

**REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
BOARD OF DIRECTORS
ON A
PROPOSED LOAN
TO THE
REPUBLIC OF INDONESIA
FOR THE
DECENTRALIZED BASIC EDUCATION PROJECT**

October 2001

CURRENCY EQUIVALENTS

(as of 15 October 2001)

Currency Unit	–	Rupiah (Rp)
Rp1.00	=	\$.0001
\$1.00	=	Rp9935

ABBREVIATIONS

ADB	–	Asian Development Bank
BAPPEDA	–	Badan Perencanaan Pembangunan Daerah (Local Development Planning Agency)
BAPPENAS	–	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
CFU	–	central facilitation unit
CTC	–	central technical committee
DBEP	–	Decentralized Basic Education Project
DCC	–	district coordination committee
DEDF	–	District Education Development Fund
DPMMU	–	district project management and monitoring unit
DPRD	–	Dewan Perwakilan Rakyat Daerah (local parliament)
GDP	–	gross domestic product
GTZ	–	Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)
JICA	–	Japan International Cooperation Agency
MOF	–	Ministry of Finance
MOHA	–	Ministry of Home Affairs
MONE	–	Ministry of National Education
MORA	–	Ministry of Religious Affairs
NTB	–	Nusa Tenggara Barat
PPMU	–	provincial project monitoring unit
PROPENAS	–	Program Pembangunan Nasional (National Development Plan)
PSC	–	project steering committee
SBM	–	school based management
SDF	–	School Development Fund
SPSDP	–	Social Protection Sector Development Program
SUSENAS	–	Survei Socio-Ekonomi Nasional (National Socioeconomic Survey)
TA	–	technical assistance
TMMU	–	transition management and monitoring unit
UNESCO	–	United Nations Educational, Scientific and Cultural Organization
UNICEF	–	United Nations Children's Fund

GLOSSARY

Madrasah	–	Islamic school(s)
NER	–	net enrollment rate

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

CONTENTS

	Page
LOAN AND PROJECT SUMMARY	ii
MAP	viii
I. THE PROPOSAL	2
II. INTRODUCTION	2
III. BACKGROUND	2
A. Sector Description	2
B. Government Policies and Plans	10
C. External Assistance to the Sector	10
D. Lessons Learned	11
E. ADB Sector Strategy	14
F. Policy Dialogue	14
IV. THE PROPOSED PROJECT	16
A. Rationale	16
B. Objectives and Scope	17
C. Cost Estimates	20
D. Financing Plan	20
E. The Executing Agency	21
F. Implementation Arrangements	22
G. Environmental and Social Measures	25
V. PROJECT JUSTIFICATION	27
A. Project Beneficiaries	27
B. Poverty and Social Impacts	28
C. Affordability and Sustainability	28
D. Risks	29
V. ASSURANCES	30
VI. RECOMMENDATION	32
APPENDIXES	33

LOAN AND PROJECT SUMMARY

Borrower	The Republic of Indonesia
Project Description	The Project aims to improve poor children's enrollment, completion and learning outcomes from basic education in 21 districts in DKI Jakarta, Bali, and Nusa Tenggara Barat (NTB). The Project will also support decentralization of basic education management in the context of the administrative and fiscal decentralization being effected in Indonesia.
Classification	Poverty: Core poverty intervention Thematic: Human development
Environmental Assessment	Category C. Environmental implications were reviewed, and no significant adverse environmental impacts were identified.
Rationale	The National Development Plan (PROPENAS) of the Government and the Asian Development Bank (ADB) country operational strategy prioritize poverty reduction and regional equity. Achieving and sustaining these goals require equitable provision of quality basic education to set a foundation (i) to reduce existing gaps in human development across the country, and (ii) to ensure the availability of trainable human resources to support social and economic development. The Project will contribute to these strategic goals through (i) focused investment in basic education targeted to poverty-affected areas, schools, and children; and (ii) improved management and governance of basic education through decentralization, and measures for a transparent basic education system, accountable to communities and civil society.
Objectives and Scope	The broad goals of the Project are to contribute to (i) reducing poverty and inequity in human development by supporting the achievement of universal basic education, and (ii) implementing regional autonomy by supporting decentralized management of basic education. The immediate objectives are (i) to improve poor children's participation, completion, and learning outcome from nine years basic education, (ii) to develop the capacity of districts to manage decentralized basic education; this includes support to establish school boards and make them operational as well as enhance school committees for greater community participation in community or school-based management; and (iii) to demonstrate the effectiveness of block grant mechanisms to support school, community, and district-based initiatives to improve basic education and enhance school effectiveness.
Cost Estimates	The estimated Project cost is \$125.0 million equivalent, of which \$30.9 million (25 percent) is the foreign exchange cost and \$94.1 million equivalent (75 percent) is the local currency cost.
Financing Plan	(\$ million)

	Foreign Exchange	Local Currency	Total Cost	Percent
Asian Development Bank	21.1	78.9	100.0	80
Government	0.0	25.0	25.0	20
Total	21.1	103.9	125.0	100.0

**Loan Amount
and Terms**

It is proposed that ADB provide a loan of various currencies equivalent to Special Drawing Rights 77,579,000 from its Special Funds resources (ADF). The loan will have a term of 32 years, including a grace period of 8 years, with an interest charge of 1 percent per year during the grace period and 1.5 percent per year thereafter. ADB will finance 100 percent of the foreign exchange cost of the Project and 73 percent of the local cost. The Government will finance about \$25.0 million equivalent in local currency.

Period of Utilization

Until 31 December 2008

Executing Agency

Ministry of National Education (MONE). The Ministry of Religious Affairs (MORA) will be co-Executing Agency and will second staff to the central facilitation unit (CFU), provincial project monitoring units (PPMU), and district project management and monitoring units (DPMMU) to ensure integration and equitable treatment of *madrakah* (Islamic schools) catering to poor children.

**Implementation
Arrangements**

The Implementing Agencies will be the district governments of the 21 districts covered by the Project. District project management and monitoring units (DPMMU) will be established in each district. The DPMMUs will be responsible for day-to-day planning, management, and implementation of Project activities.

Procurement

All ADB-financed procurement for the Project will follow ADB's *Guidelines for Procurement*. Each contract for the supply of goods, equipment, and furniture estimated to cost more than \$500,000 equivalent will be awarded on the basis of international competitive bidding (ICB) procedures, while contract packages of \$500,000 equivalent or less will follow international shopping, local competitive bidding (LCB), direct purchase (DP) procedures, or local procedures as applicable.

The Project will support the rehabilitation of school facilities that do not meet the minimum conditions for learning. It is estimated that the Project will support rehabilitation of approximately 1,400 primary and junior secondary schools. Considering the small unit costs of civil works (maximum of \$12,000 per school), mainly in remote and rural sites with associated difficulties in material delivery, rehabilitation works are unlikely to attract international or domestic contractors and suppliers at the national level. In addition, experience indicates that

community-managed rehabilitation ensures greater transparency and accountability, cost-effectiveness (36 percent less costly than contractor-managed or implemented rehabilitation), stronger sense of ownership and better facility maintenance by the communities. Therefore, beneficiary schools and communities will procure civil works for school rehabilitation and school furniture (both labor and materials) locally through procedures acceptable to ADB.

The Project will procure a small amount of office equipment such as computers for administration and data processing and management, and vehicles for the CFU, PPMUs, and DPMMU. Each package is estimated to cost less than \$50,000 and will be procured under DP procedures showing evidence of limited local tender to obtain the most competitive prices. As districts have slightly different requirements and begin project implementation in phases, equipment will be packaged and procured by district in accordance with ADB's *Guidelines for Procurement*.

The Project will finance the purchase of textbooks and other teaching/learning materials through the School Development Fund (SDF) school improvement category. Actual requirements will be determined by each school, but will not exceed \$6,000 per school. Schools will select and purchase textbooks and materials, using DP showing evidence of limited local tender to obtain the most competitive prices. The choice of DP was based on lessons from past or ongoing projects indicating that consolidated purchase through LCB does not result in economy of scale or timely provision of textbooks and teaching/learning aids. Delivery of centrally procured materials by contracted forwarders is not cost-effective or reliable for remote and rural schools, and school and community-managed purchase and delivery are more likely to ensure timely and complete delivery.

Consulting Services

Consultants will be required for: (i) district capacity building and implementation support (Package A), and (ii) independent monitoring and evaluation (Package B). Package A will comprise one international consultant (12 person-months) and 46 domestic consultants (1,656 person-months). Package B will comprise one international consultant (24 person-months), 26 domestic consultants (456 person-months), and about 300 test administrators. A large number of domestic consultants are required because of the Project's emphasis on capacity building, independent monitoring, and district and school-based project implementation. A separate package of mentoring services will be provided under the SDF component. The mentoring services will comprise one international consultant (24 person-months), 13 domestic consultants (684 person-months), and about 85 domestic community level mentors to work directly with the schools and the communities. The consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements acceptable to ADB for engaging domestic consultants. On 21 May 2001, ADB Management approved

retroactive financing and advance action for recruiting consultants to permit their timely fielding for effective project implementation. The Project also provides for retroactive financing of eligible expenditures incurred not earlier than 9 July 2001 (date of the first day of appraisal), for a maximum of \$2,000,000 equivalent. The Government has been advised that such advance action and the provision for retroactive financing do not commit ADB to finance any part of the Project.

**Estimated Project
Completion Date**

30 June 2008

**Project Benefits and
Beneficiaries**

The Project almost exclusively targets children from poor families. The Project is estimated to benefit a total of 1.26 million primary and secondary school children (ages 7-12 and 13-15 years, respectively) in the 21 Project districts. Of this number, 0.896 million children (71 percent of the total beneficiaries) are estimated to be from families living below the poverty line. The Project will benefit about 5 percent of all school-age children in Jakarta, 29 percent in Bali, and 64 percent in NTB. Beneficiary children in Jakarta will consist largely of those residing in slum areas. Beneficiary children in Bali are predominantly in the northern districts with a high concentration of poor tenant farming and fishing communities.

By targeting poor children and using poverty indicators in the selection criteria for beneficiary schools, the Project is expected to generate direct benefits for children from below the poverty line and low-income families in two ways: (i) the children will have opportunities to obtain and complete primary and junior secondary education by having access to scholarships, school fee waivers, tutorials, and other support; and (ii) their completion of junior secondary education will improve their marketability in the job market or give them opportunities to continue their formal education. At least 50 percent of the beneficiaries of the scholarship and other school aid programs will be children from families below the poverty line. Net enrollment and completion rates will increase among the children from families below the poverty line. Benefit evaluation studies during the fourth and seventh years of project implementation will allow monitoring of increased primary school completion, transition to junior secondary schools, junior secondary school completion, labor market absorption or entry into higher education.

The Project will improve the beneficiary schools' ability to deliver basic education, and meet the needs of low-income and poor families for quality education through better on-site targeting and direct parent-school communication. The indicators for such improvements include (i) attendance of communities in participatory processes to be supported in the school based management (SBM) subcomponent; (ii) budget allocations for scholarships and other school aid from the SDF subcomponent to beneficiary schools; (iii) scores reflecting

school efficiency and quality of education services; and (iv) reduced repetition and dropout rates among students.

Preliminary estimates during Project preparation indicate that about 3,000 schools clustered in poor communities in 17 districts will qualify for assistance through the SDF subcomponent, and an additional 115,000 children from poor households in all 21 districts will receive support through the social equity program under the district education development fund (DEDF) subcomponent. Target schools serve about 56-78 percent of students from poor families. Methodologically, more accurate projections are not possible as the as specific project sites and beneficiary schools can only be determined during Project implementation, on the basis of thorough socioeconomic surveys to accurately capture the geographic distribution and concentration of poverty. Nevertheless, the special support for poor children and the targeting criteria for beneficiary school selection will ensure that the Project covers children from households below the poverty line and that at least 50 percent of the total beneficiaries of scholarships and other support will come from poor families. Children from low-income but non-poor families will also be eligible to receive special assistance if they are otherwise unable to attend school. In this manner, the Project is designed to address poverty using income as well as non income aspects of social deprivation among families with school-age children. Through this broader interpretation of social deprivation, the Project will also contribute to the national objective of providing universal access to basic education.

Project Risks

The Project risks are largely attributable to the combination of the decentralized implementation arrangements and intended targeting of poverty-affected areas. The key risks are (i) decentralized Project implementation context; (ii) challenges exacerbated by the Project's attempts to reach the poorest communities and schools, which are often remote and hard to reach; and (iii) heavy involvement of consultants.

In the context of the decentralization laws, the Project will be implemented by local (district) governments. Most of the districts have some degree of experience in implementing investment projects in the social sectors financed by either ADB or the World Bank. Nevertheless, each district government is at the developmental stage, and a series of system, organizational, and staff changes are anticipated during the course of Project implementation. In addition, variations are expected in the organizational structure and systems in each district, including their relationships with the provincial and national governments. To safeguard against risks associated with the newly decentralized administrative context, the Project (i) integrates a major capacity-building component; (ii) emphasizes direct resource transfer to, and involvement of, schools and communities, the stable delivery point of basic education services; and (iii) employs a process

oriented design to maintain maximum flexibility and adaptability to evolving circumstances. Implementation will take longer than usual, anticipating slow start-up and low disbursement during the first few years. Districts will begin implementation in phases. Undue pressure on fast disbursement during the first years would undermine the need to build sufficient and accountable project implementation capacity.

The Project targets poor areas that are often remote, difficult to reach, and where the capacity of the schools and communities is limited. The building capacity of schools and communities is a prerequisite before development activities and resource flows start. Such capacity building in difficult-to-reach areas will require on-site and ongoing technical support that is not threatening to local communities. The Project plans to engage a large number of community-worker type consultants that can be best provided through nongovernment organizations (NGOs) and community-based organizations (CBOs). While on-going projects have had positive results, use of NGOs and CBOs is not yet a common practice in Indonesia. Similarly, capacity-building support that must take place at the district level and requirements for independent monitors and auditors will involve a large number of consultants. General experience to date in Indonesia indicates that the Government needs considerable lead time to engage loan-financed consultants; this may take even longer if the Project requires new types of service providers. To minimize the risk of implementation becoming consultant-led and to ensure localization of Project experience, (i) the Project will primarily use domestic consultants associated with a minimum number of international consultants, and (ii) mentors for SBM and decentralization/implementation support consultants will pair off with government counterpart teams. To ensure timely engagement, ADB management has endorsed advance action and retroactive financing for consulting services.



I. THE PROPOSAL

1. I submit for your approval the following Report and Recommendation on a proposed loan to the Republic of Indonesia for the Decentralized Basic Education Project.

II. INTRODUCTION

2. In 1997, the Government of Indonesia requested the Asian Development Bank (ADB) to support the improvement of basic education in the provinces of Bali and Nusa Tenggara Barat (NTB) and the Special Capital Region (DKI) Jakarta. The Government selected these places considering gaps in basic education provision in those areas as well as the regional demarcation between ADB and the World Bank.¹ ADB approved (1998) a small-scale project preparatory technical assistance (TA),² but project preparation was suspended to prioritize timely responses to the economic crisis and to observe political and administrative changes that followed the crisis. In 2000, the Government and ADB agreed to resume project preparation. The Government requested that the Decentralized Basic Education Project (DBEP) support the process of decentralizing basic education management, in the context of Law 22/1999 on Regional Governance and Law 25/1999 on Fiscal Decentralization. The Government further requested that the DBEP build on accomplishments of the ADB-funded crisis response program, the Social Protection Sector Development Program (SPSDP).³ Subsequently, ADB approved a small-scale TA⁴ to redesign the DBEP to suit the new context. This report is based on the findings of the Loan Appraisal Mission⁵ conducted during 6-26 July 2001 and earlier ADB missions, consultation with project beneficiaries, reports prepared by the TA consultants, discussions with the central and local governments, and discussions with international assistance agencies. The project framework is given in Appendix 1.

III. BACKGROUND

A. Sector Description

1. Socioeconomic Context

3. Indonesia has experienced considerable upheaval in recent years, and the processes of political and economic transformation are still ongoing. The country is ethnically diverse, and the distribution of poverty is uneven. Natural resources, climate, and local cultures vary widely among the regions, as does the potential for economic growth and poverty reduction.

4. Prior to the economic crisis, the annual growth of the gross domestic product (GDP) exceeded 7 percent for over two decades.⁶ Indonesia made substantial progress in human development as the Government expanded and improved basic social services and

¹ The World Bank is supporting basic education projects in the provinces of Sumatra, West Java, East Java, Central Java, Nusa Tenggara Timur, Kalimantan, and Sulawesi, and is also preparing a new basic education project covering South and West Sumatra and East Java.

² TA 3007-INO: *Basic Education in Bali and Nusa Tenggara Barat Project*, for \$150,000, approved on 16 April 1998.

³ Loan 1622-INO: *Social Protection Sector Development Program*, for \$100 million; and Loan 1623-INO: *Social Protection Sector Development Project*, for \$200 million, approved on 9 July 1998.

⁴ TA 3456-INO: *Preparation of Decentralized Basic Education Project*, for \$150,000, approved on 14 June 2000.

⁵ The Mission comprised I. Matsumoto, Senior Education Specialist/Mission Leader; C. Gregory, Senior Project Specialist; S. Chowdhury, Senior Programs Officer; K. Emzita, Counsel; S. Handayani, Social Development Specialist, and A. Inagaki, Education Specialist. Fiscal decentralization and implications on the local budget were examined during loan fact-finding by N. Usui, Economist. The Appraisal mission was assisted by F. Munger, Capacity Building Specialist/Staff Consultant; J. Wood, Teacher Development Specialist/Staff Consultant; and S. Kataoka, Financial Analyst/Staff Consultant.

⁶ ADB 2001, *Indonesia: Country Assistance Strategy*, March.

infrastructure. Education, health, family planning, and nutrition indicators improved, as did access to water and sanitation services. However, notable regional variations remain in the proportion and absolute number of the poor. The economic crisis severely affected Indonesia, and eroded the social and economic development gains achieved since the mid-1970s. Poverty incidence rose to 24.2 percent, a nearly 50 percent increase from 1996 to 1998. While the crisis hit urban areas the hardest (the urban poverty rate increased by 60 percent), the interdependence of urban and rural economies also brought a rise in poverty in the rural areas (where the poverty rate increased by 30 percent).⁷ The crisis hit the delivery of social services, including basic education. Government expenditure on education declined in real terms. School incomes fell considerably, as many parents had to delay or stop paying fees.

5. The national output data at the end of 1999 confirmed the recovery of the Indonesian economy from the crisis, and this trend continued through 2001. The recent official measurement of poverty indicated that transient poverty triggered by the crisis began to reverse by mid-1999, along with a slow rise in nominal wages and price deflation, particularly of rice. The poverty rate has returned to near pre-crisis levels of 18.2 percent (15.1 percent urban and 20.2 percent rural). Nevertheless, following the crisis, the depth of poverty, i.e., the average amount of income required to raise the poor above the poverty line, increased in all provinces. The intensity or severity of poverty also increased. This meant an increase in the proportion of the ultra poor. At the broadest level, the pattern of the geographic distribution of poverty in Indonesia has been one of steady improvement across most of the country, with the exception of the eastern part, including NTB.

2. Basic Education

6. The education system in Indonesia consists of preschool, primary education (grades 1 to 6), junior secondary education (grades 7-9), senior secondary education (grades 10-12), and tertiary education (Appendix 2). Basic education covers nine years of compulsory primary and junior secondary education. The success of the Government's supply-side approach to the education sector's development resulted in rapid growth in the number of primary schools since the 1970s. This success brought about a fast rise in primary net enrollment rate (NER)⁸ from 60 percent in 1971 to 92.6 percent in 1999,⁹ although NER rates vary depending on the data source. In 1994, Indonesia established a goal to achieve universal nine-year basic education by 2003.¹⁰ The junior secondary NER improved considerably between 1993 and 1999, from 46.7 percent to 54.8 percent,¹¹ and did not decline during the crisis, indicating the positive contribution of the scholarship and block grants programs accompanied by extensive social marketing to prevent dropouts that ADB initiated during the crisis (SPSDP).

7. Private schools enroll 41 percent of students at the junior secondary level. All public and private primary and junior secondary schools share a common core curriculum known as Curriculum 1994.¹² The size and diversity of the clientele strains the basic education system,

⁷ ADB 2000, *Poverty Assessment in Indonesia*, October.

⁸ The primary net enrollment rate (NER) refers to the percentage of students 7-12 years old enrolled in primary schools against the total school-age population (7-12 years); junior secondary NER concerns children 13-15 years old. The data was drawn from the National Socioeconomic Survey (SUSENAS).

