

**ASIAN DEVELOPMENT BANK**

**TAR: INO 34745**

**TECHNICAL ASSISTANCE**  
(Cofinanced by the Government of Australia)

**TO THE**

**REPUBLIC OF INDONESIA**

**FOR PREPARING THE**

**MADRASAH EDUCATION DEVELOPMENT PROJECT**

**December 2004**

## **CURRENCY EQUIVALENTS**

(as of 7 December 2004)

Currency Unit	–	rupiah (Rp)
Rp1.00	=	\$0.000110
\$1.00	=	Rp9,068

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
EMIS	–	education management information system
MONE	–	Ministry of National Education
MORA	–	Ministry of Religious Affairs
TA	–	technical assistance

## **TECHNICAL ASSISTANCE CLASSIFICATION**

<b>Targeting Classification</b>	–	Targeted intervention
<b>Sector</b>	–	Education
<b>Subsector</b>	–	Education sector development
<b>Theme</b>	–	Inclusive social development

## **NOTE**

In this report, "\$" refers to US dollars.

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## I. INTRODUCTION

1. The Asian Development Bank (ADB) has supported the development of madrasah education in Indonesia since the early 1990s. During the 2003 Country Strategy and Program Update Mission, the Government of Indonesia confirmed its request to have ADB continue assistance to this sector by providing project preparatory technical assistance (TA) for the development of the Madrasah Education Development Project. The Fact-Finding Mission took place in March 2004, with a follow-up mission in April 2004. The missions reached understanding with the Government regarding the goals, purpose, outputs, scope, implementation arrangements, and costs and financing of the TA and the terms of reference for the consultants.<sup>1</sup>

## II. ISSUES

2. The national education system includes public and private secular schools under the auspices of the Ministry of National Education (MONE) and public and private Islamic schools, or madrasah, managed and regulated by the Ministry of Religious Affairs (MORA). A new education law (no. 20 of 2003) has established the basis for a national education system covering all providers, which will be subject to standards set and enforced by MONE. Public MONE schools form by far the largest education subsystem and cater to 72.3% of students, followed by private MONE schools with 14.7%, private madrasah with 10.5%, and public madrasah with 2.5%.

3. Madrasah contribute significantly to the Government's efforts to achieve universal 9-year basic education because they serve the poor, are inexpensive, and operate in rural and isolated areas that offer few other educational opportunities. National education statistics confirm their importance. While the Government has made good progress in achieving high national gross participation rates in basic education, raising enrollment in rural areas and among hard-to-reach groups has proven difficult. Having achieved 100% gross participation in primary education, current Government policy focuses on increasing participation in junior secondary education from 81% to 95% by 2008. Gross enrollment rates for the 3-year senior secondary level are only 41%. At both the junior and senior secondary levels, enrollments are much lower in rural areas. The result, for rural areas in particular, is a highly pyramidal system. Nationally, only 46% of students entering Grade 1 graduate from basic education (primary and junior secondary) and only 30% graduate from the next level (senior secondary). The resources of the madrasah system could be harnessed more effectively than at present in national efforts to expand access to basic and senior secondary education among girls, hard-to-reach groups, and in rural areas.

4. Around 38,500 madrasah provide schooling to 5.7 million students. During the past decade, enrollments have increased steadily at all levels. The most significant contribution of madrasah to the national education system is at the junior secondary level, where they enroll 21% of all students. More than 50% of madrasah students are girls and more than 50% are the children of farmers or laborers. While all madrasah were originally founded by nonprofit, charitable foundations, some 10% have been converted to public ownership under MORA. Madrasah foundations range from local foundations running one madrasah, usually small and in a remote area, to national foundations running more than 500 madrasah.

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<sup>1</sup> The TA first appeared in *ADB Business Opportunities* (Internet edition) on 28 October 2003 and was last updated on 14 June 2004.

5. In 2001, MONE public and private schools were decentralized to the district level as part of the national decentralization of social services, but madrasah were left under the central authority of MORA. However, following the Decentralization Law (no. 22 of 1999), MORA has begun preparing for the decentralization of madrasah by drafting a Government regulation that will regulate the decentralization of madrasah to districts on a voluntary basis.

6. In preparation for the proposed Project, and as an input into a larger review of basic education sponsored by the World Bank,<sup>2</sup> in 2003 MORA commissioned a comprehensive madrasah education sector assessment with support from the Government of Australia and ADB.<sup>3</sup> The assessment reviewed the quality of madrasah education, the governance and management of madrasah, and the financing and decentralization of madrasah and recommended reforms in each of these key areas. A key recommendation of the assessment was that madrasah should be decentralized to districts in a phased manner like other social services.

7. **Quality of Education.** To support the integration of madrasah into the national education system, madrasah are now required to follow the national curriculum (with additional instruction in Islam). However, the quality of madrasah education, as measured by pupil performance on national examinations, continues to be low. The most significant cause of this low performance is the poor quality of teaching. Many teachers work part-time and most are only qualified to teach religious education. Other significant causes of low educational quality are a lack of textbooks and instructional materials and poor physical facilities.

8. **Governance and Management.** New laws on decentralization, education financing, financial management, and the national education system have significantly changed the environment in which madrasah operate. The governance and management of madrasah must adapt to these new circumstances, which include participatory decision making through school committees, publicly accountable financial management systems, quality improvement plans, and related business plans.

9. **Financial Sustainability.** The Government is trying to reduce the funding gap between the public and private education sectors and between madrasah and other schools. Both public and private madrasah are less well funded than MONE public and private schools. National guidelines are needed to help districts allocate funds equitably to ensure the financial sustainability of private schools and madrasah after they have been decentralized. The use of block grants and funding tied to performance agreements with madrasah will promote good governance. Encouraging the establishment of endowment funds for madrasah would be another option for improving their financial sustainability.

