**.

6.4 Monitoring program deliverables

Planned outputs and expected end of program outcomes delivered under each component are summarised in Table 5 below. Expected end of program outcomes are defined here as changes in Indonesia's systems and how agents manage them, which are anticipated to improve as a result of Australian funding under Components 1, 2 and 3. Through the ACDP, Australia, the EU and the ADB will contribute, both in funding and through policy dialogue.

Table 5: Component planned outputs and expected end of program outcomes

	Planned Australian funded Outputs by end of program	Expected end of program outcomes by 2016
Component 1	<p>Construction or expansion of around 2000 junior secondary schools in lagging districts</p> <p>Increase in the number of girls and disabled students enrolled in junior secondary schools in lagging districts which have not yet reached gender parity and inclusive education</p>	<p>Contribute towards Indonesia improving access to junior secondary schools by reaching its target of 85% of poorest quintile districts attaining gross enrolment rate's of 90% or more (<i>helps achieve ESSP joint results framework target 2</i>)</p> <p>Indonesia is on track to enrol 330,000 new students (boys and girls) with full enrolment by 2017 (noting there is often a three year lag time)</p> <p>New schools are fully staffed and have access to Indonesian operational funds to run and maintain the schools</p> <p>Schools (Australian-funded and Indonesia funded) have used new and revised minimum Indonesian construction standards resulting in higher quality buildings and more inclusive education, with enhanced MoNE and District management capacity</p>
Component 2	<p>Indonesia has designed an integrated national training system, which is tested by mid-2012</p> <p>Indonesia's full cadre of principals, school supervisors and district officials (around 293,000) have been trained in school management, PFM and minimum service standards, to the basic level by 2016 (<i>helps achieve ESSP joint results framework targets 4, 5 and 4</i>)</p> <p>Indonesia's 650,000 principals, supervisors, treasurers, relevant school committee members, and district officials trained in BOS management over 2011</p> <p>Principals and school management committees of all completed Australia funded schools constructed in 2011/2012 are trained in 'whole school development'</p>	<p>Indonesia has effective nationwide school principals, supervisors and district officials accredited training system that it is managing and financing</p> <p>Training has resulted in better managed (human and financial) schools and districts, including evidence of greater community oversight through well-run school management committees.</p> <p>District education office's capacity to plan, manage and supervise education resources and learning outcomes has improved as a result of training, and resolving bottlenecks to financing and teacher distribution</p> <p>MoNE, MoRA and other national government agencies undertake incremental reform of systems to resolve constraints to service delivery</p>
Component 3	<p>A working model has been set up to assist MoRA to support primary and junior secondary <i>Madrasah</i> to reach accreditation</p> <p>1,500 <i>Madrasah</i> assisted to reach accreditation by 2014 and 33 <i>Madrasah</i></p>	<p>MoRA, BAN-SM and MDC and their sub-national arms have higher capabilities to support the 72% of <i>Madrasah</i> to reach accreditation</p> <p>95% of <i>Madrasah</i> assisted reach accreditation</p> <p>Accredited <i>Madrasah</i> are meeting minimum service</p>

	Development Centres and/or other designated accreditation support entities assisted to provide accreditation support to <i>Madrasah</i>	standards and are fully integrated into the national system Contribute towards Indonesia increasing school quality by reaching its target of 89% of total primary and junior secondary schools and <i>Madrasah</i> reaching accreditation (<i>helps meet ESSP Joint Results target 3</i>)
Component 4 (ACDP)	Relevant, high quality and timely policy analysis, and improvement in data collection and use of performance information to inform decision making Harmonised assistance to Indonesia through the Facility reduces transaction costs on the Indonesian Government. A stronger Indonesian performance framework and data collection system to measure and assess Renstra	Education sector policy decisions are evidence-based resulting in more effective and efficient delivery of Renstra Sustained improvement in the governance and management of the education sector at the national, provincial district and school levels Indonesia makes progress to address key quality challenges in the sector, in particular teacher quality and distribution Contributed to Indonesia developing and implementing its plan to increase participation in early childhood by 75% of districts reaching gross enrolment targets of 50% or more (<i>helps meet ESSP joint results framework target 1</i>)

6.5 Independent monitoring and audit

Over the last five years, AusAID developed considerable experience of working with Indonesian government systems at national and district levels. During AIBEP, no significant instances of corruption or diversion of Australian resources was encountered. There is, however, potential for corruption to occur, particularly at district levels where systems require strengthening. It is acknowledged that Indonesia is seeking to improve their district-level accountability systems, yet there remains a risk that diversion could occur in the new program. Indeed, it is particularly hard to guarantee, without independent verification that each and every district with which the program will work will be able to safeguard Australian funds.

AusAID has therefore decided to appoint an independent Performance Oversight and Monitoring Managing Contractor (POM). The contractor will provide rigorous monitoring of Australian fund flows, including by tracking program outputs and assessing the impact of each component to ensure that Australia's AUD500 million investment is protected and accountable. While the POM is responsible for broad monitoring of program progress, AusAID will be responsible for monitoring the performance of other Education Partnership contractors and the ACDP.

Monitoring and audit undertaken by the POM is in addition to assistance that the ACDP will provide to MoNE to develop its Renstra performance framework. However, as the ESSP is designed as one program, its strategic value is that each component contributes to the others, thereby together strengthening Indonesia's systems and programs. In this context the POM will conduct an assessment of the ACDP's impact on Component 1, 2 and 3. The total value of this contract will be around AUD12 million over 5 years.

The POM will remain independent of the GoI, and work closely with AusAID Jakarta to monitor and assess the implementation of the program. The POM will undertake three core functions over the life of the Education Partnership (more details will be contained in the scope of services):

Function 1 - Monitoring and Evaluation Plan and System. Over the first three months of implementation the POM will develop a comprehensive Monitoring and Evaluation Plan and system for the Partnership. This should build upon, and refine, the indicative end of program outcomes articulated in Table 5 above. This system will provide the necessary information to assess the performance and safeguarding of this Partnership. This system will be updated on an annual basis. The contractor will be required to work iteratively with the AusAID Jakarta education officer with responsibility for performance, to ensure it meets AusAID's information needs. AusAID will be required to approve this system before it is operationalised to ensure it meets required standards.

Function 2 - Compliance audits. The POM will undertake sample compliance audits in Education Partnership Components 1, 2 and 3 using a 10 per cent stratified sample of beneficiaries across the country. Audits will include:

- Component 1 – assessment of school construction quality and school construction committee financial compliance, including compliance with Indonesian guidelines and public financial management rules;
- Component 1 – assessment of MoNE internal control and compliance;
- Component 1 - assessment of whether district governments are meeting commitments contained in Memoranda of Understanding (particularly around cost sharing and providing teachers for new schools);
- Component 2 – financial audit of BOS 2011 training program;
- Component 2 – assessment of MoNE internal control and compliance for BOS 2011 training program;
- Component 2 – assessment of whether the accredited training program has been delivered to adequate standards in beneficiary schools and districts. It will specifically address: (i) the qualifications of instructors (ii) quality of learning materials, and (iii) trainee participation (iv) new knowledge and skills acquired by trainees;
- Component 2- assessment of the accredited training program beneficiary groups' financial compliance with Indonesian guidelines and public financial management rules;
- Component 2 – assessment of MoNE internal control and compliance for the accredited training program; and
- Tracer studies that track funding in sample areas across district and school levels. If system weaknesses are detected, the POM is required to make recommendations to AusAID on options for additional safeguards where there are high risks.

Function 3 - Impact assessments. The POM may undertake selected impact assessments of the contribution of the Education Partnership. This will include longitudinal studies to evaluate:

- the impact of the Education Partnership on outcomes (for example, difference between beneficiary and non-beneficiary groups, replication outside control groups); and
- the impact of government and development partner investment in the education sector.

These studies will provide AusAID with research and findings on how the Education Partnership and sector investment more generally have been responsive to emerging sectoral issues over a five-year period of the program.

AusAID will also undertake periodic joint monitoring visits with the EU to assess the implementation of the program. AusAID will commission independent reviews from the POM

contractor throughout the period of implementation. Reviews will occur at the mid and end-points of the program.