⁹ SUSENAS, 1999.

¹⁰ The Government has deferred the target year to 2010, considering the effects of the crisis on the government budget.

¹¹ Ministry of National Education, Jakarta 2000. *Primary and Secondary Education in Brief*.

¹² Curriculum 1994 emphasizes student participation in learning and developing problem-solving and decision-making skills relevant to work. Curriculum 1994 aims to prepare the students for further education, and also to develop in the individual the basic knowledge, skills, and attitude to become a productive member of society. Curriculum 1994 reserves 20 percent of class time for local content such as the local dialect, arts and crafts, and local environmental concerns.

which caters to more than 38 million children in the world's fourth largest multiethnic and multi-language country, across 14,000 islands spread across 4,000 kilometers.

8. Prior to the economic crisis, education expenditures in Indonesia rose steadily but remained relatively low compared with those of neighboring countries. Education expenditures (1995-1997) averaged 2.3 percent of GDP and 12.3 percent of the total Government expenditures (Appendix 3). During the same period, the Government expenditures on primary and junior secondary education rose by 33 and 44 percent, respectively. The expenditures included subsidies to private primary and junior secondary schools (e.g., provision of teachers and administrators). During the crisis, education expenditures declined to 8.5 percent of total Government expenditures (1998), recovering slightly to 9.6 percent of Government expenditure in 1999. Education expenditures as a percentage of GDP dropped from 2.1 percent (1997) to 1.7 percent (1998), then rose slightly to 1.9 percent (1999). The share of basic education expenditures in the total Government expenditures decreased during the crisis from 8.4 percent (1995) to 5.9 percent (1998). Yet, intrasectoral allocation to basic education within education expenditures was well protected, and the share of basic education in total education expenditure increased from 67.6 percent (1995) to 71.5 percent (1999).¹³ This attests to a positive effect of the financial support and the policy framework agreed upon through the SPSPD.

9. Effective January 2001, management and financing of basic education¹⁴ were devolved to district governments. Prior to decentralization, basic education was managed centrally through complex and compartmentalized structures in three ministries: Ministry of National Education (MONE), Ministry of Religious Affairs, (MORA), and Ministry of Home Affairs (MOHA). MONE was responsible for overall planning, coordination, and regulation for education at all levels, and directly administered and financed public junior secondary education. MOHA administered and delivered public primary education (teacher management, establishment and maintenance of primary schools, and provision of subsidies to private primary schools). MORA administered and financed public primary and junior secondary *madrasah* (Islamic school), and supervised and provided financial assistance to private madrasah. This three-ministry system was replicated at provincial and district levels where each ministry was represented in parallel by local offices. Paralleling this complex management structure, basic education budgeting and financing involved five ministries: MONE, MORA, MOHA, Ministry of Finance (MOF), and the National Development Planning Agency (BAPPENAS), with a mix of financing arrangements and funds sources for each type and level of school.

10. With decentralization, district governments became responsible for planning, financing, managing, and delivering basic education. Their responsibilities also cover school staff appointment, transfer, and school location planning. The central Government establishes policies, the national curriculum, a national examination/assessment system; and sets standards for (i) achievement at each age; (ii) learning materials; (iii) acceptance, transfer, and certification of students; and (iv) learning time for basic education and fixing the educational calendar. The central Government sets standards and procedures for staff appointment, removal, dismissal; determines pension, salary and benefits, rights and obligations; and the legal status of civil servants and regional civil servants including teachers and principals. Provincial governments (i) define policy on student selection and acceptance including equity for minority students, students from poor families and remote areas; (ii) provide instructional materials for basic education; (iii) assist in higher education management, curriculum production, accreditation, staff appointment, opening and closing of colleges; and (iv) manage special institutions, including training centers, teacher training institutions, and special

¹³ Source: Statistical Office of the Ministry of Finance.

¹⁴ Preschools and senior secondary education (including vocational/technical) were also devolved.

education. In addition, provincial governments may effect interdistrict transfer of civil servants including school principals and teachers, and their transfer between districts or cities and provinces and vice versa.

11. To absorb the devolved responsibilities, district governments are undergoing major reorganization. District government structures vary but all include an executive body with an elected head and a legislative body or local parliament (DPRD). The local development planning agency (BAPPEDA) is responsible for overall development planning, including development strategies and budget planning for the devolved sectors. BAPPEDA's Office for Social and Cultural Affairs is responsible for planning for development and monitoring performance of the basic education sector. Sector offices within the district government are responsible for daily management and administration of the devolved sectors, including education. These sector offices replace the former district offices of the line ministries.

12. Fiscal decentralization changed the financing arrangements for education, and replaced the past system that earmarked central Government grants for sector-specific routine and development budgets (Appendix 4). Under the new system, the central Government transfers to provinces and districts (i) a portion of shared revenues (including land and property taxes, duties on land and property transfer, personal income tax, and nontax revenues from forestry, mining, oil, gas, and fishery); and (ii) block grants from a General Allocation Fund¹⁵ set at a minimum of 25 percent of the total domestic revenue of the central Government; and (iii) grants from a Special Allocation Fund earmarked for specific purposes. District governments determine the allocation of both shared revenues and block grants from the General Allocation Fund to recurrent and development expenditures across the 11 devolved public service sectors, in principle, in accordance with their development priorities. However, for the foreseeable future, recurrent expenditure patterns (particularly personnel) will reflect the patterns inherited from the centralized system. This applies especially to the education sector, as it employs a large number of civil servants, particularly teachers. The level of basic education financing, particularly the development budget, will be determined by both the financial capacity of each district government and by the relative priority assigned to basic education.

3. Key Subsector Issues

13. Post decentralization Indonesia presents an opportunity to refocus on long-standing education sector issues: (i) equity and quality of service provision, and (ii) efficiency and effectiveness of management and financing.

a. Equity

14. The impressive rise in access to basic education masks the considerable disparity between regions and income groups in access to quality primary education and to any form of junior secondary education. To reduce inequity, attention and resource allocation must focus on (i) provinces and districts with higher incidence of poverty; (ii) pockets of economically, socially, and culturally disadvantaged communities within better developed provinces and districts; and (iii) private primary and junior secondary schools that cater to poor communities and children.

15. **Poor Children's Access to Quality Basic Education.** Achievement of universal basic education in Indonesia requires concerted efforts to boost enrollment and completion of basic education for low-income children by addressing not only poorer provinces and districts, but also poverty pockets within relatively better-off areas. The national aggregate primary NER was

¹⁵ The General Allocation Fund is allocated through a formula based on (i) population, land area, and poverty index; and (ii) economic potential, including revenue-raising capacity.

92.6 percent in 1999, yet the NER differed by more than 13 percent between the highest and lowest provinces (94.6 percent in North Sumatra and 80.9 percent in Irian Jaya).¹⁶ The variation in junior secondary NER is even wider, with a gap of 42.7 percent between the highest and lowest (77.6 percent in DKI Jakarta and 34.9 percent in NTB). Six provinces fell below the national average primary NER and 13 provinces fell below the national average junior secondary NER. Provincial NER ranking generally correlates with provincial poverty ranking.

16. The NER within a province is not homogeneous. The intraprovince NER variation between income groups attests to the strong correlation between poverty and school enrollment. The NER among children from poorer households remains low, even within better-off provinces that exhibit high aggregate NER. While public basic education is tuition free in theory, families still bear direct costs for schooling (e.g. contribution to parent-teacher associations, school uniforms, and supplies), indirect costs (lost children's household labor), and opportunity costs (lost income from children's earnings). These are significant burdens to poor households.

17. Among the poorest provinces, NTB has one of the lowest provincial primary and junior secondary NER. Yet, the NER among higher income children is at par with the national average. On the other hand, while the aggregate primary NER in DKI Jakarta (93.1 percent) was above the national average (92.6 percent), there was an 8 percent difference in the primary NER between the highest income group (94 percent) and the lowest income group (86 percent). The primary NER for children in the lowest income group in DKI Jakarta is one of the lowest in the country, and well below the national average for the lowest income group (90 percent). Primary school children from poor households in Jakarta are more likely not to be in school than those in other parts of the country. The difference at the junior secondary level NER in DKI Jakarta is even more significant. While the provincial NER is the highest in the country, there is a 35 percent difference in NER between the highest (80.1 percent) and lowest (44.9 percent) income groups. More than half of children aged 13-15 years old in poor households in DKI Jakarta are not enrolled in junior secondary schools.

18. **Disparity in Public Resource Allocation.** The mechanisms used for transfer of the basic education budget from the central Government to districts brought varied allocations to the regions. Data limitations (the likely result of the fragmented multiministry education financing system) constrain full analysis but the per-student operational budget¹⁷ in 2000 for public primary schools averaged \$0.89 nationally and was \$1.04 in Bali, \$0.72 in DKI Jakarta, and \$0.76 in NTB.¹⁸ Another indicator of disparity is the teacher student ratio. The national average (2000) is 27 students per teacher. Bali enjoys a high teacher student ratio (1:15), while DKI Jakarta averages 27 students per teacher, and NTB has poor teacher student ratio (1:30).

19. At the public junior secondary level, transfers of recurrent budget from the national Government¹⁹ to regions averaged \$39.70 per student (2000). Transfers per student to Bali were above average (\$55.30) while DKI Jakarta and NTB were below average (\$34.70 and \$35.50, respectively). Within those provinces, resource allocation across districts was uneven, generally disadvantaging poor districts. In the case of DKI Jakarta, the relatively low level of budget transfer was offset by supplements from the local government, parents, alumni/business

¹⁶ *Provincial Poverty and Social Indicators SUSENAS 1993-1999*, March 2000 appended to *Poverty Assessment in Indonesia*, ADB, October 2000. Data referred to in paragraphs 8 to 9 are for 1999.

¹⁷ This budget used to be transferred by the national Government to provincial governments to cover school administrative costs, excluding teacher salaries, which are transferred separately. Reliable financial data on primary schools is not available.

¹⁸ Mission estimates based on 2000 allocation data provided by Bali, Jakarta, and NTB.

¹⁹ Budget transfers covered teacher salaries, building maintenance, utilities, incentives/allowance for teachers, transfers, learning materials and learning process support.

communities, and others. In addition, the high population density and larger schools in urban Jakarta, probably permit greater economy of scale in resource use by schools. However, the low transfers to poor and sparsely populated rural provinces with smaller schools (e.g., NTB) could not easily be offset by contributions from local governments, communities, and parents. Resource constraints limit the delivery and quality of basic education.

20. The impact of fiscal decentralization on resource allocation for basic education is not yet known. In the absence of agreed subsidy mechanisms within the decentralized education finance system, there is no guarantee that fiscal decentralization will offset cross-regional disparities in public financing for basic education. Poor districts, where provision of basic education needs major improvements, require proportionately greater financing to achieve parity with better-off areas. Local governments with weak local revenue-generating capacity (districts in NTB and poorer districts in Bali) require continued and substantial transfers of resources from the national Government.

21. **Role of Private Schools in Poor Communities.** Inequity in basic education is also seen in the unique role of private schools in Indonesia. Private schools, particularly madrasah,²⁰ are prominent providers of basic education for poorer communities and children because: (i) poor rural areas are often under-served by the public system; (ii) parents may prefer madrasah, particularly for girls; and (iii) poor children with relatively weaker primary education may not be successful entering public junior secondary schools where admission is based on competitive examination results.

22. Nationwide, private madrasah enroll 2.6 million primary schoolchildren (9 percent of total primary enrollment) and 1.3 million junior secondary schoolchildren (14 percent of total junior secondary enrollment). In NTB, private madrasah account for 9 percent of total primary enrollment and 27 percent of total junior secondary enrollment.²¹ The quality of education in private madrasah is generally low due to inadequate resources per student. Their operations rely much on community contributions, tuition fees, and parental contributions. Although private madrasah receive some government support, including teachers seconded from public schools, overall resources are inadequate. Resources per student are much lower than in public schools. There also are considerable resource differences by region with lower resources per student in lower income areas.

23. Parents' economic capacity directly affects the resource capacity of private madrasah. While the average recurrent budget per student for public junior secondary school in DKI Jakarta is \$34.70 (2000), that for private madrasah in DKI Jakarta was \$23.40, 67 percent of the public schools. Per student resources are lower in poorer districts within DKI Jakarta. Private madrasah in Jakarta Barat operated on \$15.70 per student. The public-private gap widens even more in rural NTB, where the public junior secondary schools had an average budget per student of \$35.50 while private madrasah operated on \$7.40 per student, only 20 percent of public junior secondary school budget.²² Due to inadequate resources, madrasah catering to poor children offer poor quality education, are chronically short of teaching resources and teachers, and have limited capacity to implement the curriculum. Achieving greater equity in access to quality basic education requires integrated strategies (i) to foster poorer children's access to quality public education, (ii) to improve the quality of public schools serving poor areas and communities, and (iii) to support improvement of private madrasah.

²⁰ While there are public madrasah, a large proportion of madrasah are private schools normally financed by foundations and communities. Both public and private madrasah are supervised by MORA and implement Curriculum 1994 developed by MONE.

²¹ Source: Ministry of National Education, 2000.

²² Source: Ministry of Religious Affairs, 2000.

b. Quality

24. Studies on learning outcomes in Indonesia reveal that graduates of primary and junior secondary school are not sufficiently literate or numerate, and have not mastered communication and reasoning skills.²³ On subject mastery, some improvements have been reported from achievement test scores in Bahasa Indonesia and science, but not in mathematics. Less-than-desired student learning outcomes are associated with constraints on (i) school leadership/management; (ii) teacher effectiveness (mastery of subject and teaching methodologies); (iii) quality or availability of inputs (instructional materials, facilities and equipment); and (iv) policies, procedures and standards, including teacher assignment and management policies, budget and resource allocation, curriculum, and learning assessment tools.

25. The Government has made considerable investments in school inputs and teacher development: improving facilities, providing free textbooks to all primary and junior secondary schools, adopting various strategies and policies on pre-service and in-service teacher training. Yet, many schools, particularly in poorer and rural areas, still remain below minimum conditions, as inadequate resource flows do not permit regular maintenance and provision of education inputs.

26. School inputs alone do not automatically result in improved quality of education.²⁴ International and local experience shows that the quality of education improves when schools exercise greater decision-making power. More attention needs to be geared to the critical roles of schools and classrooms, and overall school performance. So far, schools in Indonesia have operated as an extension and the lowest point of the largest bureaucracy within the public service (i.e. the public education system). Schools do not have sufficient authority, effective leadership, staff, or resources to proactively improve the process of education and thus to address the learning needs of students. Public schools have been accountable solely to parent ministries; private schools have been primarily accountable to the foundations financing the schools. To increase school effectiveness to yield improved outcomes of student learning, greater participation of the beneficiaries and communities is required. By empowering school committees, the Government plans to encourage school principals and teachers to be responsible for the educational process, while the school committees become responsible for school management including planning, budgeting, resource mobilization, and monitoring of teacher effectiveness.

c. Effectiveness and Efficiency of Management and Financing

27. The effectiveness and efficiency of the basic education system in Indonesia were hampered by the rigidity of the centralized management and financing system. The complexity of the system and limited interministerial coordination for basic education management constrained the system's capacity to devise and implement flexible solutions enhancing equity and quality. The budgetary process for basic education was fragmented across five ministries, and preparation of the recurrent and development budgets lacked coordination. The budget allocation process was not data based, due to the absence of a systematic or consolidated information system to track the details of education expenditures. The system did not allow adjustments to respond to local or school requirements, because fixed line items in the budget limited the flexibility to transfer resources between line items during the year. Fund-flow mechanisms were cumbersome and resources for basic education diminished as they trickled

²³ World Bank, 2000. *Draft Project Concept Document - Strengthening Local Education Capacity Project*.

²⁴ Japan International Cooperation Agency, 1999. *Interim Report I, Regional Education Development and Improvement Project*.

down the system, pointing to the need for a better fund flow system with enhanced governance to permit more efficient and effective use of limited public resources.

28. Decentralization and the consequent consolidation of basic education finance and management responsibilities at the district government give an opportunity to streamline and rationalize education management and finance. If implemented successfully, decentralization offers the potential to enhance efficiency, transparency, and accountability, as well as to provide a closer match between community expectations and the results of schooling, and to increase community contributions to education. To achieve these benefits there must be: (i) sufficient institutional arrangements and capacity at all levels commensurate with the new functions and responsibilities; (ii) effective vertical and horizontal communication mechanisms; (iii) human resources strategies to ensure rational and balanced staffing and skills mix at each level of the decentralized education management system; (iv) resources for social services during the transition; (v) an education budget system that ensures adequate, equitable, and timely resource flows to local governments and schools—commensurate with the policy to institutionalize school-based management (SBM) and to achieve of minimum service standards; and (vi) effective mechanisms to provide education-specific subsidies to disadvantaged districts. Without these, there is a risk decentralization will contribute to further compartmentalization and deterioration of overall service delivery, potentially widening the gaps in equity and quality of service delivery.

29. A parallel plan to enhance SBM and transfer greater management responsibilities to schools and communities offers an added opportunity to enhance the quality, efficiency, and effectiveness of education management that depends primarily on the way schools are managed, rather than on the availability of resources.²⁵ To maximize this potential, the process of consolidating decentralized education management needs to integrate development of supportive administrative systems (e.g. direct resource flows to schools) for SBM as well as leadership training and professional development of school principals.

30. A smooth transition from centralized to decentralized management requires timely and adequate institutional arrangements by the district administrations, BAPPEDAs and DPRDAs to absorb the delegated responsibilities. Substantial capacity building needs to accompany this process to help the local institutions to effectively carry out the new responsibilities that range from personnel management, finance, procurement, to overall sector planning. Capacity building needs to encompass advocacy to gain district government support for basic education, including timely dissemination of key education sector issues as well as national goals and policy priorities (especially the concepts of SBM and minimum service standards). The establishment of effective mechanisms for objective and data-based planning becomes particularly critical to foster rational, transparent, and efficient sector planning and local resource allocation. The capacity and interest of the district governments in education vary. Stakeholders, including heads of local government, DPRDAs, civil society, and communities, are not necessarily familiar with education issues or effective sector strategies, as sector knowledge was formerly sequestered in the local MONE offices'. District governments are expected to absorb responsibilities over madrasah, and provision of adequate support to private madrasah needs to be integrated within the district government's basic education plans. Furthermore, within the broader national policy of institutionalizing school and community-based management, effective involvement of civil society and communities is important to create a demand for education services and for transparent planning and management of education services by the district government.

²⁵ United Nations Educational, Scientific and Cultural Organization (UNESCO), 2000. *School Based Management*.

B. Government Policies and Plans

31. Law 25/2000 or the National Development Plan (PROPENAS) defines medium-term (2001-2004) national development policies and priorities. It attaches high priority to education development, and commits the Government to (i) reduce inequity, (ii) improve quality and relevance, and (iii) enhance management efficiency. Within this framework, the Government plans to undertake a major development program for basic education, comprising three thematic pillars: (i) achieving universal nine-year basic education by 2010, particularly by addressing under-served areas and poor communities; (ii) enhancing transparency and accountability of the system by fostering SBM and community participation; and (iii) establishing school boards in each district, and school committees in each primary and junior secondary school.

32. The PROPENAS also underscores the Government's aim to maintain a synchronized and integrated national education system, as management and delivery are decentralized. National minimum service standards serve as one of the tools to ensure the integrity, equity and quality of post decentralization basic services.

33. The formation and piloting of school board and school committees is scheduled to be completed in 2001. The concept of the school board and school committee is intended to support a system for delivering education that is more democratic, transparent, effective, and efficient, and encourages community and parent participation in education management.

34. The Government defines decentralization of basic education as going beyond devolving responsibilities to the district level. The ultimate aim is to transfer considerable resources and management responsibilities to the school level. The Government has already piloted a national program on SBM during school year 1999/2000 in a selected number of public junior secondary schools in 27 provinces. The Government plans to expand this initiative over the next few years.

C. External Assistance to the Sector

35. Indonesia has vast experience in implementing education improvement programs and projects, with both national and international financing. The main funding agencies ADB, Australian Agency for International Development (AusAid), Canadian International Development Agency (CIDA), German Agency for Technical Cooperation (GTZ), Japan Bank for International Cooperation (JBIC) Japan International Cooperation Agency (JICA), United Nations Educational Scientific and Cultural Organization (UNESCO), United Nations Children's Fund (UNICEF), and the World Bank. These projects have supported teacher training, education management including preparing for decentralization and SBM. Investment projects (mainly through ADB, JBIC and World Bank) also provided textbooks, and rehabilitated and upgraded schools. Civil works increasingly involve community management. Given the size of Indonesia, external assistance generally covered a segment of the country, either by province or district, although it was managed centrally.

