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Discussion Paper

PUBLIC FINANCING FOR LOW-COST PRIVATE SCHOOLS

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Introduction

Indonesia has a strong national education system comprising of private and public schooling segments

Indonesia has a unique private schooling segment which contributes about 35% to the total number of schools in Indonesia. This segment mainly consists of Madrasah and Pondok Pesantren, which come under the Ministry of Religious Affairs (MoRA), while public schools come under Ministry of Education and Culture (MoEC). There is a much smaller and nascent sub-segment of private International schools, currently restricted to urban Java region. Madrasahs and Pesantren pre-exist public schools. They are both historic, culturally rooted and widely spread across the vast geography of Indonesia. Recognizing historical association of community-based educational institutions such as Madrasahs and Pesantren, the Education Law (Act 20/2003) of Indonesia states that the communities have the right to provide education, which is aligned with the social and cultural norms of the community.

Collectively, private Madrasahs and Pesantren contribute about 18% to total enrollments at primary level. Pesantren alone hold about a 7% share of total private school enrollments.¹ The Agency for Research and Development, a part of MoEC, observes that in addition to their sizeable share in enrollments, Madrasahs and Pondok Pesantren also contribute to meeting the UN Human Development Index targets and district Minimum Service Standards² (MSS).³

“ Madrasahs and Pondok Pesantren also contribute to meeting the UN Human Development Index targets and district Minimum Service Standards (MSS). ”

Integration of private and public schooling systems in Indonesia is supported by Constitutional commitment and legislative provisions

Private schools, such as Madrasahs, Pondok Pesantren, and public schools are well integrated into the national education system.⁴ Law No. 2/1989 legislatively reinforces this Integration concerning national education. Key implication of the legal integration of Madrasahs and Pesantren into the national education system, is that public schools and private schools are required to be treated equally from the regulatory and administrative point of view.

¹ *Pusat Data dan Statistik Pendidikan dan Kebudayaan [Center for Data and Statistics in Education and Culture]*, Ministry of Education and Culture (MoEC), Government of Indonesia, 2017

² Indonesia's Decentralization Law gives districts the main responsibility for the management of basic education. However, they need to apply Minimum Service Standards set by the central government. MSS were established first by Government Regulation No. 65/2005. The MoEC Regulation No. 23/2013 updated them for the education sector and established 4 district-level indicators and 40 school-level indicators. *Indonesia Economic Quarterly, Learning More, Growing Faster*, The World Bank, June 2018, p. 39

³ *Madrasah Education Financing in Indonesia*, Education Sector Analytical and Capacity Development Partnership (ACDP), Ministry of Education and Culture (MoEC), Government of Indonesia, September 2013

⁴ Madrasah and Pesantren are educational institutions which are deeply rooted in Indonesian society. The *Badan Pekerja Komite Nasional Indonesia Pusat* passed a declaration in 1945 that Madrasah and Pesantren were institutions that need to be placed in Indonesia's then evolving education system. This declaration specifically expressed the need for governmental support to Madrasah and Pesantren. The Joint Decree of three ministers (Minister of Religious Affairs, Minister of Education and Culture, and Minister of Home Affairs) signed in 1975 further emphasized the existence of Madrasah and Pesantren and their significant share in Indonesian education system.

As an outcome of integrated education system, access to government finance is not exclusive to public schools in Indonesia. Both Madrasahs and Pesantren receive their share of funding from government. This financial support from the government is subject to schools following 'modern curriculum' or 'national curriculum' as well as retaining Minimum Service Standards.

Public financing of basic education⁵ in Indonesia is split across four broad categories,

1. **Direct investment:** which includes one-time capital investments such as infrastructure, including land and other fixed assets) as well as ongoing investment in resources such as salaries and incentives to teachers etc.
2. **Subsidies:** which include waivers or subsidized rates for non-education government functions (e.g. electricity)
3. **Assistance (*Bantuan Siswa Miskin*):** which includes scholarships and other social assistance to children from lower income families, and
4. **Grants:** which include government support to schools towards various operational overheads (*Bantuan Operasional Sekolah / BOS*).