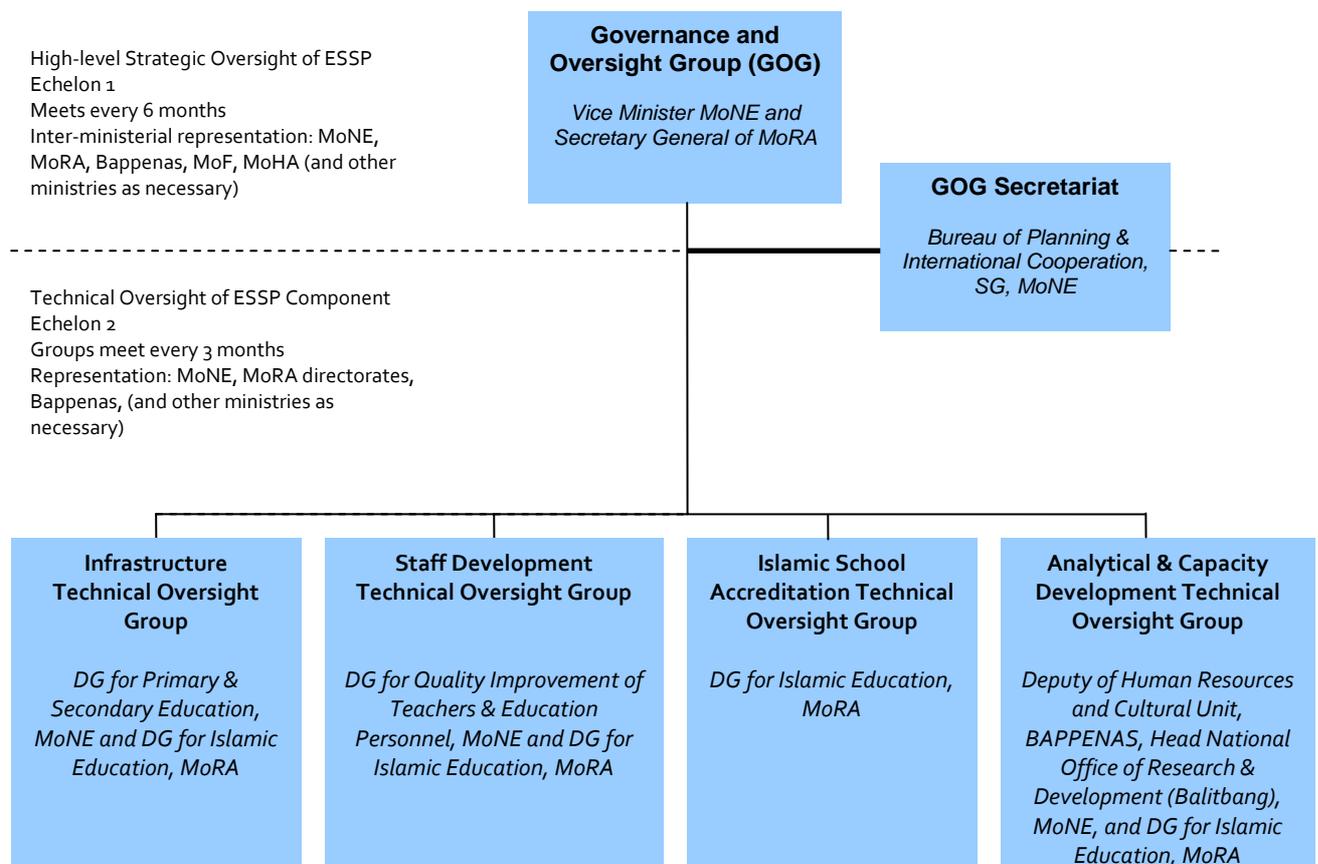
7. How will Australia manage this partnership and its delivery risks?

This section first describes the ESSP management arrangements. Sub-section 7.2 assesses Indonesia's systems and how ESSP can help strengthen governance and 7.3 outlines the risks. Sub-section 7.4 sets out key synergies with other Australian programs.

7.1 ESSP management arrangements

There is no existing Indonesian-led body that currently exists which could be used to manage and oversee this partnership. Indonesia has committed to set up new management arrangements, which it will manage and staff, set out in Figure 3. Over the life of ESSP, opportunities will be explored to evolve and/or fully integrate these structures in Indonesia by the end of the program.

Figure 3: ESSP Management Structures



Note: This table is drawn from the ESSP Governance Arrangements paper, dated 19 May 2010, tabled and adopted at the inaugural GoG meeting held on 24 May 2010. These arrangements can be adjusted, if required, by GoI on a consensus basis. In this context, these arrangements will need to be adjusted when the new MoNE structure is issued.

At the policy level, ESSP will therefore be formally overseen by a high level Governance Oversight Group (GOG). The Vice-Minister for MoNE and the Secretary Director of MoRA will co-chair the GOG. Membership will include Echelon 1 officials from MoNE, MoRA, Bappenas, MoF, MoHA, AusAID and the EU. It will include relevant observers from other ministries, parliament, sub-national governments and civil society organisations.

The GOG Secretariat will be established within the Bureau of Planning and International Cooperation, MoNE. Component 4 will provide support to MoNE and MoRA to assess performance achievements in the lead-up to the GOG as required.

Core functions of the GOG include:

- Assessment of performance against Renstra and ESSP Joint Results Framework;
- Negotiation of EU base and performance tranches (to review whether preconditions for budget support remain in place); and
- Facilitating agreement on donor funded work plans and to changes in budget allocations for ESSP, including possible expansion or shifts in funds between Australia's components.

At the component levels, Technical Oversight Groups (TOGs) will be established within the relevant Directorates of MoNE and MoRA and will meet quarterly. There will be four TOGs, supported by the following Secretariats:

- Infrastructure TOG within the MoNE Directorate General for Primary and Secondary Education. It will be responsible for outputs and achievement of targets under Component 1;
- Management TOG within the MoNE Directorate General for Quality Improvement of Teachers and Education personnel. It will be responsible for outputs and achievement of targets under Component 2;
- *Madrasah* Accreditation TOG within MoRA Directorate General for Islamic Education. It will be responsible for outputs and achievement of targets under Component 3; and
- Analytical and Capacity Development TOG within MoNE's National Office for Research and Development. It will be responsible for outputs and achievement of targets under Component 4.

AusAID and the EU will be members in all of these Groups. The ADB will be a member of the ADCP TOG.

It is recognised that effective coordination arrangements between central, provincial and district levels and schools are critical to ensure overall management of the program. Selected local governments (provincial/district/city) may be included as members of technical oversight groups.

7.2 Governance and anti-corruption

This partnership will be the largest single program ever implemented. Building on the successes of AIBEP, this partnership is a more substantial commitment, and places greater reliance on Indonesia's systems and personnel for delivery of education priorities using Australian funds. Working in partnership with Indonesia is efficient because our funds are aligned with Indonesian programs, and contributes to the effectiveness of Indonesia's AUD26 billion investment in education. However, while there are large development benefits, there are risks.

The World Bank's 2006 *Country Policy and Institutional Assessment* for Indonesia illustrates some recent gains in public sector management, placing Indonesia in the mid-range of developing countries. The PEFA also highlighted progress. Out of 31 indicators, 30 per cent were weak, while 10 per cent of the indicators ranked as strong. The EU Sector Policy Support Program Public Financial Management (PFM) assessment emphasised that the overall outlook is that PFM reforms and PEFA indicators are likely to continue to gradually improve.

However, at the district level, public financial management is uneven and generally weak, reflecting the recent devolution of functions.ⁱⁱⁱ A number of challenges need to be addressed, including: (i) better coordination between planning and/or finance agencies and sector agencies for budget formulation; (ii) district education resources from all sources (e.g. MoNE block grants) are put on budget in a timely manner; and (iii) strengthening the authority and capacity of both the district education offices and designated beneficiary groups. **Annex D** contains a more detailed assessment of Indonesia's PFM systems.

By working with and through Indonesian systems, this partnership helps strengthen Indonesia's governance, reducing the opportunity for corruption. The AIBEP program has demonstrated that fiduciary controls work; including through the complaints handling system, and that where donor funded programs introduce higher governance requirements that are effective, Indonesia adopts them as standards. The partnership is expected to contribute to stronger systems through direct and indirect mechanisms in the four areas in which Australia is working, as set out in Table 6 below.

Table 6: Examples of expected contribution to improved governance.