36. ADB's support to the education sector in Indonesia started in 1975. To date, ADB has supported 30 education and training projects totaling \$2,117 million, and provided about \$16 million for 36 TA grants in Indonesia (Appendix 5). Until 1990, ADB supported mainly the vocational, technical, and higher education subsectors. Since the early 1990s, ADB has progressively increased support to the basic education subsector that is now a dominant subsector the ongoing program. Reflecting ADB's support to the 1994 Government commitment to achieve universal basic education and extend compulsory education to nine years, ADB's assistance to basic education has covered both public and private schools (including

madrasah), and aimed at increasing poor children's (particularly girls) participation in, and completion of, basic education, as well as improving the quality of learning outcomes. Since the first Junior Secondary Education Project²⁶ in 1992, ADB has supported four investment projects and one crisis-response sector development program loan in basic education, with a total loan amount of \$414 million. Lessons learned from the past or on-going support to basic education are discussed below.

37. Recognizing the important role of school management in effective education, a number of projects supported training for school principals and introduced SBM. ADB and World Bank investment projects have supported fairly large-scale principal training programs on school management skills. More recently, the Government piloted a program on SBM in UNESCO/UNICEF and JICA supported projects that encouraged training in and implementing school or site based management. Those projects provide school block grants as a capacity-building tool, integrated with on-site training for communities and schools promoting community participation in school management and improvement programs.

38. In addition, the crisis response program initiated with the ADB-supported SPSDP, joined later by the World Bank, provided nationwide support to a scholarship and school block grant program. The SPSDP introduced and demonstrated the effectiveness of direct channeling of block grants to schools and independent monitoring. The outcomes have been positive: primary and junior secondary school enrollments remained stable during the crisis. The SPSDP also initiated substantial policy dialogue, laying the groundwork for post crisis Indonesia to further develop and refine social safety net mechanisms, through better targeting and improved access of the poor to basic social services including education. Attention during the crisis focused on both protecting the poor and putting in place a framework of reforms designed to strengthen decentralized delivery and management of education. The gains achieved in policy and procedural improvements need to be sustained along with tighter targeting to increase enrollment and completion rates at all levels and transition rates from primary to junior secondary school of children from poor families.

39. Preparing and processing DBEP involved extensive collaboration and coordination with other funding agencies. Several joint project preparation missions were conducted with the World Bank, which is currently preparing a basic education project covering three provinces (West and South Sumatra and East Java). The ADB and the World Bank projects share similar project approaches and strategies. Preparation also involved close consultations with JICA and UNESCO/UNICEF that are supporting pilot projects in SBM and community participation. Furthermore, there are ongoing or planned projects supporting education quality improvement and local government capacity building within the project provinces and districts. DBEP preparation and processing missions also consulted closely with those projects. DBEP's strong poverty focus and emphasis on equity complement other ongoing efforts, and envisage concrete coordination particularly with the GTZ-supported Science Education Quality Improvement Project in DKI Jakarta and NTB, UNESCO/UNICEF-supported Creating Learning Communities for Children Project in NTB, and district government institution-building projects supported by GTZ and district government projects in NTB supported by the United Nations Development Programme.

D. Lessons Learned

40. Past and ongoing projects, including those financed by ADB, have generated a number of pertinent lessons and recommendations. Experience with decentralization or decentralized

²⁶ Loan 1194-INO: *Junior Secondary Education Project*, for \$105 million, approved on 19 November 1992.

project implementation in other countries in the region (e.g., the Philippines) also provides some relevant lessons. These have been carefully examined and integrated into DBEP design.

41. **Block Grants to Schools.** The SPSDP pioneered and demonstrated the effectiveness of block grants. The scheme has also been implemented through the Government pilot program on SBM, the Creating Learning Communities for Children Project (UNESCO/UNICEF), and the Regional Education Development and Improvement Project financed by JICA. Positive outcomes include (i) quicker and more transparent flow of resources to schools and beneficiaries; (ii) effective use of resources to secure inputs and support relevant to requirements of students, classrooms, and schools; (iii) efficient use of funds²⁷ and minimizing administrative levies on or leakage of project funds as they trickle down the system; and (iv) greater sense of ownership and more proactive roles of schools.

42. **Sustainability of School Grants.** Measures to ensure integration of the block grant scheme in the government (national and local) education finance mechanisms have been built into the overall DBEP strategy. The Government pilot program on SBM has taken the step to integrate block grants into MONE's development budget at the junior secondary level. In light of decentralization, district governments need to be convinced to supplement block grant provisions with the local education financing mechanism. This will require both an effective policy framework at the national level and demand from schools and communities themselves. The latter is particularly important under decentralization.

43. **Community Involvement.** Sustaining the school block grant scheme in the local budget structure requires both effective operations and creation of community demand addressed to local governments for school block grants. This calls for active participation of communities and effective school-community partnership in both planning and monitoring the use of the block grants. Experience indicates that project activities involving community participation enhance a sense of ownership, sustainability of benefits, transparency, and accountability. Ongoing ADB and World Bank-financed projects demonstrate that community-managed school rehabilitation is more cost-effective than centrally procured and contractor-managed civil works, and allows regular maintenance by community members.

44. **Joint Training.** Effective community participation requires considerable social preparation and training. Experience from the UNESCO/UNICEF Creating Learning Communities for Children Project and JICA Regional Education Development and Improvement Project identified joint training among communities, school staff, and local administration staff as an essential step in fostering effective collaboration among all parties involved in school-or site-based management.

45. **Teacher Development.** With a quality improvement objective within the broader framework of the Government's teacher upgrading program, a number of externally supported projects have supported teacher development (mostly in-service training in both subject content and pedagogical methodologies). During the 1980s, teacher training was supply-driven, and trainees received one-time mass training at central and provincial centers. Evaluation of these projects noted limited effectiveness and sustainability of the mass training approach, and led to increased use in the 1990s, of cluster-based and ongoing training at school sites. Teachers give positive feedback on peer support integrated into teacher development strategies.

²⁷ The Project Management Unit of the World Bank- supported West Java Basic Education Project estimates that the cost of school and community-managed school rehabilitation was about 36 percent less than conventional contractor-managed civil works.

46. **Site-Based and Ongoing Training.** The effectiveness of training is enhanced if implemented on site (e.g., in the classroom in the case of teacher effectiveness, in the school in the case of school management). One-time mass training was found less effective than regular and ongoing on-site training tailored to the requirements of smaller groups of participants.

47. **Technical Support.** In addition to training, continuing demand-based technical support is desired to improve the effectiveness of community-based activities. For example, community-based school rehabilitation will still require regular engineering and construction supervision support to ensure the professional quality of work, unless community members have the technical requirements. A mentoring approach that provides onsite technical assistance, orientation, facilitation and coaching has found to be effective in assisting schools and communities to implement these activities.

48. **School and District Committees.** The SPSDP introduced the creation of school and district committees as the body to oversee allocation and use of school block grants. Local education administration, community, parents, and school staff were expected to be represented on the committees. The results of independent monitoring as well as discussions with recipients have pointed to the need to improve the balance in committee membership. The current committees tend to comprise largely public sector representatives including recently retired officials and teachers; this should be reversed to increase representatives from broader communities and civil society. Similarly, formalizing the school and district committees and ensuing greater commitment and involvement of the members will require regular allocation of operational budget for the committees' activities.

49. **Transparency and Accountability.** The critical importance of a public announcement of school fund allocation, amount, and use was confirmed through the SPSDP, UNESCO/UNICEF Creating Learning Communities for Children Project and JICA Regional Education Development and Improvement Project. Independent monitoring and effective mechanisms for resolving complaint are also essential for transparency and accountability of scholarships and school block grants. The absence of clear consequences and penalties for infractions has limited the effectiveness of the current complaint resolution mechanism.

50. **Block Fund Allocation and Targeting.** Contrary to original intentions, the fund allocation formula for the scholarships and school block grant program was applied rigidly and did not take full advantage of the intended flexibility at district level. The resulting area-based targeting excluded some poor schools and students in relatively better-off areas. The allocation of block grants in developmental projects must be proposal-based and targeted locally based on a thorough baseline assessment and profile of poor communities.

51. **Use of Educational Inputs.** Providing inputs alone does not improve the quality and effectiveness of the teaching-learning process. Inputs need to be accompanied by well-designed orientation and training programs on input use, monitoring of the effectiveness of use, and improved school management capacity to translate the inputs into effective teaching-learning process and outcomes.

52. **Flexibility and Simplicity.** Experience from locally implemented projects in Indonesia as well as in the Philippines underscores the need for a simple and flexible project design, and a focus on long-term institutional and capacity-building support. Compared with centrally implemented projects with a top-down decision-making process, decentralized projects require process-oriented, bottom-up planning and implementation. Decentralized projects involve considerably longer lead time before the implementation pace picks up, and hence require longer project implementation periods. Financing arrangements between the national and local

governments also need to be flexible and simple. Experience also shows the need for conservative expectations of local governments' contributions to project counterpart funding while the decentralized budget and finance systems are being tested. In addition, a safety net mechanism is required for local governments with a smaller revenue base.

53. **Capacity Building.** A study of capacity building for district governments supported by the United Nations Development Programme notes that strengthening institutions involves more than training the staff. It requires various interventions that go beyond expanding the individual's knowledge and skills and include developing appropriate organizational structures and creating supportive policies, systems, and management process.

E. ADB Sector Strategy

54. The draft updated ADB policy on education²⁸ sets six priorities in supporting ADB's strategic policies to reduce poverty, enhance the status of women, and facilitate economic growth. The priorities are (i) increasing equity, access, and retention especially for the poor, women, and other marginalized groups; (ii) improving the quality of education at all levels; (iii) strengthening management, governance, and efficiency, with emphasis on greater stakeholder participation; (iv) mobilizing resources for sustainable education delivery, while protecting the poor's access to affordable basic education; (v) strengthening collaboration with partners and beneficiaries; and (vi) emphasizing more experimentation with and dissemination of innovative strategies and technologies.

55. Within the education sector policy and the broader context of the poverty reduction and human development objectives of ADB's operational strategy for Indonesia (2001-2003), ADB will continue to prioritize support to education. Investment in basic education directly contributes to social and economic development, and yields a higher rate of return than investment in higher levels of education. ADB support will aim directly at achieving universal, quality basic education primarily by addressing regional inequities and improving basic education opportunities for poor children, the group requiring focused attention. The basic education sector strategy includes supporting the process of devolving basic education management to district governments as well as encouraging community participation in school planning and management.

F. Policy Dialogue

56. Over the past decade, the Government and ADB have conducted regular policy dialogue on the education sector. The policy dialogues centered around equity and quality issues, as well as greater integration and public support to private education within the broader sector development policies and strategies. The preparation and implementation of the crisis response program (SPSDP), the first policy-based lending to the education sector, consolidated policy dialogue on the basic education subsector. The SPSDP policy framework was not limited to crisis-specific issues, but encompassed fundamental policy issues related to long-standing concerns of quality, equity, and efficiency of basic education. The policy actions agreed upon under the SPSDP are even more relevant to post-crisis Indonesia that faces an added challenge to maintain and improve basic education services under decentralization. Policy dialogue through the DBEP preparation process built on the policy initiatives of the SPSDP, and further improvements and institutionalization of earlier policy initiatives. Discussions focused on equity and efficiency in decentralized management and delivery of basic education.

²⁸ Working paper discussed by the Board on 24 April 2001.

57. Achieving Equity in Basic Education Opportunities by Targeting Poor Children.

DBEP is aimed at directly reducing disparities between regions and between income groups. To this end, DBEP resources will be predominantly allocated to poorer districts, poverty pockets, and schools catering to students from low-income households. It is essential to ensure effective targeting based on an objective measure of poverty and deprivation of the opportunity for basic education. Targeting strategies and general criteria for DBEP were defined from an in-depth review of lessons from past and ongoing initiatives as well as workshops with representatives of communities, schools, nongovernment organizations (NGOs), and local governments in DBEP districts. In the absence of reliable subdistrict and village-level poverty and education data, DBEP, through pre-implementation baseline surveys (including school and teacher mapping), will undertake thorough socioeconomic surveys in the sub-districts to capture the distribution of socio-economically and educationally deprived communities. The information will be used in prioritizing and finalizing the selection of beneficiary schools, communities, and students. Each district government will refine the targeting strategies with community participation, recognizing the value of local community knowledge and the need to ensure DBEP's responsiveness to the local poverty context. To support poor students who will enroll and complete basic education, DBEP will employ various strategies such as improving the learning environment, scholarships, and other remedial support to reduce financial and other barriers to enrollment and completion.

58. Fiscal Decentralization and National Government Support to Address Inequity in Basic Education.

Post decentralization mechanisms for central Government education subsidies to financially less capable local governments and/or support to implement national priority programs are being developed. ADB has provided TA to assist the Government to develop mechanisms to support basic education services for financially less capable local governments²⁹ and plans assistance on mechanisms to transfer external loans to districts with varying financial capabilities and for revenue and nonrevenue-generating projects. During DBEP preparation local budgets for basic education were reviewed, before and after decentralization. Financing arrangements for DBEP, particularly for the poor districts that are the primary target beneficiaries, were discussed with both central and local governments. DBEP intends to remedy the existing gaps in basic education services in poor districts and poverty pockets. As such, the national Government will remain as the sole Borrower of the ADB loan for DBEP and will assume the repayment responsibilities although basic education is devolved to local governments. However, to promote local ownership and to enhance the sustainability, local governments will supply about 90 percent of DBEP counterpart funding.

59. The DBEP's primary focus is support to districts in NTB and poor districts in Bali with high poverty incidence, weak revenue-generating capacity, and consequent high dependence on transfers from the national Government. Before decentralization, these districts received relatively small transfers for education, and needed substantial additional resources to fill the gaps. DBEP includes a lower level of support to DKI Jakarta and the better-off districts in Bali, focusing on schools and children in poverty pockets. Local government revenue is fairly strong in DKI Jakarta and southern Bali. Schools in DKI Jakarta enroll a large number of students who reside outside the province but commute to DKI schools, attracted by the relatively high quality of education in the capital. As a result, the children of poor DKI Jakarta residents are displaced by the commuting children who are financially better-off. DBEP support to DKI Jakarta will target exclusively the displaced low-income students who reside in DKI Jakarta.

60. Since policies and strategies for fiscal decentralization are evolving, policy dialogue on the implications of fiscal decentralization for basic education services will continue during project implementation based on findings and recommendations of ADB TA and other studies. ADB and the Government will periodically review the effectiveness and relevance of the financing

²⁹ TA 3701-INO: *Support for Decentralized Education Management*, for of \$990,000, approved on 8 August 2001.

arrangements for DBEP and, if necessary, introduce mutually acceptable adjustments to best fit the emerging context and to maximize the project benefits and sustainability.

61. Enhancing School-Based Management. The DBEP will directly support the Government policy to implement SBM. Through the provision of school block grants accompanied by intensive on-site capacity building for SBM, DBEP encourages institutionalization of the financial autonomy of schools. Instead of a predetermined allocation formula, DBEP will introduce a system of proposal-based allocations to stimulate more proactive planning, management, and decision making on school improvement initiatives in the school and the community. To enhance transparency and accountability of schools to communities, direct and active participation of communities and parent-teacher associations will be an integral strategy to enhance school-and site based management.

62. Promoting Effective and Efficient Local Education Management. Attaining the benefits of decentralization depends largely on the capacity of local governments to prioritize basic education and ensure effective and efficient planning and management of the subsector. Financial support from DBEP will be based on the commitment of the local government to prioritize and allocate an adequate local development budget to basic education and to completed a thorough baselining, situation analysis, and medium-term (five year) planning process. To maximize rational and efficient use of resources for basic education, DBEP will promote objective data-based planning and resource allocation at the district level. Where appropriate, rationalization or consolidation of schools will be encouraged. DBEP inputs will be used to provide incentives for school consolidation.

63. Support to Private Schools Including Madrasah. The Government will continue to provide public support to private schools, particularly madrasah catering to students from low-income families. In this context, DBEP will encourage full integration of private schools and madrasah as eligible beneficiary schools as long as they serve poor children. Baseline surveys and school mapping will cover both public and private schools, and the targeting process will ensure full inclusion of madrasah serving poor communities. DBEP will also promote joint activities between private and public schools, such as site-and cluster-based training. It is probable that, in some areas, private schools will benefit more than their public counterparts.

IV. THE PROPOSED PROJECT

A. Rationale

64. The PROPENAS and the ADB country operational strategies in Indonesia prioritize poverty reduction and achievement of regional equity. Achieving and sustaining these goals require equitable provision of quality basic education to the poorer segments of the population to set a foundation (i) to reduce existing gaps in human development across the country, and (ii) to balance the availability of trainable human resources to support social and economic development. The Project will contribute to these strategic goals through (i) focused investment in basic education targeted to poverty-affected areas, schools, and children; and (ii) improving management and governance of basic education by supporting decentralization and measures for transparency and accountability of the basic education system to communities and civil society.

65. The PROPENAS commits the Government to achieve universal access to quality basic education by 2010 and to address the needs and constraints of poor children as the foremost sector priority. Despite potential long-term benefits, decentralization is not risk free; any adverse effects are likely to impact more on the poor segments of society, whose access to quality basic

education is already limited. At the outset of decentralization, therefore, timely support should be given to poverty-affected communities and children. The Government, through the crisis response program, laid the foundations for mechanisms and policies (particularly school block grants) to achieve equity, quality, and governance/management reforms the basic education system. The Project directly builds on the earlier achievements of the Government, to provide consistent long-term support to ensure consolidation and institutionalization of the block grant scheme and policy initiatives.

B. Objectives and Scope

66. The broad goals of the Project are to contribute to (i) poverty reduction by addressing inequity in human development through improved access to and completion of the nine-year basic education for poverty-affected children, and (ii) implementation of regional autonomy by supporting decentralized management of basic education. The immediate objectives are to (i) improve poor children's participation in and completion of quality nine-year basic education; (ii) develop the capacity of districts to plan, manage, finance and deliver basic education services, improve community participation in developing basic education; and (iii) demonstrate the effectiveness of the proposal-and demand-based block grant mechanisms to support initiatives of the school, community, and district for basic education improvement.

67. The Project covers primary and junior secondary education programs offered by public and private schools and madrasah in 21 districts in Bali, DKI Jakarta, and NTB. The Project allocates financing and support to each district in proportion to the incidence and depth of poverty. Poor districts will receive higher allocation of resources; hence most resources are allocated to districts in NTB and in northern Bali where poverty incidence is high. The Project comprises three parts: (i) part A: school development; (ii) part B: district basic education development; and (iii) part C: monitoring, evaluation, and reporting.

1. School Development (Part A)

68. This component, with two sub-components, aims to develop the capacity of schools catering to poor communities and children to become self-managed schools accountable to the communities. Activities primarily take place at the school and community level. School development will be implemented in 17 of 21 target districts where poverty incidence is above 5 percent.

a. Capacity Building for School Based Management (A-1)

69. This subcomponent supports the target schools catering to poor communities and children to become self-managed and accountable to communities. Beneficiary schools will be prioritized through poverty screening, using data and information from the socioeconomic surveys, family planning and welfare offices, and local or community knowledge. Key activities will include (i) community preparation and socialization for SBM; (ii) establishment and operation of school/education committees; (iii) orientation and training workshops on SBM for principals, teachers, school committees, and other stakeholders; (iv) facilitated participatory baseline study and self-assessment of target schools; (v) participatory preparation of school improvement plans; (vi) orientation, training, and implementation of community monitoring of school improvement; and (vii) ongoing mentoring for beneficiary schools to implement SBM.

b. School Improvement through School Development Fund (A-2)

70. The School Development Fund (SDF) is a flexible funding mechanism to support implementation of school improvement plans (para. 69[v]). The primary targets are schools predominantly catering to poor children, selected through poverty screening. The SDF will support the beneficiary schools to meet the minimum learning conditions, to improve poor children's enrollment (this includes re-entry of out-of-school children), completion, and learning outcomes. Communities, district project management and monitoring units, and independent monitors will ensure transparency and accountability of SDF use in each school. External auditors will annually audit SDF accounts. Appendix 6 gives details of eligible items for SDF, criteria and process for selecting beneficiary schools and mechanisms.