Public schools have access to government finance under categories 2, 3 and 4 as described above. Additionally, capital investments and salary costs of teacher are incurred directly by the government without routing the funds through schools. On the other hand, government support to private schools is largely restricted to categories 3 and 4 i.e. assistance and grants. Since the introduction of *Bantuan Operasional Sekolah* (BOS) in 2005, the majority of government financial support to private schools is channelized through BOS.⁶

Pesantren along with Madrasahs and public schools receive BOS-grants aiming to provide schools with funds for operational costs on a per student basis. Researchers, including international aid agencies closely involved in Indonesia's education system, observe that Madrasah and Pesantren are at a specific disadvantage in terms of limited access to finance and being under-funded in terms of share of public finance received.⁷

Pondok Pesantren typically raise funds through four sources of funding:

1. Principal's own investment or Foundation's investment,
2. Fees collected from students,
3. BOS,
4. Income generating activities

⁵ Basic education in Indonesia comprises of primary education as well as junior secondary education.

⁶ Indonesia's School Operational Assistance (BOS) programme was introduced in 2005. BOS programme which provides assistance to elementary and junior high school levels, aims at: A. Providing for school operational costs; B. Providing fee-free education for all poor students at public and private schools, C. Reducing burden of school-operating costs on private schools

⁷ *The effectiveness of management on Pondok Pesantren toward income-generating among its teachers at Bogor Indonesia*, Radif Khotamir Rusli, Siti Pupu Fauziah, Faculty of Education, Djuanda University of Bogor, West Jawa, Indonesia, 2017

Challenge

Current funding structure of public and private schools hands a funding advantage to public schools

Administrative decentralization introduced in Indonesia in 1999 has resulted in increased funding sources for both public and private schools through district and provincial agencies representing central government (collectively termed hereafter as local bodies or local governments). To support national educational goals of Indonesia, district and provincial agencies are required to locally provide funds for education.

BOS grants flow from central government in the form of block grants for local governments according to the funding mechanism established by Ministry of Home Affairs. These grants include BOS for both private and public schools. In terms of monitoring though, Ministry of Finance (MoF), the Ministry of Education and Culture (MoEC) and the Ministry of Home Affairs (MoHA) regulate the grants to public schools. Whereas, Madrasah and Pesantren are regulated by the MoF and the Ministry of Religious Affairs (MoRA).

Majority of districts across Indonesia have own grant programs in addition to BOS. A survey in 2011 conducted by the World Bank,⁸ found that the average size of local government grants was about a third of the national BOS grant received by schools. Province and district level grants largely cover operational costs of public schools, which are already supported by central level BOS grants. While local government grants are smaller in comparison to the national BOS program they provide financial resources that public schools use towards non-salary or operational expenses.

Post de-centralization, six out of thirty-one government functions were marked as a central prerogative, religion is one of those six functions. Since Pesantren are under MoRA and are considered as religious institutions, their funding remains centralized. As inferred from the reports of MoEC on status of school finance in Indonesia⁹, district and province level funds are often restricted to public schools. Madrasahs and Pesantren do not receive funding support from provincial and district governments on a regular basis.

Following table presents a comparative view of various budget heads of Pesantren and public schools and their respective sources of funding against each budget head.

“District and province level funds are often restricted to public schools. Madrasahs and Pesantren do not receive funding support from provincial and district governments on a regular basis.”