Component	Example of Action	Consequence
Schools building	School Construction Committees oversee procurement Community notice boards Independent monitoring/tracking of Australian funds discloses any instances of systemic fund leakages MoNE complaints handling system	Higher education sector accountability and transparency
School and District Training	Greater knowledge of Indonesia's public financial management systems, and school-based management'	District education offices have knowledge to supervise schools and advocate for change where systems reform is required
<i>Madrasah</i> accreditation	A significant proportion of <i>Madrasah</i> meet eight national quality criteria	Islamic sector more integrated into national systems- both funding and quality

7.3 Risks

There are seven major risks that would undermine the success of this partnership. These risks and mitigation measures are outlined in Table 7.

Table 7: Risk matrix

Risk	Risk rating	Mitigation measures
Political – national level: change or crisis in leadership which undermines commitment to public sector and education reform	Low	Bilateral dialogue to determine impact of event and negotiation of any required changes to the program
Political – national level: Government changes policy of 20 per cent budget funding to education sector	Low	This would require a reassessment of the focus of the program – potentially resulting in a smaller number of districts receiving Australian assistance but a deeper involvement in this lower number of districts, potentially broadening the program to cover teacher quality issues
Political–sub-national: increased politicisation of district government which diverts commitments and funds away from education	Low-to modest.	This is likely to be uneven across the country. This Education Partnership will work with committed governments and at the school level where changes of success are more likely.
Bilateral relationship deteriorates between Australia and Indonesia which affects ability to deliver the program	Low	Existing relationships with counterparts in-country are strong
Economic- macroeconomic downturn impacts on the incentive to educate, the need to work, and the allocation of funds to the sector	Low	Bilateral and multilateral mechanisms
Corruption of Indonesian resources and ESSP donor partnership funds reduces efficiency of spending	Modest	Strong safeguarding and monitoring of Australian funds, and community oversight through engagement in school management and construction committees. (Further details in Annex D)
Donor fragmentation creates a burden on the Government and undermines outcomes	Low-to modest	Increased AusAID focus on donor dialogue and harmonisation

There is a lower order set of additional Renstra and ESSP implementation risks that will reduce program success. As these are management issues, under the control of the partners, these will be addressed under each component and the basis of policy dialogue and management for the GOG and the four TOGs as described in sub-section 7.1.

7.4 Coherence with other Australian activities

Success in the education sector depends on broader Government reforms and social, economic and cultural factors within Indonesia. Coherence with other Australian supported reforms is important to achieving results. In particular, AusAID has responsibility for coordination of ESSP with the following programs which will be critical to solving bottlenecks within Indonesia's decentralised system:

Australia-Indonesia Partnership for Decentralisation: This program will work directly with five provinces, and selected districts within these provinces to improve planning and public financial management. These provinces are Papua, West Papua, Nusa Tenggara Timur, Nusa Tenggara Barat and Aceh. Australia is providing around AUD70 million over five years.

National Program for Community Empowerment (PNPM): Indonesia is currently investing US1.7 billion annually (and committed to supporting PNPM through to 2014), working in around 80,000 villages to provide conditional block grants for poor households for basic infrastructure, health and education services. Australia is investing AUD215 million over five years in PNPM.

Tertiary education and knowledge institutions: Over 2010-2011, Indonesia is embarking on a major government policy review of its tertiary education (including knowledge institutions) sector with the view to investing more in this sub-sector in future years. Australia is providing around AUD3 million over two years in direct technical support to the Indonesian Government and non-government stakeholders, to undertake this review, and providing interim funding to policy think-tanks to increase the capacity of the sector.

Economic governance programs: Australia provides technical advice to core economic and public sector institutions at the national level to undertake priority Indonesian reforms.

8. Who is implementing this Partnership?

This Partnership will be jointly implemented by the GoI (national, provincial, district and school level), AusAID, other donors and managing contractors. Respective roles are set out in sub-section 8.1 to 8.4. Table 8 summarises responsibility for delivery of each component.

Table 8: Schedule of responsibility for delivery

Component or function	Legal instrument that determines responsibility for delivery
Component 1 and Component 2 grants	AusAID Grant Agreement with the GoI
Components 1, 2 and 3 (technical assistance and block grants)	AusAID Contract with Schools Systems and Quality managing contractor
Component 4	AusAID Contribution Agreement with the ADB
Independent monitoring/audit	AusAID contract with Performance Oversight and Monitoring Contractor
Australian visibility	AusAID contract with Education outreach and learning managing Contractor

8.1 Role of Government of Indonesia

The primary responsibilities of the GoI will be set out in detail in the *Grant Agreement* and *Procedures Manuals*. Key roles include:

- Setting of overall policy, budget and performance framework for the education sector through Renstra with functional responsibility for delivery sitting with national, provincial, district and school level authorities;
- Delivery of Component 1 and 2 through MoNE, MoRA, and relevant sub-national and school level authorities. This includes setting policy guidelines, managing the database, employing community development committees to verify construction outputs, and managing the complaints handling system, including follow-up on alleged corruption;
- Delivery of Component 3 through MoRA and relevant sub-national and school level authorities;
- Management and staffing of the Secretariat of the GOG and TOGs;
- Monitoring and data collection for the ESSP Joint Results Framework;
- Fiduciary responsibility and reporting on expenditure of around AUD381 million which will be delivered through Indonesian systems and around AUD35 million in grants to Indonesian institutions. (See **Annex E** for budget breakdown); and
- Involvement in the selection of managing contractors for delivery (refer also Section 8.3).

8.2 Role of AusAID

Primary responsibilities of AusAID (Jakarta and Canberra) include:

- Policy dialogue on achievement and constraints to achievement of Renstra goals through formal governance channels, and more informal dialogue with the GoI and civil society stakeholders at the national, provincial, district, school and community level. This includes dialogue within the education sector and other relevant stakeholders in Indonesia (for example, with the Ministry of Finance);
- Monitoring of the performance of the program against Renstra, the ESSP Joint Results Framework and component outputs. Often this will be conducted jointly with the EU. Responsibility includes following up and negotiation of program changes where the program is not achieving desired results;
- Dialogue and coordination with all donors involved in the education sector;
- Ensuring coherence and overall management of the three managing contractors and the ADB partnership, and their relationship with the Government;
- Support to the MoNE GOG Secretariat, as required;
- Building cross program linkages within the broader Australian aid program, in particular, with the Economic Governance and Decentralisation teams.
- Information and briefing on program performance;
- Commissioning independent evaluations;

AusAID will review its human resource structure over 2010 to ensure the right skills mix and resource allocation is in place to manage, monitor and undertake effective policy dialogue on this program.

8.3 Role of contractors

Three contractors will help Indonesia and donor partners deliver this program. Contractors will report to AusAID and deliver in accordance with respective Scope of Services. (See **Annex E** for further breakdown). The three contractors are:

- Performance Oversight and Monitoring Managing Contractor (estimated at around AUD12 million);
- School Systems and Quality Managing Contractor – to deliver Components 2 and 3 (estimated at around AUD40 million, which includes management of a AUD35 million block grants program);and
- Education Learning and Outreach Managing Contractor (estimated at AUD12 million).

These contractors will be selected (in consultation with GoI) through an open market tender process that will commence at the end of 2010, with anticipated mobilisation by mid 2011.

8.4 Role of donor partners

- Participate in policy dialogue and monitoring with Indonesia through the GOG, and other sectoral forum;

- EU will provide an indicative EUR345 million (approximately AUD484 million) over five years; made up of EUR325 million for base and performance tranches over 2010-2014 and EUR20 million for the ACDP over 2010-2015;
- ADB will manage Component 4 as set out in sub-section 5.5; and
- Other donors may decide to participate in the program at a later date. This will be guided by the GoI.