10. **Social and Gender Equity.** As madrasah serve predominantly poor rural communities and girls, affirmative action is needed to ensure that these children are not disadvantaged. Madrasah could play an important role in increasing the access of rural children and girls to secondary education, thereby helping the Government achieve the national goal of 9 years of compulsory education. Scholarship programs, improved classrooms, and programs aimed at increasing completion and transition rates are needed. Remedial programs are also needed to support children with weak education backgrounds. In addition, many children in poor communities, both boys and girls, have little access to health care. School health clinics would

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<sup>2</sup> World Bank. 2004. *Education Sector Review*. Jakarta.

<sup>3</sup> MORA. 2004. *Madrasah Education Sector Assessment*. Jakarta.

help identify health issues among students and promote health education. Women play important roles as madrasah teachers, but are less often employed as principals.

11. **Policy Issues.** The Government's main policy thrust for madrasah is to integrate them into the national education system and reduce the quality gap between MONE schools and madrasah. To this end it is requiring madrasah to follow the national curriculum, have their students take national examinations, and adhere to national minimum learning standards once they are approved. In addition, they will eventually have to participate in a unified accreditation system. The issue of decentralizing madrasah in line with the decentralization of other social services remains controversial. The policy MORA is proposing accommodates these reservations by making decentralization voluntary. The Project will support reform measures that ADB has discussed with the Government in the areas of madrasah financing, governance, and teacher recruitment and training. The Government's strategy is in line with (i) ADB's policies to support poverty reduction and quality basic education for all by focusing on hard-to-reach groups such as girls and low-income families in rural areas; and (ii) ADB's Country Strategy and Program Update for Indonesia, which emphasizes that the madrasah system must be brought up to the standard of the mainstream education system. Indonesia's profile in relation to the Millennium Development Goals for education shows that it has almost achieved universal primary education and gender parity in primary and secondary education. Primary completion rates may reach 100% by 2015, as they have improved steadily over the last two decades.

12. **Lessons Learned.** ADB has assisted madrasah education since the mid-1990s, mainly through two projects aimed at improving the quality and management of public madrasah education and integrating it into the national education system.<sup>4</sup> ADB has also assisted both public and private madrasah through two other projects that followed a systemwide approach by strengthening local education systems, of which madrasah are a part.<sup>5</sup> These projects have laid a good foundation for the improvement of madrasah education and will form the basis for the proposed Project. However, their experience shows that more fundamental changes, as outlined in para. 11, are necessary to achieve sustainable quality improvement. In designing the pilot decentralization of madrasah, the Project will promote the integration of madrasah into the district education system and follow a systemic approach to local education development.

13. Lessons learned from earlier assistance illustrate the importance of (i) strong buy-in by all stakeholders in relation to any major reforms proposed for madrasah, (ii) close collaboration with the private madrasah sector to ensure that strategies are acceptable and appropriate and are adapted to the sector's special characteristics, (iii) local ownership of reforms, and (iv) independent monitoring and evaluation to strengthen the governance and accountability of project management.

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<sup>4</sup> ADB. 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Indonesia for the Basic Education Project*. Manila; ADB. 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Indonesia for the Development of the Madrasah Aliyah Project*. Manila.

<sup>5</sup> ADB. 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Indonesia for the Second Junior Secondary Education Project*. Manila; ADB. 2001. *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*. Manila.

### III. THE PROPOSED TECHNICAL ASSISTANCE

#### A. Purpose and Output

14. The objective of the TA is to design a project for the development of madrasah education. The overall goal of the proposed Project is to enhance the quality and national coverage of 9 years of compulsory basic education. The purpose of the proposed project is to promote closer integration of public and private madrasah at all levels into the national education system, and improve the quality, equity, governance and management of madrasah.

15. The output of the TA will be a project design that will (i) improve the quality of education in madrasah through better teaching and learning resources and better trained teachers, strengthened selected madrasah so that they become model or “smart” schools, and enhanced quality assurance systems; (ii) improve social equity by providing financial and academic support to disadvantaged children, extending access (especially to girls and to indigenous groups if appropriate), and establishing madrasah health clinics; (iii) improve the management and financial sustainability of madrasah by reducing financing gaps between MONE public and private schools and madrasah, introducing block grants linked to performance agreements, reducing inefficiencies in the allocation of civil service teachers, establishing transparent financial management in madrasah, and establishing school committees in madrasah; (iv) facilitate decentralization in selected districts by developing national and local policies and the legal framework needed for decentralization, strengthening districts’ organizational structures and capacity to govern and manage the madrasah system, and decentralizing the information management system; and (v) assess and address the impact of decentralization on MORA’s structures and functions. The proposed project framework is in Appendix 1 and the initial poverty and social analysis is in Appendix 2.

16. The proposed Project will consist of a project loan and piggybacked advisory TA for independent monitoring and evaluation of the Project. The Project will focus on the long-term sustainability of the investments to be made and of those made under earlier ADB projects. Options for incorporating the proposed policy reforms into the Project will be explored during the TA. To support sustainable quality and management improvements, the proposed Project will select madrasah and pilot districts based on eligibility criteria to be developed during the TA that will include good governance.

#### B. Methodology and Key Activities

17. Major stakeholders, including MORA; MONE; national, regional, and local madrasah operators; local governments; district education councils; madrasah principals, teachers, and parents; and local communities, are among the groups that will be consulted during project preparation. Regular planning and consultation workshops will be held with representatives of the districts selected for piloting the madrasah decentralization.