⁸ *Madrasah Education Financing in Indonesia*, Education Sector Analytical and Capacity Development Partnership (ACDP), Ministry of Education and Culture (MoEC), Government of Indonesia, September 2013

⁹ *Accountability in Education Sector in Indonesia*, Global Education Monitoring Report, United Nations Education, Scientific and Cultural Organization, 2017-2018

Table 1
Comparative View of Various Budget Heads of Pesantren and Public Schools

#	Budget Heads	Pesantren	Public Schools
		Main Source	Main Source
1	Poor students' assistance	BOS+ School Sources	DBH
2	Miscellaneous	School sources	BOS + Dekon + DAK+DBH
3	Personal (boarding)	School Sources	-
4	School Maintenance	BOS+ School Sources	BOS + Dekon + TP
5	Computer Supplies	BOS	BOS + DBH
6	Power and Subscription Services (fixed)	School Sources	BOS ¹⁰
7	School Grants Management	BOS	BOS
8	School Admission Activities	School Sources	BOS
9	Library Development	BOS+ School Sources	BOS
10	Teacher Professional Development	BOS + School Sources	BOS
11	Purchase of consumables	School Sources	BOS
12	Test and exam activities	School Sources	BOS
13	Student Activities	School Sources	BOS +DBH
14	Furniture	School Sources	BOS
15	Teacher Salaries + Honorarium	School Sources	Direct Government Expenditure ¹¹

Abbreviations and explanations:

School Sources include fees, donations and income generating activities of Pesantren

DBH : *Dana Bagi Hasil* [State revenues allocated for local government at the level of province/municipality/regency as part of the decentralization policy]

Dekon : *De-Concentration grants*

DAK : *Dana Alokasi Khusus* [State revenues allocated for local government at the level of province/municipality/regency to assist specific programs of the regions in accordance with the national priority]

TP : *Tugas Pembantuan* [Funds granted by the national government to the provincial government, or by the provincial government to the municipalities/regencies, as part of the delegation of their duties]

(Note: Information in this table is sourced from approved budget heads mentioned in BOS Guidelines¹² issued from time to time by Ministry of Finance (MoF) and MoEC. Additionally, Grants Utilization Reports¹³ submitted by Madrasahs and public schools were reviewed between February 2018 to May 2018 to confirm actual budget heads.

¹⁰ Public schools have the additional financial advantage of paying lower, i.e. subsidized rates to public utilities providers.

¹¹ Local governments use funds from General Budget Allocations (Dana Alokasi Umum / DAU) by the central government to pay civil servant teacher salaries. Together with local revenue sources they are also being used to pay contract teacher salaries.

¹² <https://bos.kemdikbud.go.id/>

¹³ <http://alhamid.org/biaya-pendaftaran> / <http://alpontren.com/index.php/kami/pendidikan> / <http://ululilmi.org/>

BOS Constitute minor part of Annual Operating Budget of Pesantren

According to 2016 budget figures each school, including Pesantren, receives BOS grant of IDR 800,000 (app. USD 54) per student per year at primary level and IDR 1,000,000 (app. USD 67) per student per year at junior secondary level. A survey conducted between April 2018 and May 2018 by the Centre for Indonesian Policy Studies with a few Pesantren in Jakarta, through interviews of principals (*kyai*) and review of school fee structures estimates that annual operating cost of Pesantren are within the range of IDR 900 million to IDR 1.6 billion¹⁴ at an estimated average school size of 150 students. The annual operating budget derived through the sum of two main sources of income of Pesantren is described in the table below. Sample Pesantren budgets reviewed here are restricted to Jakarta region hence cost estimates made in the table below and elsewhere in this study are subject to variation when operational budgets of rural and remote Pesantren are taken into consideration.

Table 2
Operational Budgets of Pesantren in urban Indonesia (junior secondary level)

#	Sources of Income	IDR Per Year Per Student	IDR Per Year for 150 students
1	Average income through Fees and Donations (Per year per student)*	10,511,250	1,576,687,500
2	BOS (Per year per student)**	800,000	120,000,000
	Total Operating Budget	11,311,250	1,696,687,500

Sources:

* : Review of School Fees Structures available in public domain through school websites¹⁵.

** : The regulation of the Minister of Education and Culture (MoEC) 26/2017 on Technical Guidelines on School Operational Assistance

The table above illustrates that BOS grants constitute approximately 7% of annual funds inflow of Pesantren. Given the unique nature of Pesantren, which in addition to formal schooling also offer boarding facilities to students, BOS grants contribute only a small share in school's annual operational expenses. In absence of external funding support from public agencies, operational costs are passed on to parents.