Endnotes

- ⁱ 82% of Australians support the aid program based on a 2009 survey on ‘community attitudes towards the aid program.
- ⁱⁱ Data for USD2 a day is based on UNDP data 2008, and data for 32 million is based on the Government of Indonesia’s BPS 2009 national poverty line data.
- ⁱⁱⁱ 2009, IMF database, Nominal prices.
- ^{iv} IMF, 2010, *World Economic Outlook 2010 Report*, Table A4, page 160.
- ^v Ministry of Education, 2008, *Indonesia Education Statistics in Brief 2007/2008*. Note: as of Oct 2009 at the there are 524 local governments (including 33 provinces and 491 districts).
- ^{vi} MTDP page I-51 (Priority 2: Education)
- ^{vii} Ministry of National Education, 2010, *Education Strategic Plan (Renstra) 2010-2014*, Table 4.2, Code 20, p28. National Net Enrolment Rate (NER) for 2009 is 73.3%.
- ^{viii} AIBEP, 2010, DRAFT, *Financial Performance Report*, p 11.
- ^{ix} UNESCO, 2007, *Mid-Decade Assessment: Education for All*.
- ^x *ibid*
- ^{xi} This analysis seeks to pick out the major challenges. It is not intended to be a comprehensive assessment of every reform and challenge in the sector. For a comprehensive assessment see the Government of Indonesia’s *Education Renstra (2010-2014)*. On particular topics see (i) Public expenditure - Chapter 3 Education, World Bank, 2007, *Public Expenditure Review* (ii) Junior secondary challenges – USAID, 2008, *A Study of Junior Secondary Education in Indonesia* (iii) Teacher Management- World Bank, 2010, *Transforming Indonesia’s Teaching Force*. (vi) Legal framework – USAID, 2007, *Study of the Legal Framework for the Indonesian Basic Education Program*.
- ^{xii} Ministry of National Education, 2010, *Education Strategic Plan (Renstra) 2010-2014*, Table 4.2, Code 20, p28. National Net Enrolment Rate (NER) for 2009 is 73.3%.
- ^{xiii} World Bank, 2007, *Investing in Indonesia’s Education*, p 3.
- ^{xiv} World Bank, *Public Expenditure Review*, p 30.
- ^{xv} USAID, 2008, *A Study of Junior Secondary Education in Indonesia*, p 19.
- ^{xvi} World Bank, June 2010, *PNPM Impact Evaluation: Preliminary Findings*, Summary, p 2.
- ^{xvii} AusAID, 2008, *Development for All towards a Disability Inclusive Australian Aid Program*.
- ^{xviii} World Bank, 2010, *Transforming Indonesia’s Teaching Force*, Executive Summary, p 3.
- ^{xix} *Ibid*, p 2-3
- ^{xx} Hanushek and Wößmann survey quoted in op cit xix, p 3. This study defined full literacy to mean a score over 400 on international tests.
- ^{xxi} World Bank, 2010, *Transforming Indonesia’s Teaching Force*, Executive Summary, p 3.
- ^{xxii} SMERU surveys conducted in 2002/2003 and 2008
- ^{xxiii} World Bank, 2010, *Transforming Indonesia’s Teaching Force*, Executive Summary, p 5.
- ^{xxiv} World Bank, 2007, *Public Expenditure Review*, p 43.
- ^{xxv} SMERU, Policy brief, 2010, *Remote Area Allowances and Absentee Levels for Teachers in Remote Areas*.
- ^{xxvi} World Bank, *Public Expenditure Review*, p 6.
- ^{xxvii} World Bank, *Public Expenditure Review*, p 12.
- ^{xxviii} World Bank, 2010, *Transforming Indonesia’s Teaching Force*, Executive Summary, p 2-3.
- ^{xxix} World Bank, 2006, *Teacher Employment and Deployment in Indonesia: Opportunities for Equity, Efficiency and Quality Improvement*, Chapter 4.
- ^{xxx} World Bank, 2010, *Transforming Indonesia’s Teaching Force*, Executive Summary, p 14.
- ^{xxxi} This loan drawn down for 2005 was AUD\$US600 million, supplemented by AUD\$US20 million in grants (from the Netherlands) for BOS training and support to MoNE for monitoring and evaluation to improve BOS effectiveness and transparency.
- ^{xxxii} World Bank, 2009, *Independent Monitoring Review of BOS KITA*.
- ^{xxxiii} *ibid*
- ^{xxxiv} EU/AusAID, *Support to Basic Education*, p 125- 134.
- ^{xxxv} USAID, 2008, *A Study of Junior Secondary Education in Indonesia*, p 37.
- ^{xxxvi} See Annex D for a list of major current and future programs.
- ^{xxxvii} AusAID, Draft, 2010 *Independent Completion Report of AIBEP*.
- ^{xxxviii} GoI, MDG Roadmap, DRAFT, data on page 20 based on MoNE statistics 2007-08
- ^{xxxix} Partner countries typically do not borrow for international capacity-building.
- ^{xl} AusAID, Draft, 2010 *Independent Completion Report of AIBEP*.
- ^{xli} This refers to provision of planned donor flows to Indonesia for inclusion in their budget papers, and overall MTBF.

^{xlii} The EU has committed EUR345 million over 5 years, including EUR20 million for the ACDP.

^{xliii} Currency conversions based on rates on 23 September 2010.

^{xliv} EC/AusAID, 2009. *Social Issues Assessment*, p 14.

^{xlv} Around AUD3 million has been allocated for pilots in 2010/11. The remaining amount (estimated at AUD133 million) will not be transferred to Indonesia until after AusAID has signed off and negotiated a *Grant Agreement* and *Procedures Manual* for this accredited training system.

^{xlvi} Additionally there are 18,000 early childhood *Madrasah*.

^{xlvii} Quoted in EU/AusAID, *Support to Basic Education*, p 29.

^{xlviii} Note that Australia and the EU have provided around AUD8.7 million a year over the last 3 years to MoNE and MoRA in analytical and capacity support through past programs. This program replaces this assistance. The scale-up to around AUD10 million a year is premised on this package being available to a wider range of stakeholders, including more support to sub-national governments.

^{xlix} Australia is currently undertaking a review of technical assistance. This will likely include dialogue with the multilaterals about the value and cost of technical assistance. This program may need to be renegotiated if this review and subsequent policies if this program is inconsistent.

¹ EU/AusAID, *Support to Basic Education*, p 29.

ⁱⁱ Indonesia currently uses GER to measure school enrolment for primary, junior secondary and senior secondary in the Renstra. Targets in the Joint Results Framework are also based on GER. The GER is considered a better measurement for understanding the general level of participation in a given level of schooling and indicates the capacity of the country to accommodate its school aged population. As general participation rates improve for school aged children, Indonesia will move towards adopting NER as a measure for enrolment.

ⁱⁱⁱ World Bank, 2009, *Investing in Indonesia's Education at the District Level*, p 44-45.

Annexes to the Education Partnership Design

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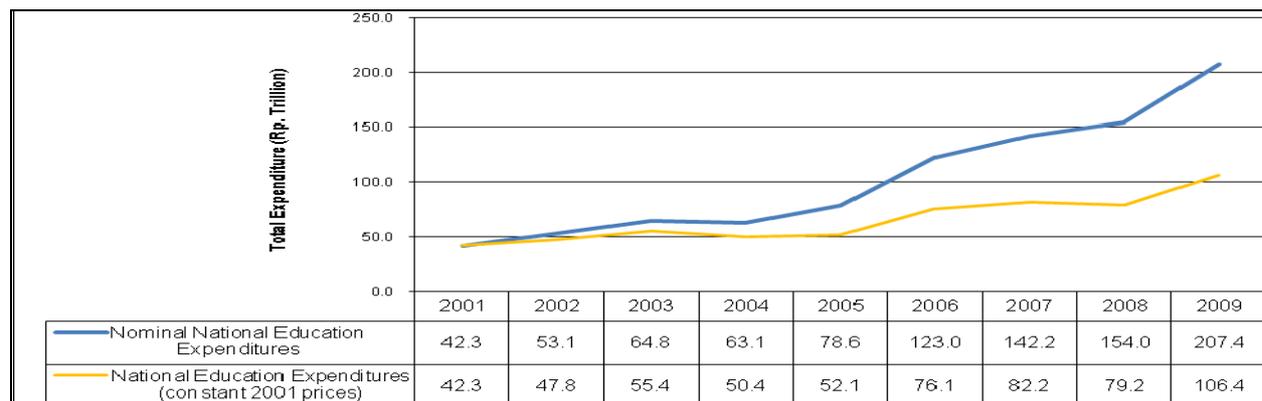
Annex A: Summary of key education sector expenditures

This annex provides an overview of key education expenditure trends and breakdowns by sub-sector and type. It uses the latest available data.

(i) Education sector expenditures

Indonesia reached its 20 per cent expenditure target in 2009, and has budgeted IDR207 trillion (\$26 billion) in 2010 to meet its 20 per cent target.