2. District Basic Education Development (Part B)

71. This component covers all 21 districts and aims to develop district capacity to effectively and efficiently plan, manage, finance, and govern the basic education system, as well as to implement and monitor district programs to improve basic education services.

a. District Capacity Building to Plan and Manage Decentralized Basic Education (B-1)

72. This subcomponent supports (i) school-teacher-pupil mapping to capture the status of basic education in each district; (ii) socioeconomic surveys at district and subdistrict levels to capture the distribution and concentration of poverty; (iii) data-based self-assessment of equity and quality of basic education in each target district; (iv) facilitated assessment of the district's capacity-building requirements to strengthen planning and management of basic education; (v) development of a medium-term (five years) plan to improve the basic education system in each district; and (vi) socialization, orientation, establishment, and operationalization of the education or school board in each district.

b. Improving District Education through District Education Development Fund (B-2)

73. This subcomponent introduces a District Education Development Fund (DEDf)—a flexible funding mechanism that supports implementation of the priority district education development programs and identified capacity-building activities. While the scope of DEDf-supported activities may vary across districts, DEDf will support activities aimed at (i) improving equity of basic education services, including support to poor children in districts or schools in better-off areas who not benefit from SDF support; (ii) improving the quality of basic education, including teacher development; and (iii) building district capacity to effectively and efficiently plan, manage, and govern basic education services. The school board and the Central Facilitation Unit (CFU) will monitor implementation progress, and transparency and accountability of DEDf use.

3. Monitoring, Evaluation and Reporting (Part C)

74. This component supports the systematic monitoring of the school development and district basic education development components, as well as transition monitoring of the process and impacts of decentralization on basic education service delivery in DBEP districts.

a. Program and financial compliance monitoring (C-1)

75. This subcomponent aims to ensure that (i) SDF and DEDF are awarded, distributed and used in accordance with the agreed upon criteria and guidelines established by DBEP; and (ii) public accountability and transparency of the SDF and DEDF award and use are maintained. For SDF, (i) the community will monitor the implementation of SDF-supported activities and use of the SDF resources; (ii) the district project management and monitoring unit (DPMMU) will visit the beneficiary schools regularly for routine compliance checks and random compliance audit; and (iii) independent monitors will make unannounced visits to randomly selected sample schools to audit school eligibility, selection process, and SDF activities against the school improvement plan. For DEDF, (i) the CFU and provincial project monitoring unit (PPMU) will conduct internal monitoring through regular visits to monitor a match between the DEDF-supported activities against the district education development plan, and (ii) independent monitors will conduct in-depth compliance audits in each district twice during project implementation. Financial auditors will audit SDF and DEDF accounts annually.

b. Progress and Performance Monitoring (C-2)

76. Progress and performance will be monitored to assure that project implementation activities are meeting targeted outputs and indicators of success. At the school and community levels, the school committee will monitor progress against the school improvement plan, and report on progress and outcome of the SDF-financed activities to parents, teachers, community, and DPMMU every quarter. In the districts, the DPMMU will monitor SBM capacity building, district capacity building, and progress and achievement of the DEDF-supported activities against the district education development plan on a quarterly basis, and report the progress and issues to the district school boards, district heads, and the CFU. The CFU will review and consolidate the overall project progress against the project implementation plan and logical framework, and report the progress and issues to the project steering committee and ADB.

c. Benefit Evaluation (C-3)

77. Benefit evaluation will measure the project results against stated goals, (i) to improve poor children's participation in and completion of nine years of basic education; (ii) to develop school capacity to become self-managed, accountable, transparent, and effective; and (iii) to develop district capacity to effectively plan, manage, and govern a basic education system and services. Indicators to measure achievement of these goals are presented in the project logical framework (Appendix 1). The actual performance targets for each indicator will be set by each district through the district education planning process (para. 72). Project benefits and impacts will be evaluated by independent evaluators at baseline, year four, and year seven.

d. Transition Monitoring (C-4)

78. The transition management and monitoring unit (TMMU) at MONE will monitor the process and impacts of decentralization on education management and service delivery. ADB-financed TA²⁹ will support TMMU activities at the national level and baseline situation analysis, capacity assessment and initial capacity building of first phase districts covered by DBEP. Technical support for capacity assessment, and capacity building in the first phase districts is expected to provide recommendations on systems, regulations, and guidelines to make them conducive to and supportive of decentralized education management, SBM, and delivery of overall education services.

²⁹ TA 3701-INO: *Support for Decentralized Education Management*, for \$990,000, approved on 8 August 2001.

C. Cost Estimates

79. The estimated total project cost is \$125.0 million equivalent, comprising \$21.1 million in foreign exchange cost and \$103.9 million equivalent in local currency cost (Table 1). It is proposed that ADB finance the entire foreign exchange cost and \$78.9 million equivalent in local currency (76 percent of the total local currency cost). The Government will finance \$25.0 million equivalent in local currency. Detailed cost estimates are in Appendix 7.

Table 1: Cost Estimates
(\$ million)

Component	ADB		Government	Total Cost
	Foreign Exchange	Local Currency	Local Currency	
A. Base Cost				
1. School Development	10.9	42.7	7.7	61.3
2. District Basic Education Development	4.2	19.7	6.1	30.0
3. Monitoring, Evaluation and Reporting	0.5	3.6	0.5	4.6
4. Project Management	0.2	5.5	3.0	8.7
Subtotal (A)	15.8	71.5	17.3	104.6
B. Contingencies				
1. Physical Contingencies	0.7	2.4	0.9	4.0
2. Price Contingencies	1.0	5.0	1.7	7.7
Subtotal (B)	1.7	7.4	2.6	11.7
C. Taxes and Duties	-	-	5.1	5.1
D. Interest During Implementation	3.6	-	-	3.6
Total	21.1	78.9	25.0	125.0

Note: Figures may not tally because of rounding.

D. Financing Plan

80. It is proposed that ADB provide a loan of \$100.0 million equivalent from its Special Funds resources (ADF). The loan will have a term of 32 years, including a grace period of 8 years, with an interest charge of 1 percent per year during the grace period and 1.5 percent per year during the remaining term. ADB will finance 80 percent of the total project cost. ADB financing will cover 100 percent of the foreign exchange cost and 76 percent of the local cost (Table 2). The Government will finance about \$25.0 million equivalent in local cost. The national Government will provide the loan proceeds through annual national budgetary allocation to (i) districts and (ii) beneficiary schools during project implementation.

Table 2: Financing Plan
(\$ million)

Source	Foreign Exchange	Local Currency	Total Cost	Percentage
Asian Development Bank	21.1	78.9	100.0	80.0
Government	0.0	25.0	25.0	20.0
Total	21.1	103.9	125.0	100.0

81. In line with the decentralization policy and to encourage local government ownership, Government financing will be shared by the central and local governments. The central

Government financing is estimated at about \$2.8 million equivalent (11 percent of the Government financing) and the local governments will finance about \$22.2 million equivalent (89 percent of the Government financing). The central Government will finance (i) salaries, offices, and operational costs of the central steering and technical committees, as well as the CFU; (ii) orientation, socialization, and training on DBEP concepts and key national policies on basic education; (iii) school mapping and other baseline surveys; and (iv) progress and compliance monitoring. The district governments will finance (i) salaries, offices, and operational costs of the district project implementation staff, (ii) salaries and incentives for school staff at the project beneficiary schools, and (iii) incremental recurrent cost of project schools.

82. It is proposed that ADB provide Special Funds resources and finance 80 percent of the project cost. The reasons include (i) the persistence of severe economic and fiscal constraints resulting in large budget deficits in post-crisis Indonesia; other multilateral and bilateral banks such as the World Bank and the JBIC are now financing 80 percent or more of project costs; (ii) DBEP is nonrevenue-generating, primarily intended to support the achievement of universal basic education for poor children and capacity building for local governments, schools, and communities; (iii) local governments finance a majority of the counterpart requirement, while the national Government provides some counterpart and absorbs the repayment responsibilities for the loan. The Project is classified as core poverty intervention, targets poor districts and poverty pockets, and expects considerable positive impacts in reducing inequity in basic education opportunities for poor children. Loan allocation across districts is based on the estimated number of children below the poverty line. Poorer districts receive greater loan allocations. NTB, where all seven districts have 33-55 percent of school-age children below the poverty line, receives 65 percent of the loan allocation. Bali, where four districts have 15 percent or more of children below the poverty line, receives 20 percent of the loan allocation. DKI Jakarta, where the proportion of children below the poverty line is generally below 10 percent (but absolute numbers are large) receives 15 percent of the loan allocation. Correspondingly, poor districts will provide greater counterpart financing responsibilities. The economy of the poor target districts is based on agriculture and fishery, and has low revenue-generating capacity. The central Government itself has a limited budget as fiscal decentralization transfers a larger budget to local governments, and the overall Government budget itself is severely constrained.

E. The Executing Agency

83. The Executing Agency of the Project will be MONE. MORA will co-execute the Project and second staff to the CFU, PPMUs, and DPMMUs to ensure balanced attention to the requirements of madrasah that cater to poor children. Implementing Agencies will be the local governments of DKI Jakarta,³⁰ nine districts in Bali, and seven districts in NTB. In line with the delineation roles of decentralization between national, provincial, and district governments, with the functions of executing and implementing agencies are defined differently from those in past projects in Indonesia. MONE and MORA will provide overall national policy and technical coordination and guidance, mainly on the SBM and minimum service standards. They will ensure that project implementation adheres to Government and ADB procedures and guidelines, as well as be responsible for overall transparency and accountability in loan use. Provincial governments, through their education offices, will cover the devolved functions of the national ministries, coordinate cross district activities, and monitor project activities at the district level. District governments, will carry out day-to-day management, administration, and implementation and will be accountable for the project activities and financial management in their respective districts. The project execution and implementation structures are shown in Appendix 8.

³⁰ The local government unit in DKI Jakarta, the national capital area, is administratively equivalent to a province, because its five districts/municipalities do not have the separate DPRDs..

F. Implementation Arrangements

1. Project Organization and Coordination

a. National and Provincial Levels

84. **Project Steering Committee (PSC) and Central Technical Committee (CTC).** The PSC will comprise directors general or equivalent senior staff of BAPPENAS, MOF, MONE, MORA, MOHA, representatives of the beneficiary local governments, and representatives of the PPMUs. The PSC is chaired by the director general of primary and secondary education of MONE and will provide overall guidance in project implementation. The PSC will (i) set the project implementation policy, (ii) review project progress and impact, (iii) advise on project plans, and (iv) facilitate coordination between the different agencies and departments involved in project implementation. The CTC provides technical guidance and coordination at the operational level, and comprises directors and division heads from BAPPENAS, MOF, MONE, MORA and MOHA; and is chaired by an official appointed by the PSC. The CTC will (i) oversee and give regular technical guidance to the CFU on operationalizing key policies including SBM and minimum service standards through DBEP; (ii) review the annual work plan and budget proposals; (iii) provide technical guidance, review, and approve project implementation guidelines; (iv) review project monitoring and evaluation reports and advise on follow-up actions; and (v) resolve incidents and advise on follow-up actions.

85. **Central Facilitation Unit.** CFU will be responsible for overall planning, coordinating, implementing and administering of DBEP, with staff from MONE and MORA. CFU will be based at MONE and will (i) orient districts on the DBEP objectives, design framework, and project administration; (ii) monitor implementation in all districts and the provision of implementation support required by the districts; (iii) ensure adequate allocation of counterpart funds; (iv) consolidate quarterly progress reports and annual reports, and submit them to the PSC and ADB (in English); (v) ensure annual external audit of project accounts (national, as well as local accounts including DEDF and SDF); (vi) ensure timely submission to ADB of unaudited and audited project financial reports; (vii) ensure timely transfer of loan funds to districts; (viii) regularly monitor compliance and progress of the project activities in each district; (ix) identify policy and technical issues requiring steering and technical committee's review and decisions; and (x) prepare for and coordinate regular review missions from ADB. The Government has established and staffed CFU.

86. **Provincial Project Monitoring Unit (PPMU).** Provinces in the Project will primarily carry out the devolved functions of the national ministries (MONE and MORA), and focus on coordination, facilitation, monitoring and evaluation of the project activities and impacts. The PPMU will be based in the provincial education office and staffed by BAPPEDA, MORA provincial office staff, and other relevant provincial entities.

b. District Level

87. **District Coordination Committee (DCC)/School Board Leadership** and membership of the DCCs may vary, depending on the local administrative setup. It will typically be based at the district school board, and its membership would overlap with the school board. Where school board has not been established, the DCC would include representatives from the BAPPEDA, district education offices, MORA, as well as representatives from local NGOs and civil society. The chairperson will be selected by the members of DCC. DCCs will address and resolve policy issues affecting DBEP, ensure adequate provision of counterpart funds, staff, and fulfillment of other local government responsibilities agreed upon for the project; and approve

SDF for junior secondary schools. The Government is establishing SBM teams in each district initially within the local education office, but later to be transferred to the district school board. The SBM team will be responsible for implementing the school development component. DCC will delegate the authority to review and approve school improvement plans of primary schools to a supporting unit of DCC at sub-district level.

88. **District Project Management and Monitoring Unit** DPMMUs to be established in each district will be responsible for day-to-day management, administration, and implementation of DBEP. Functions would include but not be limited to (i) financial planning and management of both loan and counterpart funds, and adherence to principles of accountability and transparency of project accounts; (ii) coordinating, planning, and implementing project activities supported by the DEDF; (iii) monitoring SDF activities; and (iv) preparing district quarterly and annual financial statements and implementation progress. Considering the diversity of organization structures in the participating local governments, the base office of the DPMMU may vary across districts. Each DPMMU will be headed by a project manager whose qualification and experience are acceptable to ADB and will be supported by a secretary, and a team of 6-8 persons specialized in education programs (primary and junior secondary, SBM), school rehabilitation management, finance, procurement, and administration. To ensure inclusion of madrasah in the project activities, the DPMMU will have representatives from the MORA district office.

2. Implementation Schedule

89. The Project will be implemented over seven years, starting in 2002 and will be completed in 2008. Implementation will be phased. During the first year (2001-2002), the focus be on seven pilot districts. The remaining districts will phase in during 2002 and 2003. A provisional implementation schedule is in Appendix 9.

3. Procurement of Goods and Services

a. Consulting Services

90. Consultant will be required for: (i) district capacity building and implementation support (Package A), and (ii) independent monitoring and evaluation (Package B). Package A will comprise one international consultant (12 person-months) and 46 domestic consultants (1,656 person-months) Package B will comprise one international consultant (24 person-months), 26 domestic consultants (456 person-months), and about 300 test administrators. In addition, a separate package of mentoring services will be provided under the SDF component. The mentoring services will comprise one international consultant (24 person-months), 13 domestic consultants (684 person-months), and about 85 domestic community level mentors to work directly with the schools and the communities. A large number of domestic consultants are required because of the Project's emphasis on capacity building, independent monitoring, and district and school-based project implementation. The consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements acceptable to ADB for engaging domestic consultants. The outline terms of reference for consultants are in Appendix 10. On 21 May 2001, ADB Management approved retroactive financing and advance action for recruiting consultants to permit their timely fielding for effective project implementation. The Project also provides for retroactive financing of eligible expenditures incurred not earlier than 9 July 2001 (date of the first day of appraisal), for a maximum of \$2,000,000 equivalent. The Government has been advised that such advance action and the provision for retroactive financing do not commit ADB to finance any part of the Project.

b. Training and staff development

91. The Project will train parents, school communities, school staff, and district officials through workshops, mentoring, focused group discussions, seminars, and organized training programs. Training and orientation will benefit about 58,660 community members, principals, teachers and local government officials. Local governments will procure organized teacher development programs, depending on district needs, to be implemented by training providers engaged through a local competitive process, in accordance with ADB's *Guidelines on the Use of Consultants*.

c. Civil Works and School Furniture

92. The Project will support the rehabilitation of school facilities that do not meet minimum conditions for learning. It is estimated that DBEP will cover rehabilitation of approximately 1000 primary and junior secondary schools. Small scale civil works (maximum of \$12,000 per school) in remote and rural sites with associated difficulties in material delivery are unlikely to attract international or domestic contractors and suppliers at the national level. Past experience indicate that community-managed rehabilitation ensures greater transparency accountability, and cost-effectiveness (footnote 27), and better sense of ownership and facility maintenance by the communities. Therefore, civil works for school rehabilitation and school furniture (both labor and materials) will be procured locally by beneficiary schools and communities through procedures acceptable to ADB, based on procedures already working under ongoing ADB-financed projects.

93. In the context of the three-year school improvement plan (para. 69), the schools and communities will jointly prepare a proposal for facility rehabilitation. Once the school improvement plans are approved by the DCC for junior secondary schools and by subdistrict coordinating committee for primary schools, the school committees of eligible schools will establish community school rehabilitation teams. The teams will prepare detailed plan for school facility rehabilitation with the assistance of the school rehabilitation supervisor at the district level. The school committee and the community school rehabilitation team will then organize and implement the rehabilitation work, largely utilizing locally available construction materials, where possible, and labor provided by the community members.

d. Office Equipment

94. The Project will procure a small amount of office equipment for the project implementation units (CFU, PPMU, and DPMMU), such as computers for administration and data management, and vehicles. Each package is estimated to cost less than \$50,000 and will be procured under direct purchase procedures showing evidence of limited local tender to obtain the most competitive prices. As each district has slightly different requirements and districts begin project implementation in phases, the equipment will be packaged and procured by each district in accordance with ADB's *Guidelines for Procurement*.

e. Instructional Materials and Library Books

95. The Project will finance the purchase of textbooks and other teaching/learning materials through the SDF school improvement category. Each school will determine actual requirements which will not exceed \$6,000 per school. The schools will select and purchase textbooks and materials using direct purchase procedures. This procedure was selected because lessons from past and on-going projects indicate that consolidated purchase through local competitive bidding does not result in economy of scale or timely delivery. Delivery by contracted forwarders

is not cost-effective or reliable for remote and rural schools. School and community-managed purchase and delivery are more likely to ensure timely and accurate delivery. The procurement mode and the packages are summarized in Appendix 11.

4. Disbursements, Accounts, Auditing and Reports

96. To expedite the disbursement of loan funds, the Government will establish an imprest (special) account at Bank Indonesia. The imprest account will be established, managed, replenished, and liquidated in accordance with the ADB's *Loan Disbursement Handbook* and detailed arrangements agreed upon by the Government and ADB. The ceiling of the imprest account will not exceed \$10 million. Funds for DEDF and SDF categories will be transferred to beneficiary districts and schools from the imprest account (Appendix 12). The districts and schools will use the statement of expenditures (SOE) procedures.

97. The Government will ensure that records and accounts adequate to identify the goods and services financed from the loan proceeds will be maintained. Separate accounts of the Project will be maintained, and accounts and financial statements will be audited annually by internationally accepted external auditors in accordance with sound auditing standards acceptable to ADB. Certified copies of such audited accounts will be submitted to ADB within nine months after the close of each fiscal year. All such reports and statements will be submitted in English. The Government has agreed to finance from the loan proceeds costs related to the annual auditing.

98. The CFU will prepare quarterly reports on the implementation of project-funded activities. The reports will be in a format acceptable to ADB, and will indicate, among other things, progress made against established targets, problems encountered during the quarter, steps taken and steps proposed to resolve the problems, compliance with loan covenants, and project activities to be undertaken during the next quarter. A project completion report will be prepared within three months of project completion. All reports will be in English.

5. Anticorruption Measures

99. The Mission explained the ADB anticorruption policy, particularly the section on fraud and corruption, as stated in ADB's *Guidelines for Procurement and Guidelines on the Use of Consultants*. Project accounts including accounts held for SDF and DEDF will be audited annually by external independent auditors, and loan allocation provides financing for this.

6. Comprehensive Review

100. Considering the process orientation of the Project, comprehensive reviews of project implementation will be conducted at least twice, at the end of years 2 and 4. The first review will focus on the effectiveness of the implementation mechanisms of the SDF, DEDF, funds flow, and poverty targeting. Improvements, as required, will be defined and agreed upon during this review. The second review will focus on the overall benefits of the project and likely achievement of the Project objectives and goals by the end of the project.

G. Environmental and Social Measures

1. Environment

101. The Project will not have significant adverse environmental impacts, and is classified in environmental category C. Rehabilitation will comprise minor repairs of existing schools,

primarily on land already allocated specifically for schools. Nevertheless, MONE, MORA and the participating local governments will ensure that the site, design, construction, and operation of school facilities under the Project will follow ADB's *Environmental Guidelines for Selected Infrastructure Development Projects* and relevant environmental review procedures.