Inadequate financial support to Pesantren leads to increased household expenditure in education

Introduction of BOS aspired to bring down household expenditure on basic education in Indonesia. According to a report by the World Bank¹⁶, drop in household expenditure was noticeable in the initial years of introduction of BOS, particularly so in case of poor households attending public schools¹⁷. In case of Madrasahs and Pesantren, however, which have also seen a steady increase in enrollments over the last two decades, household expenditure has not seen a significant drop. The World Bank estimates that monthly household expenditure on education in Madrasah and Pesantren in 2006 was IDR 593,516 per month per student,

¹⁴ Range of 900 Million to 1.6 Billion is established through review of fees structures of Pesantren in Jakarta region. School websites were reviewed between January 2018 to June 2018. While selecting fee structures, we have looked at different profiles of Pesantren such as: individual-owned Pesantren, Pesantren supported by large foundations, Pesantren supported by small community-based foundations etc.

¹⁵ Websites were listed in footnote 13

¹⁶ *Improving Education Outcomes in Indonesia, Section: Assessing the Role of School Operation Grant Program (BOS)*, The World Bank, 2014

¹⁷ *Reviews of National Policies for Education, Education in Indonesia, Rising to the Challenge*, OECD and ADB, 2015

which increased by nearly 30% to reach at IDR 839,388 per month per student in 2012. Among poorest families, monthly household expenditure increased from IDR 346,861 to IDR 502,574 during the same period.¹⁸

Since BOS grants have been falling short of funding requirements of Pesantren and Madrasahs, schools rely mainly on student fees and donations, which constitute a major part of household expenditure on education.

Increase in household expenditure on education has another key implication i.e. lower retention percentage of children through junior secondary and higher education levels. While correlation between higher household expenditure and lower retention rates is unclear, 2016 education statistics point to an alarming number of only 12% out of 94% children enrolled at primary level complete higher secondary education.¹⁹ The remaining drop out at different levels of education, particularly at the transition between junior secondary to senior secondary.

“2016 education statistics point to an alarming number of only 12% out of 94% children enrolled at primary level complete higher secondary education”

In absence of robust information management mechanism, BOS grants are spent on institutions than on students

BOS grants are transferred to schools in urban and rural areas once in three months. In remote areas grants are transferred once in six months. The calculation of grants is done on per child basis, against the number of enrolled children as reported by schools. Given high dropout rates of children in Indonesian schools, the system of grants transferred to schools based on enrollment numbers carries the risk that schools receive grants irrespective of children actually attending the school or not. While calculation of grant amount on per child basis brings efficiency in government financing, the effectiveness of this budgeting mechanism is affected in absence of a robust information management system, which tracks actual attendance of children in schools.

There is an urgent need for policy reforms to improve financing of Pesantren

Despite their sizeable share in enrollments, current funding mechanism puts the burden of fundraising on Pesantren which affects the quality of education delivered by these schools. As we explained earlier in Table 2, our estimate is that annually each Pesantren with a junior secondary school in urban areas raises approximately 92% of annual funding requirements locally, which amounts to IDR 1.57 billion per year. Pesantren raise these funds primarily through fees and donations from parents and to a very limited extent through other income generating activities²⁰. A revised funding mechanism that reduces the burden of raising majority of school budget locally is required to empower Pesantren and in turn to enhance parental choice and quality of education provided by Pesantren.

“A revised funding mechanism that reduces the burden of raising majority of school budget locally is required to empower Pesantren and in turn to enhance parental choice and quality of education provided by Pesantren.”