Chart 2: Expenditures from 2001 to 2009 (IDR Trillion 2001-2009)

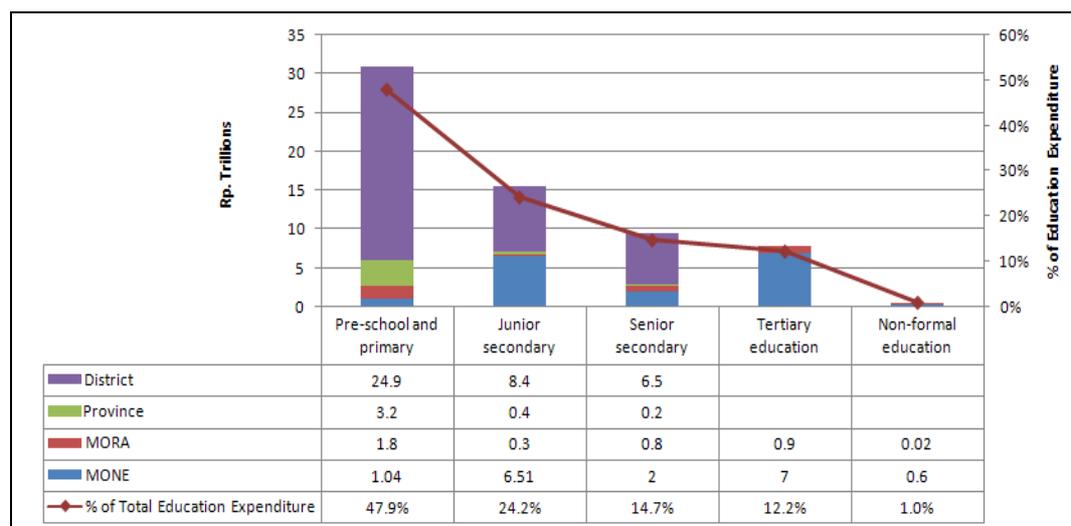


Source: AIBEP 2010, draft, p 11

(ii) Expenditure by sub-sector

Expenditures largely reflect Indonesia's Renstra priorities, with a focus on basic education accounting for 72 per cent of spending.

Chart 3: Expenditure by sub-sector and level of government (IDR 2004 Trillion)

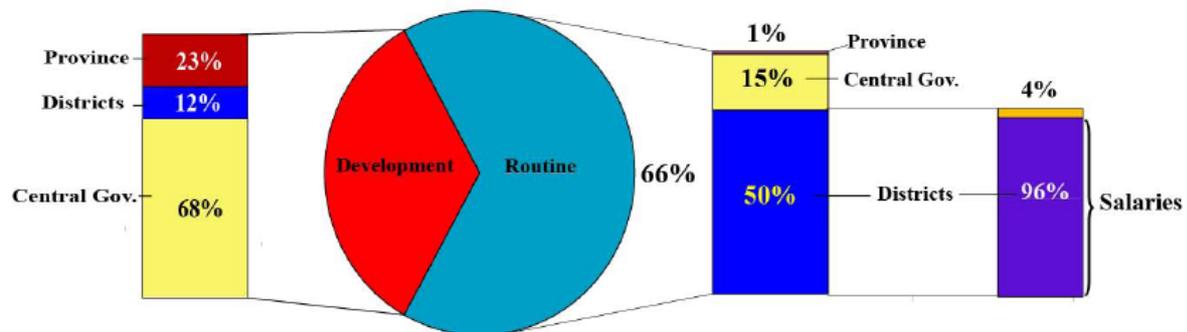


Source: AIBEP 2010, draft, p 15 based on World Bank 2004 data.

(iii) Education spending: routine and discretionary breakdown

The majority of Indonesia's spending is committed to teacher and personal costs. There are higher discretionary funds available at the national level, and limited funds at the district level.

Figure 4: Spending by economic classification and by level of government (2005)



Source: World Bank, 2007, p 7.

An AIBEP 2009 study based on 2007 expenditures estimated that districts had reduced the percentage of their budget for routine expenditures from 84 per cent to 78 per cent. This study excluded expenditure through BOS which on average allocates 30 per cent to casual teachers. After adjusting for casual teacher expenditures through BOS, this still represents an improvement with expenditures of 80 per cent on average.

(iv) Donor expenditures

The EU/Australia feasibility study calculated that total donor grants and loans to the education sector are estimated to be around AUD600 million a year (averaging IDR 4.5 trillion). This makes up around two per cent of Indonesia's total education expenditures, and close to seven per cent of development (discretionary) expenditures. These figures exclude education scholarships to third countries.

Estimated 2010 budget: \$26 billion x 34% discretionary expenditures (using most recent national data) = \$8.84 billion

Donor % of total budget: \$600 million/\$26 billion = 2.3%

Donor % of discretionary spending: \$600 million/ 8.84 billion = 6.7 %

Annex B- Accreditation system

Quality standards for Indonesian schools are set by an independent standards body (BSNP) responsible directly to the Minister of Education. Through the accreditation process, assessors evaluate schools to determine whether quality standards have been attained. Based on this evaluation, the school is awarded a rank (valid for 5 years). The accreditation system is implemented through an independent accreditation body (Badan Akreditasi Nasional –Sekolah *Madrasah*– BAN-SM) and is affiliated with provincial accreditation bodies (BAN-P). The BAN-SM sets procedures and standardised instruments while the BAN-P provides assessors.

The accreditation system was revised in 2009 and ranks scores against eight quality criteria. The eight criteria are: curriculum, teaching and learning processes, learning outcomes, personnel, physical facilities, management, finance, and performance assessment processes. Assessors provide a rank (either A, B, C, or D with A being the highest) supplemented with a weighting system for each criterion. Schools/*Madrasah* volunteer for accreditation and determine their readiness through a self-assessment process. Schools invite an assessor from BAN-P for verification and scoring. MoNE provides some funds for accreditation and some provinces contribute to the cost of assessors' school visits. MoRA has indicated it intends to provide *Madrasah* with limited financing to help with the preliminary, self-evaluation step.

MoRA is establishing a central level *Madrasah Accreditation Development Committee* which may later be replicated at the provincial level. Steps for *Madrasah* accreditation are:

- BAP-SM sets a strategic plan for accreditation and targeted schools/*Madrasah* to be accredited;
- BAP-SM in coordination with Provincial MoNE and MoRA proposes an annual quota of schools/*Madrasah* to be accredited;
- BAP-SM invites schools/*Madrasah* to propose accreditation;
- Provincial, District, and City offices of MoNE and MoRA submit lists of schools and *Madrasahs* to be considered for the accreditation process;
- BAP-SM deliver accreditation instruments to schools and *Madrasahs*
- *Madrasah* completes the instruments;
- *Madrasah* submits completed instrument to BAP-SM;
- BAP-SM decides on the feasibility of *Madrasah* assessment visits;
- if *Madrasah* does not qualify for the accreditation visit, BAP-SM advised on further refinement of application;
- if a *Madrasah* is considered qualified for the accreditation, BAP-SM sends assessors to visit and review submission;
- assessors visit *Madrasah* and report findings to BAP-SM;
- BAP-SM verifies site visit results;
- BAP-SM decides on the accreditation level; and
- for a *Madrasah* not accredited, BAP-SM advises on actions to be taken before next submission. If accredited, BAP-SM approves provision of the accreditation certificate.

Annex C- Other donor assistance to education

Information is drawn from the Donor Education Sector Working Group matrix (February 2010). It captures major programs.

Donor	Sub-Sector	Amount	Period	Initiative Description
ADB	Madrasah Education Development Project (MEDP)	USD50,000,000 Loan	2007-2012	Islamic Education: 120,000 students in 500 <i>Madrasah</i> benefit from improved primary and secondary education. Aims to improve teacher performance, school resources and governance and to ensure <i>Madrasah</i> meet national education standards
	Technological and Professional Development Skills Project (TPSDP)	USD180,000,000 Loan	2001-2007	Higher Education: Improved accreditation, graduate quality, and English proficiency; and reduced completion time and employment waiting time through strengthened governance, equity, study programs, female study centres and industrial and community links
EU	Basic Education - Sector Capacity Support (including Minimum Services Standards Program and Mainstreaming Good Practices in Basic Education Program)	EUR20,000,000 Grant	2006-2010	Basic Education: Strategic reform, improved district and provincial plans and budgets and expanded management capacity to meet Gol Minimum Service Standards. The Minimum Services Program is being implemented by ADB and the Mainstreaming Good Practices in Basic Education Program is being implemented by UNICEF)
World Bank	Managing Higher Education for Relevance and Efficiency	USD80,000,000 Loan, credit	2005-2012	Higher Education: Autonomous and accountable public higher education and effective support mechanisms for improvement of quality, relevance, efficiency and equity of higher education
	BOS KITA (Knowledge Improvement for Transparency and Accountability)	USD600,000,000 Loan (incl. \$20 million Dutch grant)	2008-2010	Basic Education: Improved access to quality education for all children aged 7 to 15 by strengthening SBM and community participation, improving existing fiduciary arrangements and better utilisation of BOS funds
Netherlands Government	Education and Skills Training for Youth Employment (EAST)	USD22,675,772 Grant	2006-2011	Vocational: Supports the National Plan of Action on the Elimination of Worst Forms of Child Labour and supports improvements in education to better prepare young people for the world of work (both employment and self-employment through entrepreneurship)
	Dutch Basic Education Trust Fund (through World Bank)	EUR23,149,004 Grant	2006-2014	Analysis and Policy: Funds technical analyses to help Gol reach RENSTRA objectives. Analytical work will form the basis for sector-wide approaches supported by all interested donors. Also supports BOS M&E
JICA	Enhancing Quality of Junior Secondary Education PELITA	YEN610,000,000 Grant	2009-2013	Basic Education: Quality of junior secondary education is enhanced through participatory school-based management (PSBM)
	ICT Utilisation Project for Educational Quality Enhancement	YEN9,717,000,000 Soft Loan	2007-2016	Basic Education: Model for introducing IT-based communication solutions into basic education in Indonesia. The project will provide personal computers and develop an e-learning system for elementary and junior high schools in Yogyakarta Province