2. Poverty and Social Measures

102. About 1.9 million families in the DBEP area are estimated to live below the poverty line. The nature of poverty and poverty incidence (percentage of families living below the established poverty line) in the three project areas vary considerably. DKI Jakarta has urban-based economic sectors and socioeconomic structures. While the overall poverty incidence is relatively low (ranging from 1.4 percent in South Jakarta to 9 percent in North Jakarta), DKI Jakarta has the highest Gini coefficient (0.461), indicating the worst income inequality in Indonesia. Poor households in DKI Jakarta are generally employed in the informal sector with low and irregular wages. Bali province as a whole has a strong economic base, associated mainly with tourism and related service industries. However, northern districts that depend on agriculture and fishery exhibit high poverty incidence. While poverty incidence in Denpasar City is 1.5 percent, poverty incidence in the northern districts is 18.8 percent in Karangasem and 14.4 percent in Buleleng. NTB, one of the poorest provinces in the country, is characterized by traditional rural poverty in Indonesia, based on predominantly tenant agriculture and fishery economy. Poverty incidence in NTB ranges from 24.2 percent in Mataram City to 45 percent in Dimpu.

103. DBEP design takes these socioeconomic features into account by using a two-pronged targeting approach to (i) skew resource allocation to districts with high poverty incidence and to schools serving poor areas (largely rural poor), and (ii) provide selective intervention in poverty pockets in better-off areas (largely urban poor). The School Development component directly targets schools serving poor areas, on the assumption that their school population is predominantly children from poor households. Under this component, socioeconomic surveys at the subdistrict level and rapid assessments at school/community level, respectively, will be conducted to capture the distribution and concentration of poverty within districts as well as to obtain and validate site-specific and school-specific information. Based on the findings, the schools in each district will be ranked according to the expected enrollment of poor children, including the presence of out-of-school children for potential reentry to the school. Priority will be accorded to schools where at least 50 percent of the school population are children from poor households. Such schools will be eligible to apply for support under the SBM and SDF programs. In this manner, the poverty-oriented project provisions will be allocated to match the actual needs of the schools and the poor communities they serve. Through the District Basic Education Development component, DBEP provides a funding mechanism that will support district activities to be proposed in the district education development plans aimed at targeting similar support for poor children attending schools in nonpoor or less poor areas. Thus, targeting of poor children will be effected in the context of a district-level effort to address social equity in the school system. The mechanisms are described in Appendix 6.

104. Two other pro-poor features are incorporated in the DBEP implementation arrangements to adequately match services and resources with site-specific needs of the poor communities. The amount of assistance to be allocated under the SBM and SDF activities to target schools will be proportional to the number of poor children they are expected to serve. Funds are earmarked for surveys and rapid assessments to ensure that the targeted schools have the necessary information for accurate targeting of poor children and for executing their school improvement plans.

105. DBEP will directly address the basic education opportunities of children from poor families, examine gender barriers to basic education, and promote community involvement in

school management. The major target group is disadvantaged children i.e., those from families engaged in the informal sector, in subsistence farming and fishing, in manual labor in the slum areas; female-headed households; and children from indigenous communities mostly below the poverty line. The Project makes the community and schools, rather than distant district offices, the major decision point to identify and prioritize support required by poor families to make their children to enroll and complete basic education. The SDF provides financial and other support to reduce pressure on poor families to enter into debt to meet large expenditures such as entry fees and costs of uniforms.

106. The Project incorporates several measures to address gender concerns and to meet the needs of girls in acquiring and completing basic education. Women will be encouraged to take an active role in parent-teacher associations and school board committees within communities. Separate toilets for boys and girls provided as part of the school rehabilitation program will benefit girls' enrollment. Targeted scholarships will make it easier for girls from poor families to attend and complete primary and junior secondary schools. They will also directly benefit girls who bear the responsibility for meeting household needs, including school supplies, monthly school fees, and other incidental expenses related to education.

107. The Project will support the Government in designing mechanisms that promote more community and civil society participation in basic education planning and management, and performance monitoring. The formation of school committees will lead to improved community-school relationship through interaction programs, and teacher-parent meetings. The broad-based school education committee will be an effective medium in guaranteeing the sustainability of decentralized education services.

V. PROJECT JUSTIFICATION

A. Project Beneficiaries

108. The Project almost exclusively targets children from poor families (para. 103). It is estimated that between 56 and 78 percent (an average of 71 percent) of beneficiaries will be children from poor households. The Project is estimated to benefit 1.26 million primary and secondary school children (ages 7-12 and 13-15 years, respectively) in the 21 DBEP districts. Of this number, 0.896 million children (71 percent of the total beneficiaries) are estimated to be from families living below the poverty line. The Project will benefit about 5 percent of all school-age children in Jakarta, 29 percent in Bali, and 64 percent in NTB. Beneficiary children in Jakarta will consist largely of those residing in slum areas. Beneficiary children in Bali are predominantly in the northern districts with a high concentration of poor tenant farming and fishing communities.

109. By targeting poor children and using of poverty indicators in the selection criteria for beneficiary schools (para. 103 and Appendix 6), the Project is expected to generate direct benefits for children from below the poverty line and low-income families in two ways: (i) providing opportunities to obtain and complete primary and junior high school education by having access to scholarships, school fee waivers, tutorials and other support; and (ii) supporting completion of junior secondary education, improving their value in the job market and opening opportunities to continue formal education through senior secondary education and beyond. Such benefits will be reflected in (i) surveys demonstrating at least 50 percent of the beneficiaries of the scholarship and school block grants program will be children from families below the poverty line; and (ii) increased NER and completion rates among the children from families below the poverty line. Benefit evaluation studies to be conducted during year 4 and year 7 of project implementation will allow for monitoring of increased primary school

completion, transition to junior secondary schools, junior secondary school completion, and the graduate's absorption into the labor market or entry into higher education.

110. The Project will improve the ability of the beneficiary schools to deliver basic education, enhance the quality of education, and meet the needs of low-income and poor families through better on-site targeting and direct parent-school communication to remove constraints to educational achievements of children in local communities. The indicators for such improvements include (i) participation of communities in the SBM subcomponent, (ii) budget allocations for scholarships and other school aid from the SDF to beneficiary schools, (iii) scores reflecting school efficiency and quality of education services, and (iv) reduced repetition and dropout rates among students.

B. Poverty and Social Impacts

111. Preliminary estimates during DBEP preparation indicate that about 3,000 schools clustered in poor communities in 17 districts would be covered under the SDF subcomponent, and an additional 115,000 children from poor households in all 21 districts will receive support under the social equity program under the DEDF subcomponent. Assuming that all target schools are eligible for support, about 56-78 percent of students will be from poor families. It is not possible to provide more accurate projections than these estimates as the specific project sites and beneficiary schools will only be determined during implementation, based on thorough socioeconomic surveys to accurately capture the geographic distribution and concentration of poverty. Nevertheless, the special support for poor children and the targeting criteria for beneficiary school selection will ensure that the Project covers children from families below the poverty line, and that at least 50 percent of the total beneficiaries of scholarships and other support will be from poor families. It should be noted that children from low-income but nonpoor families will also be eligible for special assistance if they are otherwise unable to attend school. In this manner, the Project is designed to address poverty using income as well as nonincome indicators of social deprivation among families with school-age children. Through this broader interpretation of social deprivation, DBEP will contribute to the national objective of providing universal access to basic education.

C. Affordability and Sustainability

112. In line with decentralization, district governments will finance the majority of the counterpart and incremental recurrent costs. Financial capacity, particularly local revenue-generating capacity, differs considerably across the project districts. Jakarta and a few southern districts in Bali have a fairly strong local revenue-generating base. On the other hand, the poor districts in Bali and NTB, with economies based on agriculture and fishery, have limited revenue-generating capacity and are highly dependent on budget transfers from the national Government.

113. In Jakarta and southern Bali districts, the Project selectively addresses poverty pockets. The numbers of beneficiary children, resource allocations, counterpart financing requirements, and incremental recurrent costs are relatively small. The Project is easily affordable and sustainable in those districts. The loan investment accounts for about 0.5 percent of the total district development budget, and about 7 percent of the district development budget for education. Counterpart financing accounts for 0.1-0.2 percent of the total district recurrent and development budget annually. The incremental recurrent cost to sustain the project benefits will require about 0.1 percent of the total district recurrent budget and less than 0.3 percent of the projected district recurrent budget for education.

114. The Project skews loan allocations to poor districts in northern Bali and NTB. The number of beneficiary children, loan allocations, counterpart funds requirements, and incremental recurrent costs are greater in those poor districts where financial capacity is not the strongest. These districts now allocate about 31-43 percent of the district budget to basic education. DBEP will be affordable and sustainable in the poor beneficiary districts, provided that (i) ADB finances 80 percent of the project costs, and (ii) beneficiary districts are able to maintain or increase the level of the local budget through transfers from the national budget or increased local revenue, as well as maintain and progressively increase the budget allocation to basic education.

115. In the poor project districts, DBEP investment is estimated to account for 4-20 percent of the total district development budget or 56-150 percent of the district education development budget annually. DBEP will provide significantly more development resources to basic education in the target districts. The additional development resources and counterpart budget will be primarily directed to schools catering to poor children; these schools are estimated to account for 50-60 percent of the schools in the poor project districts. To maximize the use of investment resources, DBEP will employ community-managed school rehabilitation, which is expected to cost 36 percent less than contractor-managed rehabilitation. Counterpart financing is estimated to require 0.6-1.9 percent annually of the total district budget, or 1.2-4.1 percent annually the district education budget.

116. Annual incremental recurrent cost is estimated to account for about 2 percent of the total district recurrent budget. Use of community-managed school rehabilitation minimizes incremental recurrent costs to the local government, as materials are locally available and familiar techniques are used permitting regular maintenance by the communities. To strengthen the local government's resource base to sustain the benefits, the Project includes building the capacity to make financial plans and mobilize resources. This support aims to help local governments explore options to maintain and increase their budget allocation to basic education, as well as options to mobilize nonpublic resources, such as contribution from local industries and foundations.

117. An important gage of project sustainability is incorporation of the school block grant scheme in the local government financing mechanisms for education. The timing of the Project is favorable at the outset of decentralization when local governments are in the process of determining structure and mechanisms to channel resources to schools. The national policy on SBM is another positive factor, setting an example of transferring the national budget to junior secondary schools as block grants. To pave the way to sustain the block grant scheme, ongoing ADB-financed TAs³¹ are providing parallel support covering capacity building and policy dialogue on ways to institutionalize the school block grant scheme in decentralized education finance mechanisms.

D. Risks

118. The project risks are largely attributable to the combination of the decentralized implementation arrangements and intended targeting to poverty-affected areas. Key risks include (i) decentralized project implementation context, (ii) challenges exacerbated by the Project's attempts to reach the poorest communities and schools that are often remote and hard to reach, and (iii) heavy dependence upon consultants.

³¹ TA 3042-INO: *Capacity Building for Decentralized Social Services*, for \$900,000, approved on 9 July 1998, and TA 3071-INO: *Support for Decentralized Education Management*, for \$990,00, approved on 8 August 2001.

119. Consistent with decentralization laws, the Project will be implemented by district governments. A series of discussions with the local governments in DBEP pilot districts during project preparation confirmed their high level of interest and commitment. Most districts have some experience in implementing investment projects in the social sectors financed by either ADB or the World Bank. Nevertheless, each district government is at the developmental stage, and a series of system, organizational, and staff changes are anticipated during the course of project implementation. In addition, variations are expected in the organizational and system setups in each district, including their relationships with the provincial and national governments. To safeguard against risks associated with the newly decentralized administrative context, the Project (i) integrates a major capacity-building component; (ii) emphasizes direct resource transfer to and involvement of schools and communities, the stable delivery point of basic education services; and (iii) uses a process-oriented design that maintains maximum flexibility. The implementation schedule is longer than usual, anticipating a slow start-up and low disbursement during the first few years. Districts will begin implementation in phases. Undue pressure on fast disbursement during the first years may undermine the need to build sufficient and accountable project implementation capacity.

120. The Project targets poor areas that are often remote and difficult to reach, and where the capacity of the schools and communities is limited. Building the capacity of schools and communities is a pre-requisite before development activities and resource flows start. Such capacity building in difficult-to-reach areas will require on-site, ongoing technical support that is not threatening to the local communities. The Project plans to engage a large number of community- worker type consultants (i.e. mentors) that can best be provided through NGOs and community based organizations. While experience in ongoing projects has been positive, the use of NGOs and community-based organizations is not yet a common practice in Indonesia. Experience in Indonesia indicates considerable lead time is often needed for the Government to engage loan-financed consultants; this may take even longer if the Project requires new types of service providers. To minimize the risk that project implementation may be consultant-led and to ensure localization of the project experience, the Project primarily uses domestic consultants and few international consultants. Mentors for SBM and decentralization/implementation support consultants will work closely with the government counterpart teams. To ensure timely engagement, advance action and retroactive financing for engaging consultants has been endorsed.

V. ASSURANCES

121. The Government has given the following specific assurances, in addition to the standard assurances, which have been incorporated in the legal documents:

A. Special Assurances

- (i) **Laws 22 and 25 of 1999.** The provision of funds from the loan proceeds and the corresponding counterpart funds necessary for financing Project activities will continue throughout the Project implementation period by earmarking the funds, notwithstanding any changes in national or district government responsibilities arising from the full implementation of Laws 22 and 25 of 1999, unless ADB otherwise agrees.
- (ii) **Funds Channeling.** Unless ADB otherwise agrees, the loan proceeds will be transferred through annual budgetary allocation throughout project implementation to make payments for all Project expenditure, including, to (a) the participating districts, and (b) the beneficiary schools.

- (iii) **Counterpart Funds.** All counterpart funds for project implementation will be provided on time. The Government and the participating districts will make timely submissions of annual budgetary appropriation requests and ensure prompt disbursement of appropriated funds during each year of project implementation.
- (iv) **External Auditors, Annual Auditing and Financial Statements.** External auditors will be engaged to audit project accounts, including the DEDF and SDF accounts. The consolidated annual audited accounts and financial statements, together with audit reports, in English, will be submitted to ADB within nine months following the end of the relevant Government fiscal year.
- (v) **Poverty and Social Dimensions.** Priority will be given to children from poor families, remote rural villages, and urban slum areas in the participating districts. At least 50 percent of the beneficiaries are children from households below the poverty line. Beneficiary sub-districts and schools will be prioritized by incidence and depth of poverty, based on (a) an integrated poverty factor calculated from the proportion of families below the poverty line in the subdistrict, (b) NER, and (c) dropout rate. The process of prioritizing must be participatory.
- (vi) **SDF and DEDF.** SDF will be given to schools registered with either the local government of the project district or MORA or both, that serve poor communities and students. Identifying and selecting eligible schools, and the mechanics of awarding SDF will follow the criteria set out in Appendix 7. DEDF will be awarded to participating districts that have satisfied the requirements set out in Appendix 6.
- (vii) **Support to Madrasah.** Madrasah will be included in the process of identifying eligible schools, selecting the SDF beneficiary schools, and identifying beneficiaries for the programs supported by the DEDF.
- (viii) **Community Participation.** The national and local governments will ensure involvement of civil societies and full participation of beneficiary communities in implementing the Project, and preparing and implementing of proposals for the SDF in preparing and implementing the DEDF. DCC/school board will have adequate staff to represent madrasah.
- (ix) **Counterpart Staff.** All necessary staff and facilities for the CFU, PPMU, DCC/school board, SBM, and DPMMU, will be maintained throughout project implementation. The Government and ADB will review the effectiveness of the CFU and DPMMUs one year after the effective date, and if required, adopt measures to improve implementation effectiveness.
- (x) **Monitoring and Benefit Evaluation.** The award, distribution, and use of the SDF and DEDF will be monitored to ensure that they are carried out in accordance with the agreed upon criteria and guidelines established by the Project. To ensure that public accountability and transparency are maintained, benefit evaluation activities will measure the project results against the Project goals.
- (xi) **Gender.** Special measures will be undertaken to promote the participation of women in the project activities. In each participating district, (a) the school

education committees, subdistrict selection committees, and board education committees will include at least two women representatives; (b) women will comprise at least 50 percent of teachers in the development programs; (c) women will compose of at least 30 of the participants in workshops on SBM training; (d) girls will comprise at least 50 percent of the recipients of scholarships; and (e) separate sanitation facilities for girls and boys will be part of the school rehabilitation component.

- (xii) **Environment.** Although no significant environmental impacts were identified, site selection, design, construction, and operation of school facilities rehabilitated under the Project will be implemented in line with ADB's environmental guidelines.

B. Condition for Loan Effectiveness

122. The effectiveness of the Loan Agreement will be subject to the issuance of decrees by the Minister of National Education establishing the PSC and CTC.

C. Condition for Loan Disbursement

123. Except for mobilization payment for consultants, loan disbursement will not take place until:

- (i) decrees establishing of the DCC/school board and DPMMU are issued for the seven districts in the first phase.
- (ii) the CFU has prepared and submitted to ADB, in form and substance satisfactory to ADB, the guidelines on consequences of noncompliance with or violation of the project criteria on the use of DEDF and SDF, and the general code of conduct on the use of the loan proceeds.

VI. RECOMMENDATION

124. I am satisfied that the proposed Loan would comply with the Articles of Agreement of ADB and recommend that the Board approve the loan in various currencies equivalent to Special Drawing Rights 77,579,000 to the Republic of Indonesia for the Decentralized Basic Education Project, with a term of 32 years, including a grace period of 8 years, and with an interest charge at the rate of 1 percent per annum during the grace period and 1.5 percent per annum thereafter, and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board.

Tadao Chino
President

31 October 2001

APPENDIXES

Number	Title	Page	Cited on (page, para.)
1	Project Framework	33	1, 2
2	The Formal Education System in Indonesia	39	2, 6
3	Education Expenditures in Indonesia	40	3, 8
4	Financial Decentralization	41	4, 12
5	ADB Assistance to the Education Sector	43	9, 36
6	School Development Fund and District Education Development Fund	45	17, 70
7	Detailed Cost Estimates	50	19, 79
8	Project Management Organization	51	20, 83
9	Project Implementation Schedule	52	22, 89
10	Terms of Reference for Consulting Services	53	22, 90
11	Indicative Procurement Packages	57	23, 95
12	Funds Flow and Disbursement Procedures	58	24, 96
13	Poverty and Social Assessment	60	27,111

PROJECT FRAMEWORK

Design Summary	Project Indicators / Targets	Monitoring Mechanisms	Assumptions and Risks
(i) Goal			
To support PROPENAS (National Development Plan) goal to achieve universal nine-year basic education that serves the needs of poor and marginalized people and is responsive to local needs	Improved indicators in PROPENAS 2001-2005 such as gross enrollment rates (GERs) of 120.7 percent for primary education and 78.9 percent for junior secondary education. Improved human development indicators in targeted provinces/districts	SUSENAS survey MONE and data /MORA annual survey data	Local governments' commitment to national goals and guidelines
(ii) Purpose			
To improve poor children's participation, transition completion, and performance in nine year basic education in Bali, DKI Jakarta, and Nusa Tenggara Barat (NTB).	In each project district, particularly among children from families below poverty line: <ul style="list-style-type: none"> • Increased net enrollment rates (NERs) and GERs • Improved primary completion rates and junior secondary graduation rates • Improved primary to junior secondary (6 to 7th grade) transition rates • Improved 6th and 9th grade national examination scores (NEM) for same cohort groups • Improved performance in standardized tests in math and Bahasa Indonesia for 5th and 8th grade students 	Susenas survey and data, MONE /MORA annual survey data Project baseline and benefit studies NEM scores for 6th and 9th grade for same cohorts under controlled test taking situation Test scores for 5th and 8th grade students on standardized tests	Project districts' continued commitment to universal 9-year basic education District targets by each district will be set after the baseline activity is completed.
To implement school-based management (SBM)	SBM adopted by primary and junior secondary schools and madrasah SBM implemented in about 3000 participating primary and junior secondary schools and madrasah in project target districts Participating schools able to meet minimum conditions for learning Use of SBM in disadvantaged basic education schools in project areas Effective community-school partnership	Government policy documents Project progress reports Project monitoring reports Project Benefit evaluations	Sufficient numbers of eligible schools interested in participating in Project Government SBM teams operational in each project district

Design Summary	Project Indicators / Targets	Monitoring Mechanisms	Assumptions and Risks
To support districts in Bali, NTB, and DKI Jakarta in decentralized basic education management	<p>Increased funding to basic education over 2001 levels,</p> <p>Data-based and goal-oriented 5-year development plans for basic education</p> <p>Implementation of plans for equity and quality improvement in the project districts</p> <p>Districts meeting goals for achieving equitable access to basic education</p>	<p>District budget</p> <p>Sample of school budgets</p> <p>District education development plans and implementation</p> <p>Project monitoring reports</p>	<p>Government's continued commitment to decentralization</p> <p>Macroeconomic and new fiscal system's ability to provide adequate budget transfers to local government</p>