18. The TA team will (i) update previous sector work; (ii) validate the proposed project framework; (iii) confirm the status of pending legislative amendments and regulations necessary for decentralizing madrasah; (iv) liaise with the [National Development Planning Agency](#) and MONE on Government policy on financing of the private madrasah education sector; (v) select the project districts; (vi) design and estimate the capacity building and resource requirements of these districts; (vii) estimate the resources required for quality improvements in madrasah, and establishing independent accreditation agencies in these districts; (viii) review the recruitment, deployment, and preservice education of madrasah teachers and recommend more effective

systems; (ix) estimate the resources needed to upgrade the management skills of foundations, school committees, and principals; (x) recommend a new formula to use in allocating education budgets to schools and madrasah; (xi) examine the feasibility of establishing endowment funds for madrasah, design a scholarship scheme for poor students, and prepare a gender strategy; (xii) develop a project monitoring and evaluation system, develop guidelines and mechanisms to increase accountability, and adopt measures to prevent fraud and corruption; (xiii) recommend ways to strengthen project management skills and accountability; and (xiv) prepare a detailed assessment of district readiness in accordance with Government project readiness criteria.

### **C. Cost and Financing**

19. The total cost of the TA is estimated at \$1.5 million equivalent, of which \$804,000 equivalent is the foreign exchange cost and \$696,000 equivalent is the local currency cost. The Government has requested that a grant be provided of \$1.2 million equivalent, covering the entire foreign exchange cost and \$396,000 equivalent of the local currency cost. ADB will provide \$600,000 on a grant basis from the TA funding program. The Government of Australia will cofinance \$600,000 on a grant basis. The Australian funds will be administered by ADB. The Government will finance the balance of the local currency cost, equivalent to \$300,000, through the provision of counterpart staff, local travel, office accommodation, and administrative and secretarial support. Cost estimates and the financing plan are shown in Appendix 3. The Government has been advised that approval of the TA does not commit ADB to financing any ensuing Project.

### **D. Implementation Arrangements**

20. The executing agency for the TA will be MORA's Directorate General of Islamic Institutions. Close collaboration will be maintained with the Office of the Secretary-General in MORA and the Task Force working on madrasah decentralization. MORA will set up a TA implementation team, which will include representatives from MORA, [National Development Planning Agency](#), Ministry of Finance, Ministry of Home Affairs, and MONE, that will meet monthly to discuss all aspects of the project design. The TA will begin in March 2005 and end in September 2005, with a 2-week break after 3 months to give the Government time to review the proposal and undertake national consultations. During the second phase, the consultants will revise and finalize the project design in line with the feedback received.

21. The TA will require 29 person-months of international and 32 person-months of domestic consulting services. Using ADB's quality- and cost-based selection method, international and domestic consultants will be recruited through an international consulting firm using a full technical proposal in accordance with ADB's *Guidelines on the Use of Consultants*. The international consulting firm will be responsible for organizing and facilitating all workshops and procuring equipment. Procurement under the TA will be in accordance with ADB's *Guidelines for Procurement*. Outline terms of reference for the consultants are in Appendix 4.

## **IV. THE PRESIDENT'S DECISION**

22. The President, acting under the authority delegated by the Board, has approved (i) ADB administering a portion of technical assistance not exceeding the equivalent of \$600,000 to be financed on a grant basis by the Government of Australia, and (ii) ADB providing the balance not exceeding the equivalent of \$600,000, on a grant basis, to the Government of Indonesia for preparing the Madrasah Education Development Project, and hereby reports this action to the Board.

### PRELIMINARY PROJECT FRAMEWORK

Design Summary	Performance Indicators and Targets	Monitoring Mechanisms	Assumptions and Risks
<p><b>Goal</b> Enhanced quality and nationwide coverage of 9 years of compulsory basic education</p>	<ul style="list-style-type: none"> <li>• Net enrollment ratios for primary and junior secondary education increased</li> <li>• Disparities in coverage reduced</li> <li>• Transition to senior secondary education from schools in rural and poor areas increased</li> </ul>	<ul style="list-style-type: none"> <li>• MORA and MONE national and district EMIS statistics</li> </ul>	
<p><b>Purpose</b> Strengthened madrasah increase access to quality education for poor students, girls, and hard-to-reach groups</p>	<ul style="list-style-type: none"> <li>• Increased enrollments in junior and senior secondary education with madrasah contributing to the increase</li> <li>• Increased net enrollment ratios in underserved areas</li> <li>• Increased enrollment and completion rates among girls</li> <li>• Improved student performance in poor rural areas</li> <li>• Reduced disparities in final examination scores between schools and madrasah at all levels</li> <li>• Decreased repetition and dropout rates and increased completion and transition rates for madrasah</li> </ul>	<ul style="list-style-type: none"> <li>• District and national examination results</li> <li>• District EMIS statistics</li> <li>• District transition rates</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• A unitary basic education system has been established.</li> <li>• Government at all levels will support private education.</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>• Regulations for successful decentralization of madrasah will not be issued.</li> </ul>
<p><b>Outputs</b></p> <p><b>A. Quality of Madrasah Education Upgraded</b></p> <p>(i) Teaching and Learning Resources Improved to meet National Minimum Learning Standards</p> <ul style="list-style-type: none"> <li>• Education resources in needy madrasah upgraded to meet minimum learning standards</li> <li>• Textbooks and supplementary materials in core subjects are appropriate and sufficient for all pupils</li> </ul>	<ul style="list-style-type: none"> <li>• Science laboratories, science kits, libraries, books, computer laboratories, and computers provided to xx madrasah</li> <li>• Block grants for textbooks and materials provided to xx madrasah</li> <li>• Contextual learning materials provided</li> </ul>	<ul style="list-style-type: none"> <li>• Project quarterly reports and independent monitoring reports</li> <li>• Project quarterly reports and independent monitoring reports</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Madrasah selected will meet minimum criteria for sustainability and viability.</li> <li>• New resources will be targeted toward improving quality.</li> <li>• Capacity for efficient use of block grant funds exists.</li> </ul>