UNICEF	Creating Learning Communities for Children (CLCC)	Approx. USD8,000,000 Grant	2006-2010	Basic Education: CLCC aims to raise the quality of education through developing transparent and accountable school-based management, increasing community support and encouraging active learning
	Early Childhood Development (ECD)	USD4,500,000 Grant	2006-2010	Basic Education: Project develops and consolidates a holistic ECD model in close coordination with core relevant government institutions and NGOs. Government capacity development, social mobilisation and an integrated policy framework support the program
USAID	Decentralised Basic Education	USD134,300,000 Grant	2005-2010	Basic, Secondary and Non-Formal Education: Promotes effective decentralised management and governance of district education offices and schools, improved quality of teaching and learning (through teacher training, ICT, materials development) and improved quality and relevance of education in formal and non-formal sector (including Islamic schooling)
	Sesame Street Indonesia - Jalan Sesama	USD8,500,000 Grant	2006-2010	Basic Education: In partnership with the Sesame Workshop, USAID is supporting an Indonesian co-production of "Jalan Sesama" early childhood educational television program
	Opportunity for Vulnerable Children (OVC)	USD4,300,000 Grant	2006-2009	Basic Education: Promotes inclusive education in Indonesia by helping prepare children with special needs for education in public schools
Joint Programs	Basic Education capacity Trust Fund (BEC-TF)	EC: EUR17,000,000 Netherlands: EUR22,000,000 Grant	2007-2012	Basic Education: Training, technical assistance and local government grants to strengthen policy processes and formation, improve governance and financial management - particularly at local government level and strengthen information management and performance assessment
	Early Childhood and Education Development	World Bank: USD67,500,000 Credit Netherlands: USD23,500,000 Grant	2006-2013	Basic Education: Improvement in poor children's overall readiness for further education within a sustainable quality ECED system through participatory community planning, district level budgetary commitments and district capacity building
	Better Education Through Reformed Management and Universal Teacher Upgrading (BERMUTU)	World Bank: USD86,000,000 Loan Netherlands: USD52,000,000 Grant	2008-2013	Teacher Quality: The project will contribute to the improvement of the overall quality and performance of teachers through enhancing teachers' knowledge of subject matter and pedagogical skills in the classroom
	Decentralised Basic Education (DBEP)	ADB: USD100,000,000 Loan Netherlands: USD28,000,000 Grant	2001-2011	Basic Education: Block grants to 4,000 schools to improve quality of teaching-learning process using school-based management approach. Aims to improve poor child enrolment, retention and learning outcomes in nine years of basic education and support decentralised school management and community participation in school based management

Annex D- Fiduciary assessment of working in partner systems

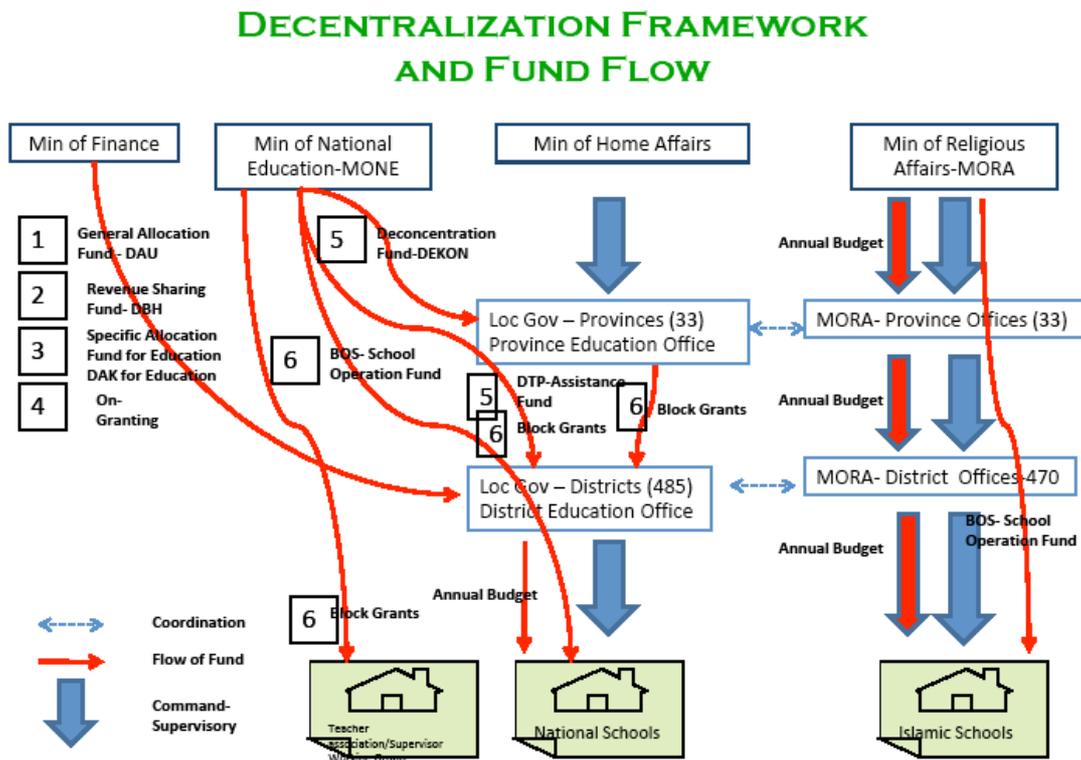
The purpose of this annex is to:

- Outline Indonesia's education sector funds flows;
- Briefly outline the strengths and weaknesses in Indonesia's public financial management (PFM) systems that ESSP will be delivered through; and
- Outline how fiduciary risks will be mitigated.

(i) Education sector funds flows

Figure 5 shows funds channelling from the Ministry of Finance to sub-national governments and schools.

Figure 5: Decentralisation Framework and Funds Flow



Source: Report of the Joint EC/AusAID Pre-Feasibility Study Mission, December 2008, p184.

Explanation of budget sources in figure 4:

1. The General Allocation Fund (Dana Alokasi Umum—DAU) is mandated by law to allocate 26 per cent of GOI net revenue to local government and to keep a vertical balance between central and local government. A formula is applied to determine the allocation for each district. The majority of the DAU goes to cover civil servants'

- salaries. For poor districts the DAU constitutes 90 per cent of their local annual budget (APBD).
2. The Revenue Sharing Fund (Dana Bagi Hasil- DBH) is the local government portion deriving from tax and natural resources revenue collected from their area. The DBH portion received by districts rich in natural resources or with high economic activities is much higher than those of districts poor in natural resources.
 3. The Special Allocation Fund (Dana Alokasi Khusus-DAK) is allocated to local governments to finance specific activities which fall within the mandate of the local governments' delivery of services, and which fit within national priorities. MoF manages the DAK, with technical input from the line ministries. It decides the national DAK to be allocated and sector priorities.
 4. On-Granting is a relatively new funds channel from MoF to districts, and it assists the direct passage of donor funds to districts. MoF receives the foreign grant from the donor and passes it through to districts. Planning of activities is undertaken by districts and approved by the line minister (MoNE). Conditionalities can be placed on grant agreements with districts. This fund becomes part of the APBD.
 5. The deconcentration fund (Dana Dekonsentrasi—Dekon) and the Task Assistance Fund (Tugas Perbantuan TP) are given to the provincial education offices by the related line minister to carry out activities on behalf of the line minister.
 6. Grants from central level ministries directed to recipients (schools, group of teachers, community etc) are another form of funds channelling from line ministries. This method is used for various activities such as, the operational grant for schools (BOS); construction of community based schools; teachers' and principals' professional working groups; and research activities. Accountability and reporting are directed to the line ministry.