(iii) Outputs

3.1. Capacity building for SBM

School baseline analysis and needs assessment	School improvement plans (SIPs)		
SIPs in selected schools	SIP in each beneficiary school with realistic targets for school improvement, and solid strategies to help improve poor children's participation, completion, and learning outcomes.	<p>Project progress reports</p> <p>SIPs</p>	Schools interested in school-based improvement planning
SBM implemented	Functioning and active school committees, integrated school budgets, increased decision making at school level, public accountability forums, annual staff performance review, school initiated innovations for improving effectiveness	Project progress reports	<p>Government SBM teams in place</p> <p>Government SBM teams include primary schools and madrasah</p> <p>Policy and regulatory frameworks and school supervision practices realigned to allow SBM</p>
Community involvement in school	Establishing and expanding school committees with wider community representation, frequency of school committee meetings, decisions, community contributions to school including money, labor, and materials. Participation of parents from low-income families.	Project progress reports, project monitoring reports, school quarterly reports, school committee minutes	Eligible schools are willing and able to implement SBM

3.2. School improvement through School Development Fund (SDF)

Improved school effectiveness	Schools met targets set in SIPs for student academic and non-academic achievements, teacher presence, variation in teaching methods, teacher discipline, extracurricular activities, enrollment and retention of poor children.	Project progress reports, school quarterly reports, project benefits evaluation	Adequate staffing provided for schools
-------------------------------	---	---	--

Design Summary	Project Indicators / Targets	Monitoring Mechanisms	Assumptions and Risks
Increased number of poor children completing 9 years basic education	Participating schools met targets set in SIPs for poor children: increase in enrollment rates, retention, completion, transition and graduation rates, improvement in academic and nonacademic performance	Project progress reports, school quarterly reports, project benefits evaluation	Schools willing to consider and act on special considerations for poor children
Increased number of schools meeting minimum conditions of learning	Participating schools met targets set in SIPs for school building, classroom and library furniture, water and sanitation, average number of students in every classroom, staff development, teaching aids and learning materials, materials and equipment for extra-curricular activities	Project progress reports, school quarterly reports; benefits evaluation	SDF funds flow Availability of teaching aids and learning materials in accessible markets Schools/community adopt outreach program to poor children
3.3. District capacity building to plan and manage decentralized basic education			
District education leadership strengthened	School boards established, wide community representation, School boards involved in formulating policies, in monitoring implementation of district education programs	Project progress reports	School boards appointed
5-year district basic education development plan completed	Participating districts revise 5-year plans based on accurate and up-to-date information.	District education development plans, project progress reports	School/teacher/pupil mapping exercise completed
Information support systems in place	Timely and accurate district annual statistical summary produced. District rolling plans based on current data.	Annual district reports, project progress reports	Decision makers will use education management information in policy formulation and planning.
3.4 District education improvement through District Education Development Fund (DEDF)			
Management of basic education provision strengthened	Systems in place for planning, managing, financing, staffing and monitoring for <ul style="list-style-type: none"> • teacher development • school supervision • principal recruiting, training and performance review • facilities expansion and improvement • financing 	Project progress reports Project benefits evaluation	Districts adopt SBM
Improved educational quality and efficiency within the district	Enrollment, retention, and examination data	District and national data	Each district to set targets in 5-year plan
Access, retention and performance of poor children improved	Additional improvements of poor children's indicators as above	Project progress reports, project benefits evaluation	Continued economic recovery in project districts

Design Summary	Project Indicators / Targets	Monitoring Mechanisms	Assumptions and Risks
3.5. Program and financial compliance monitoring			
Independent and internal monitoring of financial management and program procedures	SDF and DEDF are managed in compliance with Government and ADB requirements Verification procedures followed regarding: school selection, SDF allocation, eligibility of poor students, scholarship allocation, public accountability for SDF and DEDF, SDF and DEDF item eligibility	Independent and CFU compliance reports	Independent monitoring contract is awarded
Public accountability systems operational	School committee holds regular public meetings on SDF utilization SDF budget and expenditures publicly posted, updated quarterly Information about DEDF plans, progress and expenditures available to the public	Independent, CFU and DPMMU compliance reports Progress reports	Public/community interest in basic education
3.6. Progress and performance monitoring			
Project activities are on time and on track.	Overall project schedule and annual work plans achieved Barriers to timely achievement of outputs targets, and objectives identified	CFU, DPMMU, and school committee progress reports	
3.7. Benefits evaluation			
Baseline study completed	Reliable baseline information on key project benefit indicators collected and analyzed	Independent and CFU evaluation reports	Independent evaluation contract is awarded in a timely fashion.
Mid-point evaluation completed	Valid and reliable information on interim impact of Project collected and analyzed Project strategy reassessed for impacts achieved, not achieved, and unintended benefits	Independent and CFU evaluation reports	
End of project evaluation completed	Valid and reliable information on the impact of Project on key benefit indicators collected and analyzed	Independent and CFU evaluation reports	

(iv) Activities and Inputs

4.1. Capacity building for SBM

Socialization of SBM – national and district campaigns	Socialization campaigns in all districts SBM teams in place in all project districts and subdistricts	DPMMU progress reports
SBM teams established in districts and subdistricts		

Design Summary	Project Indicators / Targets	Monitoring Mechanisms	Assumptions and Risks
Training and mentoring for SBM	3000 schools institutionalize SBM.	Mentor team reports progress reports	
Needs analysis and school improvement planning	3,000 schools develop SIPs and implement them		
4.2. School improvement through School Development Fund (SDF)			
Needs analysis	3,000 schools	SIP proposals	
Community consultation and socialization	Active and representative school committees in all schools	Qualitative analysis	
Implementation of SIPs: for facilities, furniture, learning materials, teacher development, Incentives and special support for poor students	3,000 schools achieve minimum learning conditions and increased enrollment, retention, and performance of students in lowest poverty quintile.	DPMMU records of disbursement Mentor follow-up reports	
School management system	Systematic record-keeping for teachers, students, budgeting etc.	School records	
4.3 District capacity building to plan and manage decentralized basic education			
Reviewed baseline and school mapping	Baseline data, including poverty and equity data in 21 districts	Needs analysis and baseline outcomes in DEDF plans	
Participatory preparation of medium-term district plan	21 districts prepare practical plans for capacity building and improvement of equity and quality of educational provision for poor students.	Plans as approved by Project Steering Committee (PSC)	
4.4. District education improvement through DEDF			
Capacity-building activities including: information systems development, organizational improvements; professional development of staff	21 districts with annual, accurate information; open responsibility structures; capable and adequate staff	DEDF reporting validated by CFU	
District education development activities:	21 districts with teacher education plan in place and implemented on time	DEDF reporting, validated by CFU	
<ul style="list-style-type: none"> • Teacher-education • Quality assurance system 	Effective supervision system		
Equity initiatives:	21 districts with improved enrollment, retention, completion, and transition rates		
<ul style="list-style-type: none"> • Scholarship/vouchers • Other incentives for poor students • School planning for equity 			

Design Summary	Project Indicators / Targets	Monitoring Mechanisms	Assumptions and Risks
4.5. Program and financial compliance monitoring			
Field checks on compliance	All beneficiary institution visited once a year SDF and DEDF accounts audited by external auditors once a year	Monitoring Evaluation and Reporting (MER) reports	
4.6. Progress and performance monitoring			
Ongoing monitoring of implementation	Detecting implementation delays, operational problems identify and implement solutions	CFU, PPMU, and DPMMU reports	
Performance monitoring, feedback on effectiveness of project actions	Planning and implementation difficulties detected; identify and implement solutions	CFU, PPMU, and DPMMU reports	
4.7. Benefits evaluation			
Baseline, midterm and end-point evaluation of changes in enrollment, retention and performance of poorest children	Educational and poverty indicators defined. Baseline and midterm results and lessons learned.	Independent MER reports at baseline, midterm and project end	
Qualitative study of school experiences of children and their parents from poor families	End of project results and analysis of project benefit Qualitative study of marginalized and poor groups benefiting from project		

CFU = Central Facilitation Unit, DEDF = District Education Development Fund, DPMMU = district project management and monitoring unit, GER = gross enrollment rate, MER = Monitoring Evaluation and Reporting, MONE = Ministry of National Education, MORA = Ministry of Religious Affairs, NEM = national examination scores, NER = net enrollment rate, PPMU = Provincial Project Monitoring Unit, PROPENAS = Program Pembangunan Nasional (National Development Plan), PSC = Project Steering Committee, SIP = school improvement plan;

THE FORMAL EDUCATION SYSTEM IN INDONESIA (as of 2000)

Official School Age		Academic Education			Professional Education			
19	Higher Education		Islamic Doctorate Program (S3)	Doctorate Program (S3)	Professional Program (SP II)			
18			Islamic Doctorate Program (S2)	Master Program (S2)	Professional Program (SP I)			
17			Program Sarjana Agama Islam Islamic Graduate Program (S1)	Graduate Program (S1)	Diploma 4 Program (D4)	Diploma 3 Program (D3)	Diploma 2 Program (D2)	Diploma 1 Program (D1)
16	Secondary Education		Islamic Semopr Secondary Education (MA)	General Senior Secondary Education (SMU)	Vocational Senior Secondary Education (SMK)			
15		Schools	Public: 601, Private: 2,977, Total: 3,578	Public: 2,840, Private: 5,060, Total: 7,900	Public: 771, Private: 3,398, Total: 4,169			
14	Students		229,323	298,914	528,237	2,896,864	1,882,061	
13								
12	Basic Education		Islamic Junior Secondary Education (MTs)	General Junior Secondary Education (SLTP)				
11		Schools	Public: 1,178, Private: 8,672, Total: 9,850	Public: 10,459, Private: 10,371, Total: 20,866				
10	Students		491,893	1,321,242	1,813,135	5,392,172	2,207,921	7,600,093
9								
8	Basic Education		Islamic Primary School (MI)	Primary Education (SD)				
7		Schools	Public: 1,454, Private: 20,000, Total: 21,454	Public: 140,316, Private: 10,296, Total: 150,612				
6	Students		269,841	2,624,287	2,894,128	23,757,585	1,857,197	25,614,782
5								
5	Preschool		Islamic Kindergarten (BA/RA)	Kindergarten (TK)				
4								
3								
2								
1								
0								

Source: Ministry of National Education.

EDUCATION EXPENDITURE IN INDONESIA

	Fiscal Year					Avg 1995/96- 1999/ 2000
	1995/96	1996/97	1997/98	1998/99	1999/ 2000	
GDP (\$ million)	4,653	5,475	6,921	10,005	12,390	-
Government Expenditure (\$ million)	852	975	1,267	2,134	8,428	-
Education Expenditure (\$ million)	83	93	198	129	175	-
Basic Education Expenditure (\$ million)	60	70	78	90	133	-
Recurrent Expenditure						
Education Sector						
Percentage of Total Education Expenditure	78.3	73.6	74.6	66.2	75.0	73.2
Basic Education Sector						
Percentage of Total Basic Education Expenditure	84.4	79.4	77.6	71.5	78.9	78.2
Education Sector						
Percentage of Recurrent Expenditure	14.6	15.0	12.3	8.2	10.6	12.1
Percentage of GDP	1.8	1.7	1.6	1.2	1.4	1.5
Basic Education Sector						
Percentage of Education Recurrent Expenditure	72.9	75.6	71.7	75.0	75.2	74.1
Salaries for primary school teachers	57.1	58.5	54.1	54.9	57.0	56.3
Percentage of Recurrent Expenditure	10.6	11.3	8.8	6.2	8.0	9.0
Percentage of GDP	1.3	1.3	1.1	0.9	1.1	1.1
Development Expenditure						
Education Sector						
Percentage of Total Education Expenditure	21.7	26.4	25.4	33.8	25.0	26.8
Basic Education Sector						
Percentage of Total Basic Education Expenditure	15.6	20.6	22.4	28.5	21.1	21.8
Education Sector						
Percentage of Total Development Expenditure	8.1	9.4	9.7	9.1	7.5	8.8
Percentage of GDP	0.5	0.6	0.5	0.6	0.5	0.5
Basic Education Sector						
Percentage of Education Development Expenditure	48.4	54.7	60.7	58.7	60.4	56.6
Percentage of Total Development Expenditure	3.9	5.1	5.9	5.4	4.6	5.0
Percentage of GDP	0.2	0.3	0.3	0.3	0.3	0.3
Total Expenditure (Development + Recurrent)						
Education Sector						
Percentage of Government Expenditure	12.4	12.9	11.5	8.5	9.6	11.0
Percentage of GDP	2.3	2.3	2.1	1.7	1.9	2.1
Basic Education Sector						
Percentage of Education Total Expenditure	67.6	70.1	68.9	69.5	71.5	69.5
Percentage of Government Expenditure	8.4	9.1	7.9	5.9	6.9	7.6
Percentage of GDP	1.5	1.6	1.5	1.2	1.4	1.4

GDP=Gross Domestic Product

Source: Statistics Center of Ministry of Finance

FINANCIAL DECENTRALIZATION

1. Decentralization has drastically changed intergovernment financial relations in Indonesia. Before decentralization, there were two transfers from the central Government to regional governments: (i) subsidy to regions, which was mainly used to finance salaries of local civil servants; and (ii) regional development funds for development expenditures. These central transfers were recorded in the regional budgets as “subsidy” and “contribution”, respectively. Starting with fiscal year (FY) 2001, both transfers were eliminated and combined into the more flexible General Allocation Fund (GAF) set at minimum of 25 percent of total domestic revenues in the central Government budget. The GAF is allocated based on a formula that incorporates financial needs and the capacity of all regions. The GAF can be allocated for any purpose at the discretion of the regional governments. With the introduction of GAF and the widening responsibilities of the regions, regional governments are expected to be able to make decisions on budgetary allocations based on their own priorities.

2. Another newly introduced transfer channel is the Special Allocation Fund (SAF). Funds are made available to regional governments for investments in specific sectors given national priority. The funds can be provided on a matching-grant for basis projects that originate from the regional governments. In this system, regional governments are required to provide at least 10 percent as counterpart funds.

3. An additional transfer from the central government is revenue sharing. Even before decentralization, regions received a portion of revenues from the land and building tax, duty for obtaining rights on land and building, and forestry and mining royalties. With decentralization, the regional governments can receive larger shares from these revenues and also new shares from the personal income tax and the on natural resources including oil, gas, and fishery.

4. In the central Government budget for 2001 includes all three transfers totalling \$808 million (revenue sharing \$201 million, GAF \$599 million, and SAF \$9 million). Compared with the previous year, the amount transferred to regions increased by 82.7 percent. Of this amount, provincial governments received \$106 million and district governments, which are the major target of decentralization, received \$701 million (Table A4).

Table A4: Central Government Budget

Item	Fiscal Year 2000		Fiscal Year 2001		Increase 2000-2001 Percent
	\$ Million	Percentage	\$ Million	Percentage	
Grant Total	2,600	100	3,126	100	20.2
Central Spending	2,518	83.0	2,317	74.1	7.4
Routine Expenditures	1,813	69.7	1,882	60.2	3.8
Development Expenditures	345	13.3	435	13.9	25.9
Transfer to Regions	442	17.0	808	25.9	82.7
Shared Revenues	35	1.3	201	6.4	486.1
General Allocation Fund	408	15.7	599	19.2	46.7
Special Allocation Fund	-	-	9	0.3	-

Source: Ministry Finance.

5. According to Law 25/1999, regional governments have the following resources for their budgets: (i) surplus of previous year; (ii) local revenue; (iii) balanced fund, which consists of revenue sharing, the GAF, and SAF; and (iv) regional loans.

6. Prior to decentralization regional revenues depended heavily on the central transfers. In the last five years (FY 1995/96 to FY 2000), dependence on transfers from the central Government was 58.3 percent in provinces and 84.2 percent in the districts. Local revenues accounted for only 33.5 percent and 11.7 percent, respectively.

7. Traditionally, regional governments had access to only limited tax instruments. Major provincial revenues came from the tax on automobiles, the fee for change of vehicle ownership, and the tax on fuel for vehicles. The tax rates were determined by the central Government. At the district level, there were many minor excise taxes such as hotel and restaurant tax, entertainment tax, advertisement tax, tax on street lights, etc. The district government could set their tax rates within the ceiling rates set by the central Government. The Government revised the regional tax law (Law 34/2000), and a new sharing scheme between the provinces and districts was introduced. However, with the current assignment of tax instruments, it will be difficult for regional governments to improve their revenue position and significantly reduce dependence on central transfers.

8. Regional loans (development receipts) are marginal in the total revenues and account for only about 1 percent in both provinces and districts. Weak revenue bases have limited the scope for regional borrowing, leading to heavy dependence on central transfers. To improve their borrowing capacity regional governments must increase their revenues. However, the possibility of improving their revenue position is limited.

9. The structure of the regional budget is prescribed by the central government. Regional budgets are divided into revenues and expenditures. The expenditure part comprises separate sections for routine and development expenditures. The development expenditure is structured into the same standard sectors as the national budget. However, the structure of routine expenditures differs from that of the national budget in that there is no analysis by sector. Instead, routine expenditure is prepared by the spending agency of the regional governments, and is classified into five categories: personnel, equipment, maintenance, official travel, and others.

10. In both the provinces and districts, the shares of current expenditure were about 60 percent of the total expenditures. Current expenditures are mainly for personnel costs (49.1 percent in provinces and 70.2 percent in districts). There is little difference in the expenditure pattern of the development budget at the provincial and district levels.

ADB ASSISTANCE TO THE EDUCATION SECTOR

Table A5.1: Loans

Number	TITLE	Date of Approval	Amount (\$ million)	Closing Date
A. Primary and Junior Secondary				
1194	Junior Secondary Education	19 Nov 1992	105.00	01 Oct 1998
1359	Private Junior Secondary Education	18 Jul 1995	49.00	31 Oct 2000
1442	Basic Education	06 Jun 1996	85.00	31 Oct 2001
1622	Social Protection Sector Development Program	09 Jul 1998	100.00	18 Feb 2000
1623	Social Protection Sector Development Project	09 Jul 1998	200.00	31 Jan 2001
	Subtotal (A)		539.00	
B. Senior Secondary Education				
356 (SF)	Senior Technical Schools	28 Sep 1978	24.00	25 May 1990
488	Second Senior Technical Schools	27 Nov 1980	26.00	07 Aug 1990
574	Vocational Education	29 Jun 1982	40.00	26 Dec 1990
675	Agricultural Education ^a	20 Dec 1983	68.00	09 Mar 1993
715	Third Senior Technical Schools	11 Dec 1984	83.00	30 Sep 1993
969	Second Vocational Education	07 Sep 1989	70.00	31 Mar 1996
970 (SF)	Second Vocational Education	07 Sep 1989	30.00	31 Mar 1996
1050	Agricultural Technology Schools	13 Nov 1990	85.00	30 Sep 1997
1100	Technical Education Development	26 Sep 1991	100.00	30 Dec 1998
1319	Vocational and Technical Education	27 Sep 1994	85.00	30 Jun 2000
1360	Senior Secondary Education	18 Jul 1995	110.00	31 Oct 2000
1519	Development of Madrasah Aliyahs	25 Mar 1997	85.00	30 Apr 2003
	Subtotal (B)		806.00	
C. Higher Education				
244	Surabaya Institute of Technology	02 Dec 1975	14.50	24 Apr 1987
402 (SF)	University of Hasanuddin	07 Jul 1979	25.00	07 Nov 1989
525	University of North Sumatera	24 Sep 1981	26.00	02 Apr 1991
675	Agricultural Education ^a	20 Dec 1983	0.00	09 Mar 1993
737	University of Sriwijaya	21 May 1985	37.90	31 Dec 1993
894	Marine Sciences Education	14 Jul 1988	43.25	31 Mar 1996
895 (SF)	Marine Sciences Education	14 Jul 1988	30.10	31 Mar 1996
1013	Six Universities Development and Rehabilitation	08 Mar 1990	114.00	31 Dec 1996
1253	Higher Education	21 Sep 1993	140.00	30 Apr 2000
1432	Engineering Education Development	06 Feb 1996	102.00	01 Apr 2001
1792	Technological and Professional Skills Development Sector	29 Nov 2000	180.00	10 Sep 2006
	Subtotal (C)		712.75	
D. Others				
804	MPW Manpower Education and Training	27 Nov 1986	29.00	31 Dec 1993
822	Special Project Implementation Assistance ^b	16 Dec 1986	30.60	20 Feb 1990
	Subtotal (D)		59.60	
Total			2,117.35	