Design Summary	Performance Indicators and Targets	Monitoring Mechanisms	Assumptions and Risks
<ul style="list-style-type: none"> <li>• A quality assurance system for public and private madrasah established</li> </ul> <p>(ii) Quality Of Teaching in Madrasah Improved</p> <ul style="list-style-type: none"> <li>• Number of qualified teachers in subjects where there is a shortage increased</li> <li>• Competency-based training program that provides certification for all teachers introduced</li> <li>• Reforming preservice teacher education for madrasah teachers to ensure a sustainable supply of trained teachers in core subjects</li> </ul> <p>(iii) Improve the Quality of Selected Madrasah to Achieve High Educational Standards</p> <ul style="list-style-type: none"> <li>• Selected madrasah strengthened to meet standards of excellence</li> </ul>	<ul style="list-style-type: none"> <li>• New system established in madrasah development centers</li> <li>• xx teachers qualified through upgrading program to teach two subjects</li> <li>• Proportion of teachers unqualified for their teaching subjects reduced by xx%</li> <li>• xx teachers from public and private madrasah certified</li> <li>• Teachers achieve all competencies in final test</li> <li>• Teachers certified</li> <li>• Enrollments and graduates in secular subjects increased by xx%</li> <li>• All graduates have two teaching subjects</li> <li>• Examination results and transition rates to good quality institutions equal to those of the best schools</li> </ul>	<ul style="list-style-type: none"> <li>• Project quarterly reports and independent reports</li> <li>• Review of plan</li> <li>• Project quarterly reports on number of teachers trained</li> <li>• Madrasah reports on any remaining mismatched teachers</li> <li>• Review of test and modules</li> <li>• Project quarterly reports and independent reports</li> <li>• Project quarterly reports and independent reports</li> <li>• Field visits</li> <li>• Participant evaluations</li> <li>• Project quarterly reports</li> <li>• Examination results and transition rates</li> </ul>	<ul style="list-style-type: none"> <li>• Madrasah development centers will have the capacity to carry out quality assurance functions.</li> </ul> <p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Compulsory in-service training implemented according to defined objectives.</li> <li>• Substitute teachers replace trainees.</li> <li>• Test will measure competencies reliably.</li> <li>• Teachers trained according to test results.</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>• Institutions and faculty will not be supportive of the reforms.</li> </ul> <p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Weaker teachers and principals are redeployed if necessary.</li> </ul>
<p><b>B. Equity for the Poor Enhanced</b></p> <ul style="list-style-type: none"> <li>• Safety net program for poor pupils established</li> <li>• Access and completion rates for hard-to-reach children in underserved areas, especially girls, improved</li> <li>• School health service established to ensure that conditions likely to</li> </ul>	<ul style="list-style-type: none"> <li>• xx children from low-income families in remote and underserved areas receive scholarships</li> <li>• xx additional or refurbished classrooms provided</li> <li>• xx remedial programs established to improve completion rates</li> <li>• xx school health clinics established in madrasah in poor areas</li> </ul>	<ul style="list-style-type: none"> <li>• Project quarterly reports and independent monitoring reports</li> <li>• Project quarterly reports</li> <li>• Independent monitoring reports</li> <li>• Project quarterly reports</li> <li>• Independent</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Families will allow poor children and girls to complete their schooling.</li> <li>• Parents will have children undergo medical treatment after</li> </ul>

Design Summary	Performance Indicators and Targets	Monitoring Mechanisms	Assumptions and Risks
affect learning are detected at an early stage	<ul style="list-style-type: none"> <li>Nurses recruited and trained</li> <li>Financial sustainability of system ensured</li> </ul>	monitoring reports	diagnosis at a clinic.
<p><b>C. Governance and Management of Madrasah Improved</b></p> <p>(i) Governance Improved</p> <ul style="list-style-type: none"> <li>National and local policies, legal framework, and plans for voluntary decentralization of madrasah to districts are in place</li> <li>Districts can manage decentralized madrasah</li> <li>A new, decentralized structure for MORA is in place</li> <li>District-level accreditation systems for madrasah and schools established</li> <li>School committees established in madrasah</li> <li>Governance and management of the madrasah in pilot districts transferred</li> </ul> <p>(ii) Management Strengthened</p> <ul style="list-style-type: none"> <li>Policy and the concept of school-based management adapted to madrasah and implemented</li> <li>Principals recruited based on minimum standards and competencies</li> </ul>	<ul style="list-style-type: none"> <li>Policy and action plan completed by 2005</li> <li>Government regulations completed by 2005</li> <li>Government regulations on district functions for governance and management of madrasah drafted by MONE and MORA</li> <li>Restructuring completed</li> <li>Capacity building program on new roles and responsibilities implemented</li> <li>New MORA organizational structure in place</li> <li>MORA education staff in local offices can be redeployed</li> <li>Independent accreditation agency established</li> <li>Xx madrasah accredited</li> <li>School committees established in xx madrasah</li> <li>Madrasah governance and management, supervision, and financing transferred</li> <li>Government regulation on school-based management drafted by MONE and MORA</li> <li>Recruitment standards implemented in public and private madrasah (condition of eligibility for funding)</li> </ul>	<ul style="list-style-type: none"> <li>Review of plan</li> <li>Completed Government regulations</li> <li>Budget document</li> <li>Review of capacity building program and new organization</li> <li>Project quarterly reports and independent monitoring reports</li> <li>Confirmation from districts that agency established</li> <li>List of members of accreditation teams</li> <li>District records on madrasah</li> <li>Ministerial decree</li> <li>Completed guidelines and government regulations</li> <li>Document on minimum standards</li> <li>Evidence of implementation of the new system</li> </ul>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Lack of agreement on policy in MORA and among stakeholders on reform agenda, objectives, and targets.</li> </ul> <p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>Districts have the capacity to develop multiyear budgets.</li> <li>Broad support among MORA staff for the proposed changes.</li> <li>Volunteers are available for accreditation teams.</li> <li>Nonprofit foundations will support establishment of school committees.</li> <li>Required legislation is in place.</li> </ul> <p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>Nonprofit foundations will support school-based management.</li> <li>Agreement to value professional competence as a guiding principle for recruitment.</li> </ul>