For Islamic education, different budgetary mechanisms apply as MoRA is a centralised ministry which has its own structures at district level.

(ii) Indonesia's Governance and PFM systems

This assessment is a summary that draws on Australian, Indonesian and other donor PFM reviews and on information provided by BPK and MoF. Donor reviews include: the 2008 Joint EU/AusAID, *Support to Basic Education in Indonesia*; the 2007 World Bank, *Public Expenditure Review*, the 2009 World Bank, *Investing in Indonesia's education at the District Level*; and, Draft 2009 AIBEP *Annual Review of Indonesia Education Sector Financing*. This annex does not duplicate information and analysis in the design and should be read in conjunction with sections 2 and 7.

Budget: Budget allocation and execution has improved. The 2009 AIBEP *Annual Review of Indonesia Education Sector Financing* found that 9 out of the 11 indicators of budget execution had improved since 2001. Strengths and weaknesses include the following:

- MoNE is in the first stages of implementing a more robust budget framework through the Renstra MTEF. In 2010, MoNE is a pilot ministry for accelerating sector MTEF and program-based budgeting reforms so they are linked to the cost of school minimum service standards;

- MoNE's budget planning and execution systems have improved over the decade with budget execution reaching 93 per cent in 2007, due partly to streamlining of procurement systems;
- MoRA did not perform as well, but has increased staffing and operational resources to focus on reform of financial and performance audit at both central and provincial levels;
- The link between planning and budget allocations is weak at the sub-national level. Timing for budget approval, often due to Parliamentary delays, is problematic with over 25 per cent of sub-national governments approving their budget very late in the budget year, delaying spending; and
- The decentralisation framework and PFM system for the education sector needs better alignment of authority, capacity and resources. Predictability and alignment with strategic priorities is uneven across districts and provinces, due to the fragmented sources of funding.

Procurement: Procurement regulations are satisfactory but implementation continues to need improvement at both the national and sub-national level. Strengths and weaknesses include the following:

- Delays occur at the planning level, in approvals and in preparing tender documentation
- The Government has strengthened procurement practices over the past three years. Government Regulation 80/2003 was issued as a national standard regulation to promote basic principles of procurement (viz. transparency, open and fair competition, efficiency, non-discrimination, and accountability) and the future establishment of a National Public Procurement Organization (NPPO); and
- 80/2003 requires that contract awards above a threshold of IDR50 million to be made publicly available. This policy is being implemented in MoNE.

Management and reporting: Reporting timeliness and standards are increasingly compliant with Indonesian regulations. Strengths and weaknesses include the following:

- MoNE ranks in the highest group in Indonesia's *Bureaucratic Accountability and Effectiveness Report*. MoRA ranked near the bottom, suggesting its systems need substantial improvement;
- Sub-national governments made significant progress in implementing new PFM systems in 2007 and 2008. Around 90 per cent of financial realisation reports for 2007 and 2008, and more than 95 per cent of budgets prepared for 2009 were in line with budgeting, accounting and reporting requirements; and
- Skilled accounting and treasury staff are in short supply in sub-national governments underlining weak internal controls and poor financial recording and management of assets.

Audit: The capacity of Indonesia's audit bodies is improving, but more focus is required on performance audits. Strengths and weaknesses include:

- Indonesia's national audit body (BPK) has significantly increased its coverage from 30 per cent of sub-national governments in 2003 to 100 per cent in 2008. But it needs to extend its mandate beyond financial audit towards performance based auditing;

- MoNE's annual financial report has had fewer audit disclaimers in recent years. An integrated financial management information system is being implemented in response to internal and external audit findings, including new regulations at the district level; and
- Steps have also been taken to strengthen the audit function at MoNE, which deploys 300 auditors. Doubled budget allocations to audit functions have enabled MoNE to provide for significant training and capacity building activity for these auditors. MoRA has been able to increase its audit coverage through significant budget increases. But there is limited audit capacity in the districts.

iii) Managing fiduciary risks

While this assessment indicates that the Education Partnership can rely on Indonesian systems to some degree, there is a strong need, given Australian expenditure requirements, to have a separate capacity for monitoring the program from both a fiduciary and a performance perspective. This section sets out how it will be managed for Components 1, 2 and 3 which are delivered through, or using, Indonesian systems.

Component 1

Detailed requirements for MoNE delivery of Component 1 will be set out in the *Procedures Manual*. This includes requirements for remedial action in the event that misappropriation is detected. MoNE will implement, and AusAID will assist, in mitigating risks through a number of measures including:

- reviewing performance monitoring guidelines and compliance for Construction Development Consultants (CDCs);
- strengthening training for procurement of goods and services by school construction committees, including accounting procedures and compliance checking;
- strengthening the complaints handling system and links with compliance monitoring/audit process (e.g. by being located in the Inspectorate General) and requiring that complaints handling information is displayed on school notice boards;
- holding forums so village representatives are able to understand the construction procedure and monitor any non-compliant practices during the school construction process; and
- requiring MoNE and participating district governments to have written documentation such as an updated Memorandum of Understanding (MoU), specifically addressing district budget allocations. The MoNE MoU and operational guidelines will specify decision making responsibilities and dispute resolution arrangements.

Component 2

The disparity between districts in terms of their financial position and their capacity to manage the training is uneven across the country.

The Education Partnership is adopting a flexible approach to Component 2 that will be influenced heavily by the way MoNE structures its national accredited training system. AusAID will undertake a fiduciary assessment of this system once developed and tested, likely in late 2011, before Australian funds will be transferred for the roll-out of accredited training across the country. As set out in sub-section 5.3, the operational arrangements will be determined during the implementation planning phase.

Strengthening the capacity of the Districts to monitor performance and prioritise resources is desirable. It is important that the Education Partnership “does no harm”. The extent to which Component 2 affects the development of district capacity to manage schools will partly be a function of how funds are distributed.

Component 3

The procurement of a managing contractor for disbursement and reconciliation of block grants to MoRA and beneficiary *Madrasah* and *Madrasah* Development Centres and/or other designated accreditation support entities, negates the requirement for an additional fiduciary risk assessment for this component. The managing contractor will be responsible for mitigating any risks associated with funds utilisation by beneficiary *Madrasah* and *Madrasah* Development Centres and/or other designated accreditation support entities.

Sub-national

Strategies to provide assurance that this program is being implemented at the sub-national level can be supported by Australia (through Components 2 and 4) and include:

- supporting MoNE and MoRA to deliver a public campaign targeted at the community, teachers, school principals and supervisors, education boards and district parliaments;
- dissemination of program manuals on MoNE and MoRA websites, to expand public understanding of the program’s objectives, procedures and implementation arrangements;
- sub-district forums to enable communities to understand the construction procedure and report any non-compliant practices during school construction process; and
- dialogue with MoNE and MoHA on development of a district government MoU related to district budget allocation requirements. In particular, any MoU and operational guidelines will specify decision-making responsibilities and dispute resolution arrangement.