¹⁸ *Improving Education Outcomes in Indonesia, Section: Isolating the effect of BOS on household education spending and participation, Assessing the Role of the School Operational Grant Program (BOS)*, The World Bank, 2014, p. 50

¹⁹ Ministry of Education and Culture, Pusat Data dan Statistik Pendidikan dan Kebudayaan, Center for Data and Statistics in Education and Culture, 2017

²⁰ *The effectiveness of management on Pondok Pesantren toward income-generating among its teachers at Bogor Indonesia*, Radif Khotamir Rusli, Siti Pupu Fauziah, Faculty of Education, Djuanda University of Bogor, West Jawa, Indonesia, 2017

Reform Ideas

The current system of education finance calls for reforms in both, regulatory approach and funding mechanisms, to bolster Indonesia's long-standing constitutional commitment of treating private and public schools equally. The reform ideas presented below aim to reorient the focus of the existing system towards delivering quality education to all children irrespective of the type of school that they attend.

Reform 1: All schools to have access to district and province-level education grants

More than 50% of districts across Indonesia provide local grants in addition to BOS. The World Bank acknowledged in June 2018 that "there remains significant information gaps on the use of resources by local Governments".²¹ However, a survey conducted by the World Bank in 2011²² found that the average size of local government grants was about 30% of the national BOS grant received by schools. In practice, this means that public schools possibly receive 30% additional funds towards operational costs. Moreover, they are also excluded from General Budget Allocations (Dana Alokasi Umum / DAU) by the central government used by local governments to pay public servant teachers. Pesantren and Madrasah do not receive these funds and are severely disadvantaged.

“this reform can potentially give additional IDR 36 million and IDR 45 million per year to primary and junior secondary schools respectively”

To reduce the disparity between operational support received by public and private schools it is important that both types of schools have access to public funds released by local governments. When implemented effectively, this reform can potentially give additional IDR 36 million and IDR 45 million per year to primary and junior secondary schools respectively as illustrated in the table below.

Table 3

Potential Increase in BOS grants to Madrasah and Pesantren

#		Primary	Jr Secondary
A	Total Annual Budget of Pesantren*	900,000,000	1,696,687,500
B	Average BOS per student per year**	800,000	1,000,000
C	Additional grants from Local Governments per student (approximately 30% of BOS Grants)***	240,000	300,000
D	Average number of students per school***	150	150
	30% Increase in Grants (C*D)	36,000,000	45,000,000

Sources:

* : Interviews with principals of Pesantren and Madrasah

** : The regulation of the Minister of Education and Culture (MoEC) 26/2017 on Technical Guidelines on School Operational Assistance

*** : Author's calculation based on the World Bank report (2014)²³

²¹ *Indonesia Economic Quarterly, Learning More, Growing Faster*, The World Bank, June 2018, p. 38

²² *Improving Education Outcomes in Indonesia, Section: Assessing the Role of School Operation Grant Program (BOS)*, The World Bank, 2014

²³ dito

To activate this reform, it is important to mandate to district and provincial governments that their grant disbursement must take into consideration the number of children studying across all types of schools in the respective districts. Actual disbursement must happen similar to BOS disbursement, i.e. same amount of BOS grant per child per year is allocated to schools. There is no difference between public schools and Pesantren and Madrasah in terms of amount of BOS allocated to the schools.

Reform 2: Fund students, not institutions

Currently the calculation of BOS grants is done on per child basis. The exact method of calculating district and provincial grants is unclear. BOS grants are transferred to the schools based on the number of enrollments reported by the school. Creating direct access to parents to BOS as well as district and provincial grants can act as a key lever in streamlining funds that currently flow through multiple administrative channels to schools.

Specific steps in activating this reform are as follows:

- A. District and provincial grants are also calculated per child (similar to calculation of BOS).
- B. All parents who have children currently studying in Pesantren or in public schools get access to applicable BOS amounts as well as district and provincial grants.
- C. The individual access to BOS funds can be in the form of conditional transfers to the Smart Indonesia Card (Kartu Indonesia Pintar), which is available to parents only at the time of enrolling children in schools or on quarterly basis if the child is already enrolled in school.