<b>Design Summary</b>	<b>Performance Indicators and Targets</b>	<b>Monitoring Mechanisms</b>	<b>Assumptions and Risks</b>
<ul style="list-style-type: none"> <li>• EMIS decentralized in selected districts</li> </ul>	<ul style="list-style-type: none"> <li>• EMIS data collected and entered at the district level accurately</li> </ul>	<ul style="list-style-type: none"> <li>• Project quarterly reports</li> <li>• Independent reports</li> </ul>	
<p><b>D. Financial Sustainability of Madrasah Improved</b></p> <ul style="list-style-type: none"> <li>• New national guidelines on public financial support to private madrasah developed,</li> <li>• Average per pupil, nonsalary budget allocations equalized between public schools and public madrasah</li> <li>• System of funding for public madrasah changed to formula-based allocation that incorporates consideration of performance</li> <li>• Endowment funds for madrasah established at local and district levels</li> <li>• Transparency and accountability introduced in financial management and recordkeeping</li> </ul>	<ul style="list-style-type: none"> <li>• Policy developed and approved by National Development Planning Agency, MORA, and MONE</li> <li>• Average annual per pupil allocations for public schools and madrasah</li> <li>• Performance agreements with principals and nonprofit foundations in place</li> <li>• Formula used to determine nonsalary allocations is in the 2007 budget</li> <li>• Number of funds established</li> <li>• Annual budget available</li> <li>• Account books maintained properly and show expenditures against budget allocations</li> </ul>	<ul style="list-style-type: none"> <li>• Policy document</li> <li>• Review of budget</li> <li>• Review of expenditure data</li> <li>• Review of formula</li> <li>• Number of performance agreements in place</li> <li>• Analysis of sample cases</li> <li>• Documents establishing funds</li> <li>• Project quarterly reports</li> <li>• Independent monitoring reports</li> </ul>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>• The current positive attitude toward private sector support will not continue.</li> </ul> <p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Government will make allocations as agreed.</li> <li>• New system will be accepted by major stakeholders.</li> <li>• People will be willing to donate to endowment funds.</li> <li>• Nonprofit foundations will support management of finances by principals.</li> </ul>

EMIS = education management information system, MONE = Ministry of National Education, MORA = Ministry of Religious Affairs.

## INITIAL POVERTY AND SOCIAL ANALYSIS

### A. Linkages to the Country Poverty Analysis

<b>Is the sector identified as a national priority in country poverty analysis?</b>	<input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No	<b>Is the sector identified as a national priority in country poverty partnership agreement?</b>	<input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No
<p><b>Contribution of the sector or subsector to reduce poverty in Indonesia:</b></p> <p>Inadequate education is one of the most powerful determinants of poverty, and unequal access to educational opportunity is strongly correlated with income inequality. Madrasah contribute significantly to the Government's efforts to achieve universal basic education and serve the poor, enrolling 5 million children, or 13% of basic education students. However, reforms and investment are needed in the madrasah education sector to ensure quality education for poor children and to meet the Millennium Developing Goal of ensuring that all children complete a full course of primary education by 2015. Indonesia currently has a net enrollment ratio of 93% for primary education, with a completion rate of around 77%.</p> <p>The majority of madrasah serve poor rural and isolated communities. More than half the students are the children of farmers and laborers. While most children in Indonesia have access to primary education, access to postprimary education is often limited, especially in rural areas. Madrasah can play an important role in helping to achieve the national goal of 9 years of compulsory education, because they are generally based in rural areas and enroll more than 20% of students in the upper levels of basic education (grades 7–9).</p>			

### B. Poverty Analysis

#### Targeting Classification: Targeted intervention

<p>The TA will build on existing madrasah community based systems for identifying and bringing into school those children that might otherwise not enroll. The TA will develop a targeted scholarship program, identify expansion of capacity through new classrooms where needed, and develop retrieval programs that aim to increase completion rates in primary education and transition rates to junior secondary education, focusing primarily on the needs of the poor who have the lowest completion and transition rates. Remedial programs are also important to help children with weak education backgrounds succeed academically and pass on to the next level. Most often these are children of poor households of parents with low academic achievement. Strong in-school support programs are thus needed. Other means will be explored with the madrasah communities to improve the performance of poor children including school health clinics to improve the health status of poor children and thereby promote a healthy environment.</p>
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### C. Participation Process

<b>Is there a stakeholder analysis?</b>	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<p>A stakeholder analysis will be conducted during the implementation of the technical assistance (TA).</p>		
<b>Is there a participation strategy?</b>	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<p>A participation strategy will be developed during implementation of the TA. The TA design will include extensive consultations and workshops with the Ministry of Religious Affairs; the Ministry of National Education; national, regional, and local madrasah; local governments; district education councils; madrasah principals, teachers, and parents; and local communities.</p>		

**D. Gender Development****Strategy to maximize impacts on women:**

A gender strategy will be prepared during TA implementation. Madrasah enroll slightly more girls than boys, but significantly more men than women are teachers and principals. The TA will pay special attention to how to increase the number of female teachers, ensure representation by women on madrasah committees, etc. Another focus of the TA is to suggest ways of introducing gender-sensitive material into textbooks and to ensure that teacher training programs build in incentives to ensure adequate participation by women.