Annex E - Indicative Education Partnership Budget

TABLE 1: Education Partnership Indicative Budget - AusAID Contribution by Indonesian Financial Year (1 January - 31 December)

	2011	2012	2013	2014	2015	2016	TOTAL
Components	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
<i>Component 1 - School Infrastructure</i>	44.5	45.2	46.4	46.2	45.2	0.5	228.0
School Construction (delivered through MoNE)	44.00	44.00	45.00	45.00	44.00	0.00	222.0
Education Learning & Outreach (delivered through Managing Contractor)	0.50	1.20	1.40	1.20	1.20	0.50	6.0
<i>Component 2 - School and District Management</i>	40.3	14.4	49.4	54.9	25.9	1.3	186.0
Part I- Accredited Training (delivered through MoNE)	10.0	5.0	45.0	51.0	23.0	0.0	134.0
Part II- New School Induction (delivered through Managing Contractor)	7.0	6.0	0.0	0.0	0.0	0.0	13.0
Part III - BOS Training (delivered through MoNE)	20.0	0.0	0.0	0.0	0.0	0.0	20.0
TA Implementation Support (including Component 1) (delivered through Managing Contractor) ¹	3.0	2.5	3.5	3.0	2.0	1.0	15.0
Education Learning & Outreach (delivered through Managing Contractor)	0.30	0.85	0.85	0.85	0.85	0.30	4.0
<i>Component 3 - Islamic School Accreditation</i>	7.2	10.4	11.4	11.4	7.4	1.2	49.0
TA Implementation Support (delivered through Managing Contractor) ¹	3.0	2.0	2.0	2.0	2.0	1.0	12.0
Block Grants (delivered through Managing Contractor)	4.0	8.0	9.0	9.0	5.0	0.0	35.0
Education Learning & Outreach (delivered through Managing Contractor)	0.20	0.40	0.40	0.40	0.40	0.20	2.00
<i>Component 4 - Analytical and Capacity Development Partnership (ADB managed Facility)</i>	5.0	5.0	5.0	5.0	5.0	0.0	25.0
Performance Oversight & Monitoring (delivered through Managing Contractor)	2.0	2.0	3.0	2.5	1.5	1.0	12.0
TOTAL	99.0	77.0	115.2	120.0	85.0	4.0	500.0

Breakdown by delivery agent	\$ (m)	%
Delivered directly through Indonesia systems	376.0	75%
Delivered through managing contractors		
-Block grants	35.0	7%
- Technical assistance, management, and monitoring	64.0	13%
Delivered through ADB	25.0	5%

NOTE: 1. TA Implementation Support for each component is subject to ongoing negotiation with the Government of Indonesia. Financial allocations for this item may adjust accordingly.

TABLE 2: Education Partnership Indicative Budget - AusAID Contribution by Australian Financial Year (1 July - 30 June)

	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	TOTAL
Components	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
<i>Component 1 - School Infrastructure</i>	0.0	66.2	46.3	46.3	46.2	23.0	228.0
School Construction (delivered through MoNE)	0.00	65.00	45.00	45.00	45.00	22.00	222.0
Education Learning & Outreach (delivered through Managing Contractor)	0.00	1.20	1.30	1.30	1.20	1.00	6.0
<i>Component 2 - School and District Management</i>	20.0	15.9	55.4	54.4	38.4	1.9	186.0
Part I- Accredited Training (delivered through MoNE)	0.0	5.0	45.0	50.0	34.0	0.0	134.0
Part II- New School Induction (delivered through Managing Contractor)	0.0	7.0	6.0	0.0	0.0	0.0	13.0
Part III - BOS Training (delivered through MoNE)	20.0	0.0	0.0	0.0	0.0	0.0	20.0
TA Implementation Support (including Component 1) (delivered through Managing Contractor) ¹	0.0	3.0	3.5	3.5	3.5	1.5	15.0
Education Learning & Outreach (delivered through Managing Contractor)	0.00	0.85	0.90	0.90	0.90	0.40	4.0
<i>Component 3 - Islamic School Accreditation</i>	0.0	11.4	13.0	13.0	10.5	1.3	49.0
TA Implementation Support (delivered through Managing Contractor) ¹	0.0	3.0	3.0	3.0	2.0	1.0	12.0
Block Grants (delivered through Managing Contractor)	0.0	8.0	9.5	9.5	8.0	0.0	35.0
Education Learning & Outreach (delivered through Managing Contractor)	0.00	0.40	0.45	0.45	0.45	0.25	2.00
<i>Component 4 - Analytical and Capacity Development Partnership (ADB managed Facility)</i>	5.0	5.0	5.0	5.0	5.0	0.0	25.0
Performance Oversight & Monitoring (delivered through Managing Contractor)	0.0	3.0	3.0	3.0	2.0	1.0	12.0
TOTAL	25.0	101.5	122.7	121.7	102.1	27.2	500.0

Breakdown by delivery agent	\$ (m)	%
Delivered directly through Indonesia systems	376.0	75%
Delivered through managing contractors		
-Block grants	35.0	7%
- Technical assistance, management, and monitoring	64.0	13%
Delivered through ADB	25.0	5%

NOTE: 1. TA Implementation Support for each component is subject to ongoing negotiation with the Government of Indonesia. Financial allocations for this item may adjust accordingly.

Annex F- ESSP Joint Results Framework

Sector Results: Outcomes/Outputs	Baseline	2010	2011	2012	2013	2014/15
Expanded Equitable Access						
Target 1 Percentage of districts with Early Childhood Development Gross Enrolment Rate of 50% or greater, including formal and non-formal provision from educational institutions under the responsibility of MoNE and MoRA.	28.4%	37.7%	47%	56.4%	65.7%	75%
Target 2 Percentage of districts with Junior Secondary School Gross Enrolment Rate of 90% or greater, including formal and non-formal provision from educational institutions under the responsibility of MoNE and MoRA.	55%	61%	67%	73%	79%	85%
Improved Quality/Relevance						
Target 3 Percentage of primary and junior secondary public and private schools/ <i>Madrasahs</i> with National Board of Accreditation for Schools and <i>Madrasahs</i> (BAN-SM) accreditation (minimum Rank C).	59%	64%	69%	74%	79%	85%
Target 4 Numbers newly enrolled annually on specifically designed and accredited in-service training courses for school principals and supervisors, for ECD, primary and secondary levels (MoNE and MoRA).	-	30,000	55,000 (85,000)	55,000 (140,000)	55,000 (195,000)	55,000 (250,000)
Improved Governance/Accountability						
Target 5 Numbers of key district officials and school supervisors trained in Minimum Service Standards (MSS) for Primary and Junior Secondary Education (MoNE and MoRA) for all districts.	-	MSS approved by Government	4,000 key district officials	20,000 school supervisors	MSS achievement target to be determined	MSS achievement target to be determined
Target 6 Numbers newly enrolled annually on specifically designed and accredited education planning and financial management in-service training courses for provincial and district officials (MoNE and MoRA).	700	800 (1,500)	2,000 (3,500)	2,000 (5,500)	2,000 (7,500)	2,000 (9,500)

ESSP Joint Results Framework Annex: Data Sources and Periods

Data	Baseline	2010	2011	2012	2013	2014/15
Expanded Equitable Access						
Target 1 Early Childhood Development Gross Enrolment Rate <i>The sources of monitoring information are MoNE and MoRA EMIS data consolidated by Balitbang, MoNE.</i>	2008/09 Enrolment	2009/10 Enrolment	2010/11 Enrolment	2011/12 Enrolment	2012/13 Enrolment	2013/14 Enrolment
Target 2 Junior Secondary School Gross Enrolment Rate <i>The sources of monitoring information are MoNE and MoRA EMIS data consolidated by Balitbang, MoNE.</i>	2008/09 Enrolment	2009/10 Enrolment	2010/11 Enrolment	2011/12 Enrolment	2012/13 Enrolment	2013/14 Enrolment
Improved Quality/Relevance						
Target 3 Primary and Junior Secondary Schools and <i>Madrasahs</i> BAN-SM accreditation ranking data <i>The sources of monitoring information are central/ provincial BAN-SM accreditation database and annual reports, and MoNE and MoRA EMIS data.</i>	BAN-SM data at end 2008	BAN-SM data at end 2009	BAN-SM data at end 2010	BAN-SM data at end 2011	BAN-SM data at end 2012	BAN-SM data at end 2013
Target 4 Numbers enrolled on school principals' and supervisors' training <i>The sources of monitoring information are MoNE and MoRA education personnel databases and EMIS.</i>	-	Numbers enrolled for 2010	Numbers enrolled for 2011	Numbers enrolled for 2012	Numbers enrolled for 2013	Numbers enrolled for 2014
Improved Governance/Accountability						
Target 5 Numbers of key district officials and school supervisors trained in Minimum Service Standards (MSS) for Primary and Junior Secondary Education (MoNE and MoRA) for all districts. <i>The sources of monitoring information are MoNE and MoRA MSS training databases and reports.</i>	-	MSS regulation	Numbers trained by the end of 2010	Numbers trained by the end of 2011	<i>MSS data to be determined</i>	<i>MSS data to be determined</i>
Target 6 Numbers enrolled on provincial and district education planning and financial management training <i>The sources of monitoring information are MoNE and MoRA education personnel databases and EMIS.</i>	Numbers trained in 2009	Numbers enrolled for 2010	Numbers enrolled for 2011	Numbers enrolled for 2012	Numbers enrolled for 2013	Numbers enrolled for 2014