Table A5.2: Technical Assistance

Number	Title	Type	Date of Approval	Amount (\$'000)
A. Primary and Junior Secondary				
1458	Rationalization of Operation and Maintenance in Primary and Secondary Education	PP	28 Dec 1990	350.0
1527	Lower Secondary Education	PP	24 Jun 1991	571.0
1567	Private Secondary Education	AO	26 Sep 1991	450.0
1902	Private Secondary Education	PP	23 Jun 1993	520.0
2123	Basic Education (MORA)	PP	19 Jul 1994	600.0
2667	Rationalizing and Strengthening In-service Teacher Training	PP	23 Oct 1996	538.0
2638	Second Junior Secondary Education	PP	05 Sep 1996	100.0
3005	Social Protection Sector Dev. Program	PP	14 Apr 1998	150.0
3007	Basic Education in Bali and Nusa Tenggara Barat	PP	16 Apr 1998	150.0
3041	Monitoring and Evaluating the Social Protection Sector Dev. Prog.	AO	09 Jul 1998	1,500.0
3042	Capacity Bldg for Decentralized Social Services Delivery	AO	09 Jul 1998	900.0
3041	Monitoring and Evaluating the Social Protection Sector Dev. Prog. (Supplementary)	AO	15 Apr 1999	1,000.0
3041	Monitoring and Evaluating the Social Protection Sector Dev. Prog. (Supplementary)	AO	13 Jun 2000	2,000.0
3456	Preparation of the Decentralized Basic Education Project	PP	14 Jun 2000	150.0
	Subtotal (A)			8,979.00
B. Senior Secondary Education				
195	Senior Technical Schools	PP	31 May 1977	196.0
323	Second Senior Technical Schools	PP	10 Dec 1979	92.0
345	Vocational Education	PP	25 Mar 1980	329.0
494	Agricultural Education ^a	PP	02 Dec 1982	238.0
702	Second Vocational Education	PP	02 Sep 1985	250.0
1052	Second Vocational Education Sector	PP	26 Oct 1988	100.0
1147	Agricultural Technology Schools	PP	19 Apr 1989	362.0
1752	Third Vocational Education	PP	17 Sep 1992	450.0
2412	Development of Madrasah Aliyahs	PP	02 Oct 1995	600.0
	Subtotal (B)			2,617.00
C. Higher Education				
127	Surabaya Institute of Technology	PP	19 Sep 1974	143.0
223	University of Hasanuddin	PP	15 Dec 1977	205.0
274	University of North Sumatera	PP	20 Dec 1978	246.0
494	Agricultural Education ^a	PP	02 Dec 1982	0.0
528	University of Sriwijaya	PP	24 Jul 1983	200.0
844	Marine Sciences Education	PP	01 Dec 1987	350.0
1018	Five Universities Development & Rehabilitation	PP	01 Aug 1988	450.0
1702	Outer Islands Universities	PP	25 May 1992	465.0
1761	Second Surabaya Institute of Technology	PP	30 Sep 1992	78.0
1824	Study on Private Postsecondary Education	AO	24 Dec 1992	425.0
2096	Engineering Education Development	PP	07 Jun 1994	800.0
	Subtotal (C)			3,362.0
D. Others				
1530	Human Resources Development in the Trade Sector	PP	26 Jun 1991	400.0
1839	Impact Evaluation Study in the Education Sector	AO	03 Dec 1992	100.0
2548	Education Finance Study	AO	25 Mar 1996	500.0
	Subtotal (D)			1,000.0
	Total			15,958.0

SCHOOL DEVELOPMENT FUND AND DISTRICT EDUCATION DEVELOPMENT FUND

A. School Development Fund (SDF)

1. Objectives and Eligible Schools

1. The SDF will finance school development and improvement activities at both private and public primary and junior secondary schools catering to children from poor families in the project target districts. It will support two types of schools: (i) schools in disadvantaged areas serving a high proportion of children from poor families, and (ii) schools in relatively advantaged areas but serving poor communities and children.

2. It is estimated that 10-60 percent of primary and junior secondary schools in the target districts will be eligible for SDF support. The actual proportion and the number of beneficiary schools will vary depending on the degree of poverty in a given district. Poorer districts will have larger proportion and number of beneficiary schools. It is estimated that about 2,100 (54 percent) primary and junior secondary schools in Nusa Tenggara Barat (NTB): 500, (16 percent) schools in Bali, and 400 or 8 percent of schools in DKI Jakarta will implement school improvement activities through SDF.

2. Identifying and Selecting Eligible Schools Through Poverty Targeting

3. SDF will be provided to schools registered with either the district government or the Ministry of Religious Affairs that service poor communities and students. The Project will employ a participatory process to select the SDF beneficiary schools. The district will rank subdistricts by the incidence of poverty as defined by the Bureau of Statistics (BPS). Because there currently is no information on the incidence of poverty below the district level, the Project will finance subdistrict and village-level socioeconomic surveys, to be conducted as an extended activity of the BPS's annual socioeconomic surveys at the district level. This will be implemented to capture the distribution and concentration of poverty affected communities within each district. In ranking subdistricts, districts will also use information on the (i) proportion of families categorized under the National Family Planning Coordinating Board (BKKBN) welfare indicators, (ii) proportion of students from families in the lowest category (BKKBN data), (iii) per-student expenditure at the school, (iv) commitment to school based management (SBM), and (v) subdistrict net enrollment and dropout rate data.

4. Each subdistrict will then review and list the distribution of "eligible" SDF schools, based on the information from the socioeconomic surveys, school and school neighborhood characteristics, and local knowledge including consultations with villages. The subdistrict will prepare a list of eligible schools, and conduct participatory rapid assessments of eligible schools with villages and communities. Then it will categorize the eligible schools into (i) poor schools in poor neighborhoods, (ii) better schools in poor neighborhoods, (iii) poor schools in rich neighborhood, and (iv) better schools in rich neighborhood but with poor children. This process will be based on (i) the catchment community and student profile (parental income, occupation), (ii) conditions of school facilities compared with minimum service standards (including furniture and school sanitation), and (iii) interest in or commitment to SBM.

3. Eligible Items for SDF support

5. The SDF will broadly support items aimed at improving of (i) equity, (ii) minimum learning conditions, and (iii) quality (teaching-learning process and learning outcomes). Examples of eligible items follow:

- (i) Equity
 - (a) Financial and other support to students from poor households
 - (b) Remedial/catch-up programs/tutoring for students who were absent to help families (e.g., seasonal harvesting, fishing, etc.)
 - (c) Alternative programs for children who are unable to regularly attend classes
- (i) Minimum learning conditions
 - (a) Repairs and rehabilitation of facilities that are dangerous to students
 - (b) Purchase of classroom and library furniture
 - (c) Basic water and sanitation facilities for schools
- (ii) Quality
 - (a) Textbooks and library books
 - (b) Teaching aids and classroom supplementary materials
 - (c) School and/or cluster based teacher development activities

4. Mechanisms for SDF Award

6. School Improvement Plan (SIP). Once the local government determines the groups of schools eligible for SDF, each eligible school and catchment communities will receive intensive capacity building/mentoring on (i) SBM, including community-school partnership and school committee formation or consolidation (if the school already has a school committee); and (ii) facilitated self-assessment of school effectiveness, with full participation of communities, and preparation of the three-year SIP. The SIP will be simple, and specify priority activities to improve (i) enrollment and completion of primary/junior secondary education among poor children in the catchment area, and (ii) effectiveness of the schools. The SIP will include simple implementation and financing plans, where responsibilities of the local government, schools, and communities are clearly stated.

7. **Evaluation and Approval.** SIPs will be reviewed and approved by the (i) subdistrict committees for primary schools, and (ii) district committees for junior secondary schools. Evaluation criteria will include (i) clear identification of, and strategies to address (a) constraints on participation and completion among poor children, and (b) school effectiveness; and (ii) evidence of commitment to school-community partnership in the school's development process.

5. Implementing SDF

8. Schools and communities will be primarily responsible for implementing of the SDF-supported school improvement activities, including purchase of school inputs, rehabilitation and repairs, and organization of teacher development activities. The Project gives technical support to schools and communities: (i) education supervisors at subdistricts and district education offices and mentors for matters related to educational inputs, teacher effectiveness, and school-community partnership; and (ii) school rehabilitation supervisors at the district project management unit for school rehabilitation matters. Mentoring services for SBM.

9. The Project will provide mentoring services for SBM to the schools and communities eligible for SDF. Mentors will work intensively with project schools and communities and assist them in understanding the concept of SBM, developing, implementing and monitoring SIPs, and managing SDF.

6. Mentoring SDF-Supported School Improvement Activities

10. SDF-supported activities in each beneficiary school will be monitored by three groups: (i) community members in the school catchment areas, (ii) district project management and monitoring unit (DPMMU) for progress monitoring, and (iii) independent monitors for program and financial compliance.

7. Transparency and Accountability

11. The Project will require SDF beneficiary schools to publicly announce (on bulletin boards visible to the public) the summary of the SIP, amount of funding received from SDF, status of SDF use, and implementation of the financed activities. Each beneficiary school will prepare quarterly progress reports and monthly financial reports. Community members, independent monitors, district and subdistrict officials, and other stakeholders should be able to review these reports any time. Schools will also be required to regularly report in a public forum to community members on activities, progress, and financial status of the SDF supported activities. Independent monitors and external auditors will regularly check program and financial compliance of the SDF activities, and findings will be reported to the public.

B. District Education Development Fund (DEDF)

1. Objectives

12. DEDF will support district initiatives and programs aimed at improving equity and effectiveness of basic education within the district. DEDF will particularly support (i) activities that can achieve better economy of scale if implemented at the district level, (ii) those that are difficult or cannot be organized by individual schools or school clusters, and (iii) activities aimed at efficient and effective planning and management.

1. Eligible Items

13. Examples of initiatives and programs that can be supported by the DEDF are as follows:

- (i) Equity
 - (a) District-wide campaigns and programs to promote enrollment, prevent drop-outs, and promote full transition of primary graduates to junior secondary schools,
 - (b) Special support programs (e.g., scholarships) for children from low-income families, but attending schools not covered by the SDF,
 - (c) Implementation of alternative programs for school-age children unable to regularly attend schools,
- (ii) Quality
 - (a) Teacher development programs (e.g., qualification upgrading, teaching methodologies, etc) and any technical support for the district to address specific constraints on quality
- (iii) Management efficiency/effectiveness
 - (a) Professional development of basic education supervisors, basic education planners and managers at the district level
 - (b) Essential office equipment intended for improvement of management and administrative efficiency

2. DEDF Award, Implementation, and Monitoring

14. Each beneficiary district will develop a medium-term (5-year) basic education development plan, based on review and analysis of school-teacher mapping and socioeconomic baseline survey. The plan will include (i) analysis of the current status of basic education in the district, particularly with regard to provision of basic education services to disadvantaged and poor communities, overall quality of basic education services, and status of basic education compared with national minimum service standards; (ii) five-year goals and priority activities to address constraints on equity and quality of basic education services; and (iii) annual implementation plans, financing strategies, and responsibilities of districts, schools, communities, and civil society for implementing the district basic education development plan. Plan preparation will involve the local government, representatives of schools, communities, and civil society. Once the district coordination committee and head of district endorse the plan, the proposal is submitted to, reviewed, and evaluated by the central technical committee.

15. The district basic education development plan and financing for implementing it will be reviewed against established criteria: (i) clarity of goals and objectives, with demonstrated commitment to improve equity and quality of basic education services; (ii) commitment of local governments to basic education, as demonstrated by concrete contribution (in cash or in kind) from the local government in financing strategies for the plan; and (iii) evidence of consultation and participation of a wider range of stakeholders (civil society and school and community representatives) in preparing the plan.

16. Once the plan is approved by the national technical committee, local governments will implement their own development plans over 4-5 years. The project central facilitation unit and provincial project monitoring unit will internally monitor implementation progress. Independent monitors to be engaged separately will conduct external monitoring.

3. Transparency and Accountability of DEDF

17. Each beneficiary district will be required to publicly announce the contents of the district education development plan, the formulation of which involves full participation of civil society, representatives of public and private primary and junior secondary schools, non-government organizations, and other relevant stakeholders. Once the district is awarded DEDF financing, the amount and implementation plans will be publicly announced through the local media, and progress will be periodically reported to the public through newsletters and other local means. Each beneficiary district will be required to prepare quarterly progress reports and monthly financial statements including amount, contents, selection process, and implementation plans for all contracts awarded under the DEDF. The Central Facilitation Unit and provincial project monitoring unit will regularly monitor the progress of DEDF implementation. Independent monitors and external auditors will regularly check program and financial compliance, and findings will be reported to the public.

**Project Cost Estimates and Financing Plan
(\$000)**

	Total Project Cost			ADB Financing			Government Financing		
	Foreign Exchange	Local Currency	Total Cost	Foreign Exchange	Local Currency	Total Cost	National	District	Total
A. Base Costs									
1 Consultants									
a. International Consultants - remuneration	648		648	648		648			
b. Local Consultants - remuneration		5,300	5,300		5,300	5,300			
c. Consultants - in-country operation		4,000	4,000		4,000	4,000			
2 School Development Fund									
a. School Improvement	5,487	19,453	24,940	5,487	19,453	24,940			
b. School Rehabilitation	4,937	17,503	22,440	4,937	17,503	22,440			
c. Mentoring/mentors operations	432	2,275	2,707	432	2,275	2,707			
3 District Education Development Fund	4,000	17,000	21,000	4,000	17,000	21,000			
4 Local government basic education programs	-	3,600	3,600	-	-	-		3,600	3,600
5 Training and Workshops	-	4,500	4,500	-	4,300	4,300		200	200
6 Equipment and Furniture	100	400	500	100	400	500			
7 Vehicles	250	250	500	250	250	500			
8 Research, Survey, and Studies	-	1,000	1,000	-	1,000	1,000			
9 Implementation, operation and maintenance	-	13,500	13,500	-	-	-	1,500		13,500
								12,000	
Subtotal (A)	15,854	88,781	104,635	15,854	71,481	87,335	1,500	15,800	17,300
B. Contingencies									
1 Price Contingencies	1,000	6,700	7,700	1,000	5,000	6,000	200	1,500	1,700
2 Physical Contingencies	665	3,300	3,965	665	2,400	3,065	100	800	900
Subtotal (B)	1,665	10,000	11,665	1,665	7,400	9,065	300	2,300	2,600
C. Taxes and Duties	-	5,100	5,100				2,900	2,200	5,100
D. Interest/charge during loan	3,600	-	3,600	3,600	-	3,600			
Total	21,119	103,881	125,000	21,119	78,881	100,000	4,700	20,300	25,000

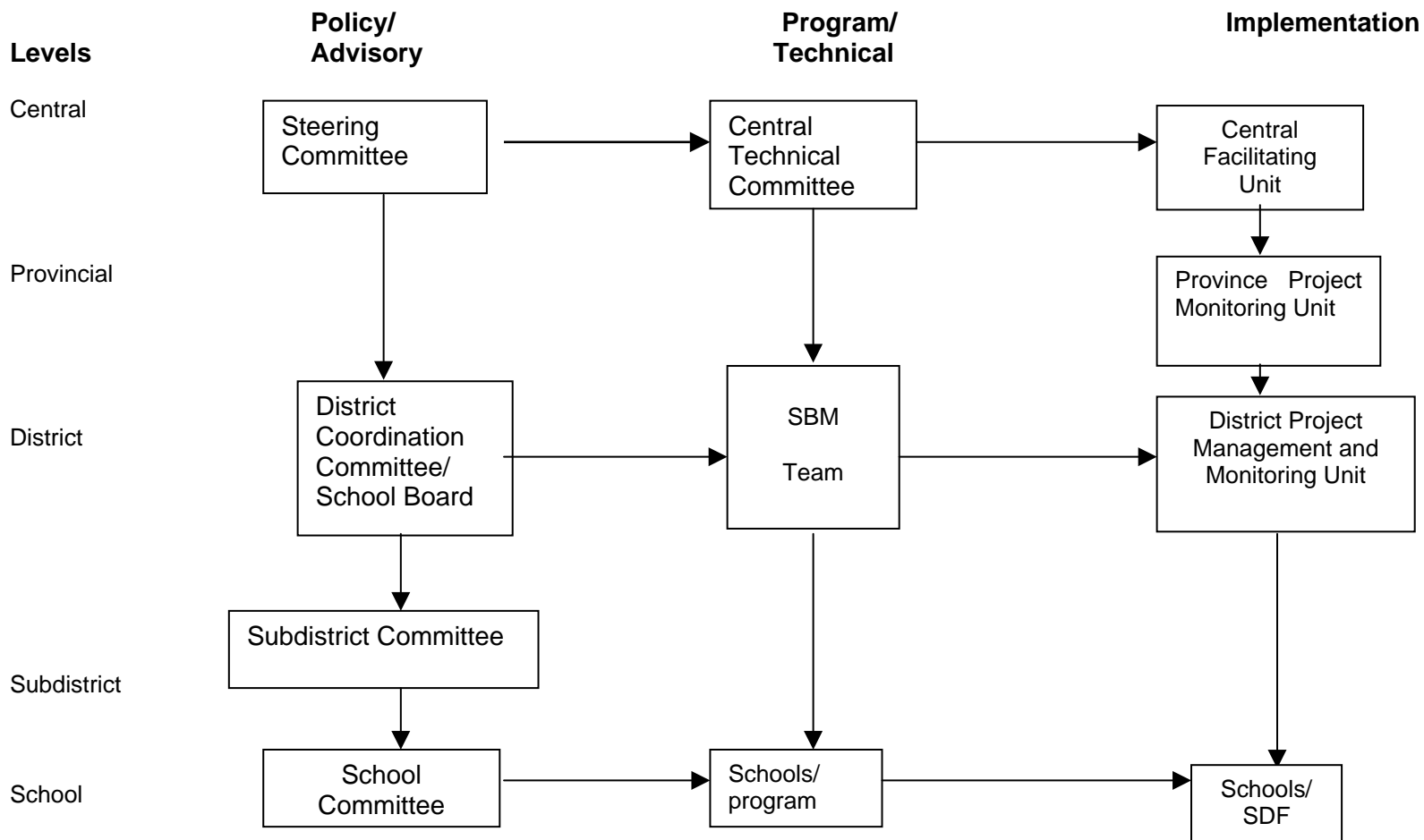
Legend: ADB - Asian Development Bank

Assumptions:

Price contingencies calculated for both the foreign cost components and the foreign exchange equivalent of the local cost using the international price escalation factors of 2.4 percent.

Physical contingencies are calculated at 4%:

PROJECT MANAGEMENT ORGANIZATION



SBM = school based management, SDF = School Development Fund

IMPLEMENTATION SCHEDULE

Item	Year Zero -2001				Year One- 2002				Year Two - 2003				Year Three - 2004				Year Four - 2005				Year Five -2006				Year Six - 2007				Year Seven - 2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Pre-implementation																																
Project Socialization																																
School mapping																																
Preparatory activities																																
Prepare consultant recruitment documents																																
Establish management committees and units																																
PHASE 1 (7 Districts)																																
Component A: School Development																																
Deployment of mentors																																
Socialization and community preparation																																
School selection																																
Training																																
School self-assessment																																
School improvement plans																																
SDF implementation																																
Component B: District Basic Education Development																																
Deployment of consultants																																
Socialization and community preparation																																
Self-assessment																																
District Capacity Development Planning																																
DEDF plan preparation																																
DEDF implementation																																
DEDF annual review																																
PHASE 2 (14 Districts)																																
Component A: School Development																																
Deployment of mentors																																
Socialization and community preparation																																
50 pilot schools selected																																
School selection																																
Training																																
School self-assessment																																
School improvement plans																																
SDF implementation																																
Component B: District Basic Education Development																																
Deployment of technical support																																
Socialization and community preparation																																
Self-assessment																																
District capacity development planning																																
DEDF plan preparation																																
DEDF implementation																																
DEDF annual review																																
Component C																																
Deployment of independent monitors																																
Monitoring evaluation and reporting																																
Performance tests																																

Legend:
 DEDF - District Education Development Fund
 SDF - School Development Fund

TERMS OF REFERENCE FOR CONSULTING SERVICES

1. A team of 2 international and 372 domestic consultants will be recruited for the project for a total of 36 and 2,363 person-months, respectively (Table A10). Consultants will be recruited in two packages district capacity building and implementation support, and independent monitoring, evaluation, and reporting.