Has an output been prepared?  Yes  No

**E. Social Safeguards and other Social Risks**

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
<b>Resettlement</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	The proposed Project will call primarily for rehabilitating existing facilities and increasing the use of existing facilities rather than constructing new madrasah.	<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None
<b>Affordability</b>	<input checked="" type="checkbox"/> Significant <input type="checkbox"/> Not significant <input type="checkbox"/> None	The proposed Project will design strategies to help ensure the continued affordability of madrasah education, including the provision of scholarships, for children from lower-income families.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Labor</b>	<input checked="" type="checkbox"/> Significant <input type="checkbox"/> Not significant <input type="checkbox"/> None	The proposed Project will improve the quality of labor market entrants.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Indigenous Peoples</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	The proposed Project will improve quality in existing madrasah and will not expand to new areas. Madrasah are established by the communities in which they are located, and thus are not intrusive.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Other Risks and/or Vulnerabilities</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	No negative impacts to be mitigated.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	580	0	580
ii. Domestic Consultants	0	128	128
b. International and Local Travel	70	20	90
2. Equipment <sup>b</sup>	35	0	35
3. Reports and Communications	4	15	19
4. Workshops, Seminars, and Consultation Meetings	0	75	75
5. Surveys and Field Studies	0	60	60
6. Miscellaneous Administration and Support Costs			
a. Office Supplies	0	10	10
b. Car Rental	0	12	12
c. Interpretation and Translation Services	0	12	12
d. Local Assistants	0	10	10
7. Representatives for Contract Negotiations <sup>c</sup>	12	0	12
8. Contingencies	103	54	157
<b>Subtotal (A)</b>	<b>804</b>	<b>396</b>	<b>1,200</b>
<b>B. Government Financing</b>			
1. Office Accommodation and Transport	0	100	100
2. Remuneration and Per Diem of Counterpart Staff	0	95	95
3. Utilities, Communications, Photocopying, and Printing		15	15
4. Contingencies	0	90	90
<b>Subtotal (B)</b>	<b>0</b>	<b>300</b>	<b>300</b>
<b>Total</b>	<b>804</b>	<b>696</b>	<b>1,500</b>

<sup>a</sup> Funded by the Government of Australia (\$600,000) and the Asian Development Bank's technical assistance funding program (\$600,000)

<sup>b</sup> Includes four computers, a router with printer server, a black and white high-speed network laser printer, a portable video projector, a facsimile machine, a binding machine, a photocopier with sorter, voltage regulators, air conditioners, and other equipment as approved by the Asian Development Bank. Antivirus software must be subscribed to during the period of technical assistance. The equipment will be transferred to the Government after completion of the technical assistance.

<sup>c</sup> Includes cost of travel and per diem for three Government observers and an interpreter.

Source: Asian Development Bank staff estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. Seven international consultants will be engaged for a total of 29 person-months and eight domestic consultants will be engaged for a total of 32 person-months. The consultant team will consist of specialists in the following areas: educational policy and planning; education management; project management and implementation; governance and decentralization; public finance; education economics; teacher training and curriculum; education facilities and resources; monitoring and evaluation; social, poverty, and gender analysis; and financial analysis and project costing.

2. The technical assistance (TA) will be implemented in two phases of 3 months each. In phase 1, the consultants will (i) analyze the strengths and weaknesses of the madrasah education sector; (ii) identify and analyze key policy reforms needed to improve the quality and sustainability of madrasah education nationwide; (iii) draft a plan, processes, and procedures for facilitating the phased decentralization of madrasah education; (iv) prepare an outline of the proposed Project, including a draft policy matrix and outline project framework; and (v) develop criteria for selecting project districts, including pilot districts for decentralization. In phase 2, the consultants will prepare (i) a detailed feasibility study for the proposed Project using the Asian Development Bank's (ADB's) *Guidelines for the Financial Governance and Management of Investment Projects* and *Guidelines on Economic Analysis of Projects*, and (ii) a design for advisory TA for independent monitoring and evaluation. The project design will also include adequate measures to ensure good governance and transparency in project implementation. A 1-month break between phases 1 and 2 will give the Government time to review the draft proposal.

3. An inception report and work plan will be submitted 2 weeks after commencement of the TA; a draft final report that includes an outline project framework, a policy matrix, a gender strategy, and the criteria for selecting project districts will be submitted at the end of phase 1; the draft final report, including the detailed feasibility study and advisory TA design 2 weeks before completion of phase 2, and the final report upon completion of phase 2.