“Creating direct access to parents to BOS as well as district and provincial grants can act as a key lever in streamlining funds”

While this reform can help the overall system in improving efficiency of government expenditure on education, it can benefit both parents and Pesantren in the following manner:

- A. Increased BOS grants and increased operational budget will ease the burden on Pesantren of raising a major share of their operational budget locally. Pesantren will thus be able to lower their school fees.
- B. Parents will save part of their household expenditure on education. Currently, parents spend a large share of their household expenditure on school fees and travel.
- C. Parents who currently send their children to public schools might show an increased demand for Pesantren. A switch to Pesantren can be specifically prominent in geographies where public schools are not easily accessible due to the distance from the parent's household. Pesantren providing boarding facilities might work better for the parents since part of household expenditure on travel to school will reduce.

Reform 3: Track every student monthly, through Unique Identity Number

Currently BOS grants are disbursed entirely based on enrollment data sent by school principals. This system might not accurately reflect actual monthly attendance when calculating BOS utilization and budgeting. Over-reporting attendance to get access to higher amount of BOS funds appears to be a common practice across schools in Indonesia. A revised system should replace enrollment with actual attendance as a basis for actual transfer of BOS grants to schools. This can be done by considering Unique Identification Numbers for each student as currently being tested in India.

Unique Identity Number to Students: Case of India

Some state governments in India have provided Unique Identification Numbers (UID) to schoolchildren above 5 years of age. Initial reports from prominent media in India state that the biometric data collected at the time of ascribing UID numbers has helped in tracking student progress and assist in the proper implementation of scheme's like the mid-day meal.²⁴

In addition to ease in tracking student, UID has also helped in identifying gaps between enrollments and actual attendance in schools, which has had direct impact on efficiency and accuracy of public expenditure on education.

UID numbers have also helped to track children's immunization and movement in addition to providing a system-level view in terms of trends in students' academic participation and performance

Lastly, UID to students has been helpful in terms of tracking dropouts and out-of-school children. This is now allowing state governments to take specific measures to bring children back in schools and control drop-outs at each level of school education.

“UID to students has been helpful in terms of tracking dropouts and out-of-school children”

²⁴ *igovernment*, Governance Knowledge Centre, Department of Reforms and Public Grievances, Government of India, <http://indiagovernance.gov.in/news.php?id=395>

Annex

Table 4
Number of Students and Formal Schools in Indonesia

No	Ministry of Education and Culture	Kindergarten		Primary		Jr Secondary		Sr Secondary	
		Govt	Pvt	Govt	Pvt	Govt	Pvt	Govt	Pvt
1	Number of Schools	3,186	82,313	132,381	15,155	22,475	14,548	9,675	15,673
2	% of Total Schools	4	96	90	10	61	39	38	62
3	Number of students	309,255	4,186,177	22,855,935	3,089,118	7,510,978	2,529,299	5,000,043	3,647,351
4	% of total students	7	93	88	12	75	25	58	42
5	Number of Muslim students	NA	NA	21,900,308		8,384,667		7,370,143	
6	% of total students	NA	NA	84		84		85	
No	Ministry of Religious Affairs	Kindergarten		Primary		Jr Secondary		Sr Secondary	
		Govt	Pvt	Govt	Pvt	Govt	Pvt	Govt	Pvt
1	Number of Schools	0	27,999	1,686	22,874	1,473	15,497	763	7,080
2	% of Total Schools	0	100	7	93	9	91	10	90
3	Number of Students		1,231,101	3,565,875		3,160,685		1,294,776	

Sources are collated from the Ministry of Education and Culture (2018) and the Ministry of Religious Affairs (2018)



ABOUT THE AUTHOR

Rohan Joshi has worked extensively on Education and Public Policy in India and South Asia over the last 13 years through research and advocacy. He wrote extensively on range of issues in public policy, specifically K-12 education, employability, governance. His recent publications focus on Governance and Low Cost Schooling in India. He has designed and taught courses on education policy and delivered talks in several renowned platforms, conferences and television channels globally.

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