Table A10: Summary of Consultant Requirements

Consultant	Number		Person- months	
	International	Domestic	International	Domestic
A. District Capacity Building and Implementation Support				
A-1 District Capacity Building				
Education Planning/management	1		12	
Organizational Development		1		24
Education planning/management		9		324
Teacher Development		1		36
Socialization/advocacy		1		30
A-2 Implementation Support				
Project management		1		60
Socialization/advocacy		1		30
Financial management		17		612
School rehabilitation/civil works		15		540
B. Independent Monitoring Evaluation				
Monitoring and Evaluation specialist				
- team leader	1		24	
Program compliance monitors		1		60
Financial compliance		1		60
Financial and program compliance		6		288
Benefit evaluation specialist		1		36
Test development		2		8
Item writers		15		4
Test administrator		300		200
Data preparation				3
Data entry				48
Total	2	372	36	2,363

A. District Capacity Building and Implementation Support

2. This package provides specialist inputs to support the districts in developing comprehensive and practical capacity building plans, with adequate attention to structural development, professional development of staff, and information support. Project implementation support is also provided to assist the Central Facilitation Unit (CFU) and district project management and monitoring units (DPMMUs) to implement the project efficiently and according to Asian Development Bank (ADB) procedures.

1. District Capacity Building (A-1)

3. **Education Planning/Management Specialist (Team Leader/International).** The consultant will assist the districts in steering the project activities on capacity building for educational management, taking an overview of the guidelines provided to

the district for planning and implementing activities supported by of the District Education Development Fund (DEDF).

4. **Organizational Development Specialist:** The consultant will complete a detailed analysis of the organization and management structures in the project districts to identify capacity-building challenges and constraints, and assist in prioritizing organizational development and capacity-building requirements.

5. **Education Planning/Management Specialists.** The nine domestic consultants will support capacity building for educational management under decentralization. They will be based in the three Provincial Project Monitoring Unit (PPMUs). But focus on the districts where they will provide intensive support to planning and implementing plans.

6. **Teacher Development Specialist:** The specialist, based at CFU, will take a systemic overview of teacher-development activities under the Project. He/she will advise on implementing better quality training and cost-effective modalities, including school-based training.

7. **Socialization/Advocacy Specialist.** This consultant will be based at CFU but work in the project districts to support public awareness and consensus-building activities on basic education, SBM, School Development Fund (SDF), and DEDF.

2. Project Implementation Support (A-2)

8. **Project Management Specialist:** The consultant will assist project implementation at central (CFU), provincial (PPMU) district (DPMMU) levels, ensuring coherent and consistent systems for project management, procurement, disbursement, and information flows for reporting, between the units.

9. **Socialization/Advocacy Specialist:** The consultant will support the Government and provincial plans for national campaigns to improve public awareness and consensus for basic education, SBM, SDF, and DEDF. He/she will advise on the use of public media as part of a socialization campaign.

10. **Financial Management Specialists.** The consultants to be based in each project district will assist DPMMU staff on the financial procedures associated with DEDF and SDF funds transfers. They will ensure proper internal procedures to disburse SDF/DEDF, and for timely, transparent, and accountable financial management and reporting.

11. **Civil Works Specialist.** The specialists will assist the districts to review facilities and the development components of the school development plans and verify that costing, design, and supervision procedures for any community-managed facilities development are within the project guidelines for that district. They will advise the DPMMU on the quality and costing of light rehabilitation works and will be available to schools seeking technical advice on planning such works.

B. Independent Monitoring, Evaluation and Reporting (MER)

12. This team will undertake independent monitoring, evaluation and reporting for (i) program compliance, to ensure adherence to procedures, (ii) financial compliance, to

verify financial procedures and probity; and (iii) benefits evaluation, to assess the benefit to schools and to poor children. The team will work independently and report to the Project Steering Committee (PSC) and ADB. Program and financial compliance activities are continuous throughout the project. Benefits evaluation will focus on a baseline, year 4 and year 7.

13. **Monitoring and Evaluation Specialist (Team Leader/International).** The consultant will be responsible for the quality, integrity, reliability, and validity of all independent monitoring activities and results. He/she will plan and manage independent MER and direct the work of the team. He/she will ensure that the indicators, data collection methods and analysis are robust and adequate.

14. **Financial Management Compliance Monitoring Specialist.** The financial management compliance monitoring specialist will design and implement a compliance-monitoring program to assure the integrity of the overall financial management system, in terms of project disbursement guidelines, and SDF and DEDF funds flow.

15. **Program Compliance Monitoring Specialist.** The specialists are responsible for developing and implementing a system to assure adherence to Decentralized Basic Education Project procedures, including those for selecting beneficiary schools, procurement, and reporting. He/she will manage the program of field investigation and report on anomalies, or systemic weaknesses in the procedures.

16. **Financial and Program Compliance Monitors.** The monitors will conduct random field checks on financial and program compliance covering districts, subdistricts, and schools. They will review procedures and activities at project beneficiary sites and DPMMU.

17. **Benefit Evaluation Specialist.** The consultant will conduct quantitative analysis of project benefits and design and implement longitudinal qualitative case studies in the benefit evaluation. The consultant will also evaluate the Project's impact on poor students.

18. **Test Development Specialists in Math and Bahasa Indonesia.** The consultant will develop a valid, reliable and future-proof test of basic skills in 5th and 8th grade for use in the three benefits evaluation studies. They will ensure that the tests are piloted and will train field workers to administer them.

19. **Item Writers.** The consultant will write a bank of items for the subject tests and assist with categorizing them.

20. **Test Administrators and National Examination Invigilators.** The consultant will oversee testing of children in sample schools at baseline, mid-point and end-of-project. They will both administer the project's own test and invigilate school exams to ensure a clean sample of examination results in sample schools.

21. **Data Preparation Specialist.** The consultant will design the formats, procedures and entry screens for data entry ensuring validation and reliable entry of data from the studies.

22. **Data Entry Personnel.** Data entry personnel will update and maintain monitoring, evaluation and reporting databases.

C. Mentoring

23. In addition to the consultancy services, a team of mentors for School Based Management (SBM) will be recruited to provide orientation, training and facilitation services to schools and communities on SBM, school improvement plans (SIPs), and implementation. Table B10 describes the mentoring services for SBM. The mentors will work intensively with schools and communities throughout the Project and provide on-the-job training in SBM and improvement plans, with regular follow-up on each school for three years to facilitate SIP implementation.

Table B10: Mentoring Services for SBM

Consultant	Number		Person- months	
	International	Domestic	International	Domestic
Mentor System Manager School Management	1	1	24	48
Mentor Team Leaders		12		636
Mentors		85		4,860
Total	1	98	24	5,544

24. **Mentor System Manager (Team Leader/International).** The mentor system manager will assist the Central Technical Committee (CTC) and SBM Team to structure and manage the mentoring system. The manager will oversee the mentor scheme, including organizing training, and support for mentors and the system for quality control of the mentors' work.

25. **School Management Specialist.** The consultant will support SBM activities and school/community level mentoring. The specialist will have a professional overview of the SBM activities of the project, with responsibility for training mentors, sharing best practices and to identifying systemic constraints to SBM.

26. **District Mentor Team Leaders.** District Mentor Team Leaders will be based in the districts and will report to the school board through the SBM team. They will take district-level responsibility for planning the day-to-day work of mentors and supervising that work. Four mentor team leaders will also assist with project inception activities, including preparing training materials and a reporting framework for mentors.

27. **Mentors.** Mentors will work intensively with project schools and communities to assist them to understand and institutionalize the principles of SBM. Mentors will work in pairs with about 15 schools during 2-3 months of intensive capacity building and will make follow-up visits as the school improvement plans are being implemented. They will familiarize themselves with each school and ensure that project activities and spending suit the school and community needs.

INDICATIVE PROCUREMENT PACKAGES

Procuring Entity and Items	Indicative Package Amount	Mode of Procurement
Center		
1. Office Equipment for Central Facilitation Unit	50,000	Direct Purchase
Province		
1. Office Equipment for Provincial Monitoring Unit	30,000	Direct Purchase
District		
1. Office equipment for district project management unit	30,000	Direct Purchase
Vehicles for district project management unit	15,000	Direct Purchase
2. Teacher development programs	100,000	Local Competitive Bidding
3. Capacity building/staff development programs	100,000	Local Competitive Bidding
Schools		
1. School rehabilitation	12,000	Community
2. Textbooks and instructional materials	6,000	Direct Purchase

Funds Flow and Disbursement Procedures for School Development Fund and District Education Development Fund

1. To expedite the disbursement of loan funds, the Government will channel part of the loan proceeds into an imprest (special) account in Bank Indonesia (BI). The imprest account will be established, managed, replenished, and liquidated in accordance with the Asian Development Bank's (ADB's) *Loan Disbursement Handbook* and arrangements agreed upon by the Government and the ADB as detailed here. The deposit for the imprest account will not exceed \$10.0 million. The account will be used to direct the loan proceeds through two systems of funds channeling: one for the School Development Fund (SDF) and another for the District Education Development Fund (DEDF) and for other project expenditures. The systems are shown in Figures A12.1 and A12.2.

A. School Development Fund (SDF)

2. Eligible primary schools (Appendix 6) will prepare and send school improvement plans (SIPs) to the subdistrict coordinating committee and eligible junior secondary schools to the District Coordinating Committee (DCC). Each SIP will be for three years, with an annual rolling plan budget. Upon approval of the SIP, the schools will open a separate bank account in a district/subdistrict branch of the selected bank¹ to transfer SDF funds. If this bank has no such branches near the school, the school will open the bank account at the closest bank in its locality. Once the committees approve the school proposals, the DCC issues a decree signed by the chairperson DCC. The decree will contain the list of schools, their bank account information, and amount of funds to be transferred from the BI to each school for the first year. The first year budget represents tranche one, i.e., the approved planned expenses for the first year of the schools' activities.

3. The District Project Management and Monitoring Unit (DPMMU) will send a copy of the decree to Central Facilitation Unit (CFU) and to the district branch of the selected bank. Based on the decree, CFU will send the payment request to Ministry of Finance (MOF) to request for transfer of funds, and MOF will issue a payment order to BI to transfer the SDF funds to the central branch of the selected bank. Upon receiving the funds, the central branch through an "information note" informs its district branch of the availability of funds. Immediately following this advice, the district branch bank will transfer the SDF funds for the first tranche directly to the bank accounts of schools.

4. The schools will submit to the DPMMU quarterly financial and annual program reports. Based on these reports, the second year plan of activities and budget may be revised. Upon satisfactory review of financial and program reports by DPMMU and DCC, the second tranche for the second year budget will be released from BI to the school bank accounts in the same manner as in the first year. The same review and approval of reports will be necessary for the release of the third and last tranches of SDF.

5. Within three months of each funds transfer from BI to the school bank account, DPMMU will prepare the statement of expenditures (SOE) summarizing the SDF funds provided to the schools of the entire district by category, i.e., for school improvement and facilities improvement.

¹ The bank will be a state-owned commercial bank, which will be selected by the Ministry of Finance (MOF) for the transfer of SDF funds. MOF will discuss and negotiate with 2-3 such banks for the best terms and conditions this task. The bank should agree to transfer funds without charging transfer fees, to transfer the funds as directed by the DCC decree in the most efficient and timely manner; and the transactions are subject to independent audit of the Project expenditures. MOF will issue a decree to give the details of the agreement on the tasks to be performed by the selected bank.

DPMMU will use the bank statements from the bank district branch, attach these to the SOE, and submit these to CFU. MOF will send a copy of the payment order, BI statement, and bank statement of the commercial bank central branch to CFU. CFU will prepare the withdrawal applications based on district SOEs, attach the relevant BI statement, payment order and commercial bank's statements, and submit them to MOF for endorsement and submission to ADB for replenishment of the imprest account held at BI. The transfers from the district branch of the commercial bank to schools' bank accounts according to the approved SDF budget tranche will serve as the basis for SOE.

6. The Government will submit to ADB with appropriate evidence that the Government is also disbursing counterpart funds for the parallel activities during ADB's review missions. The appropriate evidence will be based on the payment orders of Government expenditures for project activities financed from the central Government and regional budgets.

B. District Education Development Fund (DEDF)

7. The DPMMU in each district will submit a five-year plan as well as an annual rolling plan and budget to the DCC/school board. After DCC's review and endorsement, the DEDF plan will be submitted to the Central Technical Committee (CTC) for approval, and CTC will inform CFU of the approval. Based on this approval, CFU will inform the paying office of MOF in the district and DPMMU of the amount to be transferred. DPMMU will then send a payment request to the paying office in the district to transfer the funds from BI to DPMMU project bank account, through a payment order. This amount will represent the planned expenses for the first six months program of activities of DEDF (first tranche).

8. DPMMU will submit a quarterly financial report and an annual program report to CFU. The second tranche for the second six months activities will be released from the BI to DPMMU project bank account in the same way through the paying office in the district office at the request of DPMMU, following satisfactory review of the first quarterly financial report by CFU. The second and subsequent years' release of funds from the BI to DPMMU will depend upon a satisfactory review of both the financial and program reports. Revisions and adjustments may also be made to the second and subsequent years' plan and budget.

9. Within one month of each funds' transfer from BI to DPMMU, DPMMU will obtain a copy of the payment order from the paying office in the district and send it to CFU, and MOF will provide a copy of the BI statement to CFU. CFU will prepare the withdrawal applications and attach the relevant BI statement and payment order, and submit them to MOF for endorsement and submission to ADB for replenishment of the imprest account at BI. The transfers from district paying office from BI to the DPMMU bank account according to the approved DEDF budget tranche will serve as the basis for SOE.

POVERTY AND SOCIAL ASSESSMENT

A. Poverty in the Project Area

1. The incidence of poverty in the project area varies considerably from 4 percent in DKI Jakarta to 33 percent in Nusa Tenggara Barat (NTB). While DKI Jakarta has a fairly low percentage of population below the poverty line, its Gini coefficient (indicating the gap in income between the rich and the poor) is the highest in the country. This suggests that other poverty indicators for DKI Jakarta, particularly those based on population “averages”, do not necessarily reflect the reality of poverty in Jakarta. During the economic crisis, DKI Jakarta had one of the largest reductions in primary and junior secondary school enrollment.¹ Bali is among Indonesia’s more developed provinces. The human development index places Bali 8th of the country’s 30 provinces. However, the province has many communities that can be classified as remote or isolated and there are emerging signs of an increase in poverty. Poverty is evident in agricultural and fishing villages, particularly around seaports in the northern part of the province. NTB is among the poorest and least developed provinces in Indonesia. As ranked by the human development index NTB is 26th of 30 provinces. NTB has the characteristics of traditional poverty, i.e., tenant agriculture or fishery-based and subsistence economy, where poor families lack cash-generating employment.

2. Indonesia has been relatively successful in providing access to primary education in even the most remote villages. There is only a 3 percent difference in net enrollment rates in primary school between households in the lowest and highest expenditure quintiles. Enrollment from poor households at junior secondary level is significantly below that of children from wealthier households. There is a 35 percent difference in enrollment of children between households in the lowest and highest quintiles. This difference is caused by a number of factors including the quality of the primary school experience and the significantly higher cost of a junior secondary education due to the need for transportation, uniforms, books, and fees, and physical access to junior secondary schools in remote areas.

B. Poverty Targeting

3. Poverty targeting will be implemented through a two-step process based on area targeting and local knowledge about the schools and their clientele. Allocation to districts has been done based on the incidence and depth of poverty. Districts with a relatively high concentration of the poor will receive a high level and proportion of the school development fund as well as district education development fund. Districts with a lower concentration of poverty will receive DEDF using appropriate criteria to target individual poor students.

4. For allocation purposes at the subdistricts, ranking according to welfare indicators will be used to identify areas with a high concentration of the poor. Primary and junior secondary schools will be targeted by different criteria to take into account local variables such as application-to-enrollment ratios (a favored or better-off school will have a high application-to-enrollment ratio), low average scores on final State Exams (NEM), physical condition of the school, dropout rates, and local knowledge based on feedback from the surveys.

C. Project Benefits and Impact on Poverty

1. Project Beneficiaries

5. The principal target groups are primary (age 7-12 years) and junior secondary (age 13-15 years) school-age children from low-income households (two lowest income quintiles) in 21

¹ The British Council. *The Impact of Scholarships and Grants Program*. Jones, Hagul, and Damayanti. May 2000.

districts in DKI Jakarta, Bali and NTB. The Project is estimated to benefit about 1,256,097 children: 243,580 or about 13.0 percent of the school-age children in DKI Jakarta, about 156,971 or 25.0 percent of school-age children in Bali, and about 855,549 children or 75.0 percent of the school aged children in NTB. By targeting poor children through the use of poverty indicators, the Project will benefit approximately 871,766 primary school children and 161,972 junior secondary school children from families below the poverty line. Table A13 shows that approximately 72.25 percent of student beneficiaries are from families below the poverty line.

6. The Project is estimated to benefit 3,209 primary and junior secondary schools, of which approximately 64 percent will be in NTB. The Project will improve the schools' ability to deliver basic education, improved education quality, and services tailored to the needs of low-income and poor families. Such families will be identified through direct parent-school communication to remove constraints to the educational achievements of the children. Furthermore, about 31,000 teachers and 3,209 school principals will benefit from the Project through improvement of (i) teacher effectiveness (mastery of subject and teaching methodologies); (ii) school leadership/management; and (iii) policies, procedures, and standards, including teacher assignment/management policies, budget/resource allocation, curriculum, and learning assessment tools.

2. Expected Social and Poverty Reduction Impacts

7. By improving poor children's access to quality basic education, the Project will help improve beneficiary children's opportunities for further education. Employment and hence better earnings will help break perpetuating intergeneration poverty. Recent studies in Indonesia² revealed that in the 16-60 years age group, those who completed primary school earn 38.4 percent more than those who did not. Assuming that each of the six grades of primary school yields the same increment to earnings, this implies that earnings increase by 5.6 percent for each grade at the primary level. Completion of junior secondary education yields an additional earning increment of 34.4 percent, or 10.4 percent for each of the three years. Senior secondary education yields another 59.8 percent increase in earnings, or 16.9 percent for each of the three years. The average 5.6 percent annual private return per additional year of schooling at the primary level and 16.9 percent at the secondary level provide a strong private incentive for households, particularly poor families, to send their children to primary and secondary schools.

8. Benefits go beyond the increased income-earning capacity. Education and basic schooling, in particular, can generate improvements in the quality of life of the population. While Indonesia has achieved almost universal participation at the primary school level, the quality of education has a direct impact on the students' ability to make the transition and complete junior secondary education. Hence, to complete nine years of education, it is crucial to improve the quality of primary education. In addition, participation in junior secondary education yields additional benefits beyond the labor market and results in improved outcomes in a number of important socioeconomic indicators. For example, women who have some secondary education have a significantly lower total fertility rate than women who have only primary education. Longer schooling delays the age of first marriage. Women with lower levels of education are less likely to seek prenatal care and more likely to use traditional birth attendants; hence, they are more vulnerable to the risks of childbirth. Women with some secondary

² *Draft Economic Analysis for Basic Education IV Project*, Deon Filmer, World Bank 2001, based on analysis of labor force survey in Indonesia (SAKERNAS 1998).

education have 40 percent lower infant mortality rates and child mortality rates than women who completed only primary school education.³

Table A13: Estimated Project Beneficiaries

Indicator	DKI Jakarta	Bali	NTB	Total/ Average
Population aged 4-15 years	1,931,044	637,447	1,138,918	3,707,409
Children 4-15 years below the poverty line	96,034	74,294	466,083	636,411
Percentage of children 4-15 years below the poverty line	5.81	10.83	41.18	19.27
Primary students at SDF schools	91,573	43,952	288,772	424,296
Junior secondary students at SDF schools (2002)	51,726	56,412	187,300	295,438
Beneficiary Children				
SDF and DEDF beneficiaries	243,580	156,971	855,549	1,256,097
Poor primary SDF beneficiaries	166,211	64,360	479,223	709,794
Poor Junior Secondary School – SDF beneficiaries	16,503	26,345	119,124	161,972
Poor DEDF beneficiaries	6,177	7,046	57,764	70,987
Poor SDF and DEDF beneficiaries	138,834	101,304	656,142	896,280
Percent poor to the total beneficiaries	58.00	63.33	76.57	72.25
Beneficiary Schools				
Total primary and junior secondary schools	4,963	3,071	4,077	12,111
SDF beneficiary schools	522	501	2,186	3,209
Percentage of SDF beneficiary schools	11.0	16.0	54.0	27.0
Teacher beneficiaries	5,000	6,000	20,000	31,000
Beneficiary primary and junior secondary school principals	522	501	2,186	3,209

DEDF = District Education Development Fund, SDF = School Development Fund
Source: Socioeconomic Survey (SUSENAS), 1999.

³ BPS Demographic and Health Survey. 1997.