### 1. Educational Policy and Planning/Team Leader (international, 6 person-months)

4. A specialist in educational policy and planning will be engaged to undertake the overall leadership role in identifying, conceptualizing, and designing key policy reforms and identifying associated investment needs for the proposed Project and supporting advisory TA. Specifically, the consultant will (i) review existing education sector reviews and research reports and reviews of previous projects covering madrasah and current statistics; (ii) develop a participation strategy, conduct a stakeholder analysis, and undertake consultations with major stakeholders at the national, provincial, and district levels on the major issues identified; (iii) identify key policy areas for reform and prepare a draft policy matrix covering major reforms and actions to be achieved; (iv) prepare a detailed feasibility study for the proposed Project, including a draft project framework identifying the Project's goal, purpose, outputs, and key activities; (v) develop criteria for selecting project districts, including the districts in which the decentralization of madrasah education will be piloted; (vi) conduct extensive workshops and consultations on the proposed Project and incorporate the findings into the project design; (vii) manage the consultant team, work closely with the project preparatory TA team—consultants plus Ministry of Religious Affairs (MORA) technical team—on the technical design, management structure, and implementation arrangements for the Project; (viii) liaise with all relevant Government agencies and stakeholders; (ix) prepare a detailed assessment of district readiness and ensure that the

Project complies with official project readiness criteria; and (x) submit the various reports (para. 3).

## **2. Education Management** (domestic, 6 person-months)

5. A specialist in education planning and management will (i) assess the management strengths and weaknesses of madrasah and nonprofit foundations, including financial management, in collaboration with the education economist and public finance specialist; (ii) assess and modify the concept of school-based management as developed by the Ministry of National Education based on consultations with madrasah and nonprofit foundations to ensure that it is appropriate for the madrasah system; (iii) design a management training program for madrasah principals and nonprofit foundations, including financial management; (iv) develop new criteria and a recruitment system for madrasah principals; (v) develop criteria for allocating civil service and contract teachers; (vi) assess the strengths and weaknesses of education management and supervision in district administrations in the context of the decentralization of madrasah; (vii) design a management training program for district staff; (viii) design a system for making funds available to schools through a competitive, performance-based system in collaboration with the project management specialist and the education economist and public finance specialist; (ix) specify the minimum qualifying criteria for participating project madrasah; (x) prepare a framework for developing school development plans (business plans); and (xi) prepare a framework for developing district development plans.

## **3. Project Management and Implementation** (international, 4 person-months; domestic, 4 person-months)

6. Two specialists in project management and implementation will (i) analyze problems encountered in the implementation of previous ADB-funded education projects in MORA at the central, provincial, and district levels and design corrective measures; (ii) review Government regulations that affect MORA's operations, regulations, guidelines, and procedures to identify inconsistencies and conflicts that may prevent MORA from providing efficient and transparent project management and auditing; (iii) determine the antifraud measures that MORA should introduce at the central, provincial, district, and school levels to ensure good governance and transparency in project management; (iv) prepare detailed terms of reference for the advisory TA on independent monitoring and evaluation of the Project; (v) assess the required project management and implementation arrangements for the Project, including implementation schedule, procurement of goods and services, and advance actions; (vi) prepare a procurement plan if appropriate; (vii) assess competitive school block grant procedures under other ADB-financed education projects; (viii) design a more effective and efficient system of block grants for the proposed Project, specifying implementation arrangements and identifying accountability mechanisms; (ix) identify accounts, reports, and audit procedures; (x) provide recommendations for consultant requirements together with their respective terms of reference in consultation with other team members; (xi) recommend appropriate loan covenants for compliance with project implementation to ensure timely and satisfactory completion; (xii) set up the project management office; (xiii) design a training program for project staff in auditing and an awareness program to disseminate information on new standards and procedures for internal audit to all concerned stakeholders, including nongovernment organizations, the private sector, parents, and the media; and (xiv) design a scholarship program for children from low-income families in remote and underserved areas, including all implementation arrangements, costs, and mechanisms, in collaboration with the social and finance specialists.

**4. Governance and Decentralization** (international, 4 person-months; domestic, 4 person-months)

7. The two governance and decentralization specialists will (i) assist with the development of MORA policy and a time-bound action plan for the decentralization of madrasah; (ii) facilitate the preparation of Government regulations needed for the decentralization of madrasah; (iii) support the preparation of regulations on mandated functions pertaining to the governance and management of madrasah; (iv) develop criteria for the selection of districts for the first phase of madrasah decentralization; (v) facilitate the development of policies for local governance and management of madrasah; (vi) review district capacity, identify capacity building needs and any new governance measures needed for madrasah decentralization, and estimate the required inputs in collaboration with the management consultant; (vii) review MORA's readiness for decentralization and estimate the actions and inputs that will be required to adjust to decentralization; (viii) establish the framework and estimate inputs needed for district-level, independent accreditation systems; (ix) design a strategy for integrating madrasah development centers into the governance structure; (x) review the school committee and madrasah council concepts and propose an acceptable participatory committee for associated project activities; and (xi) ensure that good governance practices are incorporated throughout the project design and implementation arrangements.

**5. Public Finance** (international, 5 person-months)

8. The public finance specialist will work closely with the education economist to (i) analyze education budget allocations and expenditures in selected districts; (ii) estimate the budgets and resources that will be required at the district level to support the decentralization of madrasah on the basis of this analysis; (iii) recommend how the resources required might be obtained, including the sources of financing; (iv) devise strategies to reduce financing gaps between madrasah and other schools, including national guidelines to help districts allocate funds equitably to ensure the financial sustainability of madrasah and private schools; (v) strengthen district planning and budgeting skills by preparing district budgets for the first 3 years of madrasah decentralization, including identifying sources of financing from the regional and national levels; (vi) develop policies and formulas to equalize average, per pupil, nonsalary budget allocations between public schools and public madrasah at the district level; (vii) develop policies to change the system of funding public madrasah to a formula-based allocation that incorporates performance into a performance-based contract; (viii) develop a national policy on the extent and type of public financial support to private madrasah, including the criteria for such support; (ix) assess the potential for establishing madrasah endowment funds at the community or national level and recommend the project inputs required to support their establishment and operation; (x) develop a plan for the financial sustainability of madrasah development centers and community learning resource centers; and (xi) identify training needs in terms of planning, financing, and budgeting for principals, foundations, and MORA and district officials.

**6. Education Economics** (domestic, 3 person-months)

9. The education economist will (i) carry out the economic analysis of the Project according to ADB's *Guidelines on the Economic Analysis of Projects*; (ii) justify the Project's rationale, carry out a demand analysis in collaboration with the social, poverty, and gender specialist and a cost-effectiveness or cost-benefit analysis, a sensitivity and risks analysis if applicable, and a sustainability analysis in collaboration with the educational economist and public finance specialist; (iii) help prepare the criteria for the identification and selection of districts to be included under the Project in terms of their fiscal capacity and ability to support madrasah

adequately; and (iv) support the public finance specialist in designing strategies for ensuring the financial sustainability of madrasah.

**7. Teacher Training and Curriculum** (international, 4 person-months; domestic, 4 person-months)

10. Two teacher education and curriculum specialists will (i) assess the extent of teacher-subject mismatch and underqualification of madrasah teachers; (ii) review the issues associated with the widespread hiring of part-time and volunteer teachers and recommend new structures or positions to professionalize these teachers; (iii) develop a 5-year plan for upgrading teachers unqualified for the subjects they are teaching, through in-service training and introduction of a system of competency-based training to ensure that madrasah teachers meet the national competency standards; (iv) develop a sustainable strategy for the common learning resource centers specifying how they will be integrated into national in-service training systems and determine the project inputs needed to implement the strategy; and (v) design a remedial program for madrasah that will help improve pupils' performance and graduation rates at all levels.

**8. Education Facilities and Resources** (domestic, 4 person-months)

11. The education facilities and resources consultant will (i) assess the facilities and resources available in madrasah in the selected districts; (ii) assess the resources required for madrasah to reach the minimum learning standards being developed by the Ministry of National Education; (iii) estimate the numbers and costs of classrooms, science laboratories, computer laboratories, libraries, and associated inputs (computers, science kits, books) and textbooks needed based on the number of schools meeting the minimum criteria; (iv) recommend the most efficient systems, procedures, and mechanisms for providing these resources to schools; (v) prepare guidelines and implementation schemes for schools to use in implementing the upgrading program; (vi) estimate the costs of establishing and equipping school health clinics in selected primary and junior secondary madrasah; (vii) develop guidelines for the operation of the clinics and required project support; (viii) assess the upgrading needs of model schools and common learning resource centers established under earlier ADB-financed projects to improve their quality and performance; and (ix) review the environmental implications of the proposed project.

**9. Monitoring and Evaluation** (international, 3 person-months; domestic, 3 person-months)

12. The two monitoring and evaluation consultants will (i) prepare a monitoring and evaluation and quality assurance system for the implementation of the Project, including designing monitoring tools and mechanisms; (ii) identify the most appropriate methodology and techniques for collecting relevant data on the Project's progress; (iii) assess MORA's education management information system to improve its operation, cost-effectiveness, networking capability, and district-level operation; (iv) specify the inputs required to strengthen the information system; (v) examine the feasibility of provinces, districts, and schools setting up customized management information systems to meet standard management requirements, including those for control management and reporting; and (vi) design the detailed baseline survey to be carried out in the first 6 months of project implementation.

**10. Social, Poverty, and Gender Analysis** (domestic, 4 person-months)

13. The social, poverty, and gender analysis specialist will (i) carry out a qualitative and quantitative analysis of issues regarding access to, equity, quality, and relevance of madrasah education; (ii) guide the consultant team in using the foregoing analysis to determine priorities and the sequence of interventions; (iii) conduct a gender analysis of madrasah education enrollments, curricula, and school environments; (iv) help the monitoring and evaluation specialists prepare a framework for developing sex-disaggregated data; (v) prepare a gender strategy, including recommendations on how districts and madrasah could increase female enrollment and make schooling more relevant and comfortable for girls, and include this in the design of the Project; (vi) design a retrieval program that will increase enrollment in hard-to-reach groups (primary school dropouts, primary school graduates who have terminated, junior secondary school dropouts); (vii) develop guidelines and criteria for selecting students for the scholarship program; (viii) suggest ways to introduce gender-sensitive instructional materials into madrasah; and (ix) carry out the poverty and social analysis for the Project.

**11. Financial Analysis/Project Costing** (international, 3 person-months)

14. In accordance with ADB's *Guidelines for the Financial Governance and Management of Investment Projects*, the financial analyst will (i) carry out an in-depth examination of the cost implications of the proposed Project; (ii) carry out a financial evaluation for the Project over its implementation period by calculating the financial internal rate of return and comparing it with a weighted average cost of capital; (iii) convert the nominal project cost estimates and financial projections to real terms by removing the projected effects of foreign and domestic inflation and currency fluctuations; (iv) derive incremental costs and benefits by comparing the financial position under with project and without project scenarios; (v) assess real and potential financial constraints to project sustainability and recommend a financial sustainability plan, particularly at the district level; (vi) assess the budget planning and controls, financial and accounting procedures, and audit systems of the proposed implementing agencies in collaboration with the project management and implementation specialists; (vii) recommend appropriate financial loan covenants for compliance monitoring during implementation of the Project in line with ADB's *Policy on Governance: Sound Development Management*; and (viii) participate in the loan fact-finding and appraisal missions.