PROJECT PAPER

ON A

PROPOSED ADDITIONAL LOAN

IN THE AMOUNT OF

US$500 MILLION

TO THE

REPUBLIC OF INDONESIA

FOR THE

BOS (SCHOOL OPERATIONAL ASSISTANCE) - KNOWLEDGE IMPROVEMENT FOR TRANSPARENCY AND ACCOUNTABILITY PROJECT (BOS-KITA)

April 23, 2010

Human Development Sector Unit
East Asia and Pacific Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.
CURRENCY EQUIVALENTS

(Exchange Rate Effective April 28, 2010)

Currency Unit = Indonesian Rupiah (IDR)
US$ 1 = IDR 9,007

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADB  Asian Development Bank
AF  Additional Financing
AusAID  Australian Agency for International Development
BAPPENAS  National Development Planning Agency
BEC-TF  Basic Education Capacity Trust Fund
BOS  Bantuan Operasional Sekolah (School Operational Assistance)
BOS-KITA  School Operational Assistance - Knowledge Improvement for Transparency and Accountability
BPK  State Audit Agency
BPKP  State Development Audit Agency
DESP  Dutch Basic Education Support Program
DIPA  State Budget
EC  European Commission
EMIS  Education Management Information System
FM  Financial Management
GoI  Government of Indonesia
IBRD  International Bank for Reconstruction and Development
IG  Inspectorate General - (Internal Auditor)
ICW  Indonesia Corruption Watch
ISR  Implementation Status and Results Report
M&E  Monitoring & Evaluation
MoF  Ministry of Finance
MoHA  Ministry of Home Affairs
MoNE  Ministry of National Education
MoRA  Ministry of Religious Affairs
NERS  Net Enrollment Rates
PDO  Project Development Objective
RIM  Regional Independent Monitors
SBM  School Based Management
SIP  School Improvement Plan
SMERU  Independent Institution for research and public policy studies
SMIC  Social Marketing and Information Campaign
SMS  Short Messaging Service
SUSENAS  Household Survey

Vice President: James W. Adams
Country Manager/Director: Joachim von Amsberg
Sector Director: Emmanuel Y. Jimenez
Sector Manager: Eduardo Velez Bustillo
Task Team Leader: Ratna Kesuma
CONTENTS

I. INTRODUCTION ........................................................................................................... 1
II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING ............... 1
III. PROPOSED CHANGES ............................................................................................. 8
IV. SUMMARY OF PROJECT APPRAISAL .................................................................... 12
V. EXPECTED OUTCOMES .......................................................................................... 15
VI. RISKS AND PROPOSED MITIGATION MEASURES ......................................... 15
VII. FINANCIAL TERMS AND CONDITIONS FOR ADDITIONAL FINANCING ...... 18

ANNEXES

Annex 1: Results Framework and Monitoring Arrangements ...................................... 19
Annex 3: MoNE letters to Local Government ................................................................. 27
Annex 4: The Regional Independent Monitoring Survey ............................................... 29
MAP: IBRD 33420R2 ..................................................................................................... 33

FIGURES

Figure 1 ............................................................................................................................. 7

TABLES

Table 1: BOS-KITA Key Features .................................................................................. 2
Table 2: BOS-KITA Implementation Status and Results Report (ISR) Rating ............... 4
Table 3: Summary of Key Developments in BOS under BOS-KITA and planned under Additional Financing ................................................................. 8
Table 4: Original Loan and Additional Financing Plan ............................................... 11
Table 5: Costs by Component ...................................................................................... 11
PROJECT PAPER DATA SHEET

Date: April 23, 2010
Country: Republic of Indonesia
Project Name: School Operational Assistance-Knowledge Improvement for Transparency and Accountability – Additional Financing
Original Project ID: P107661
AF Project ID: P119125-ID

Task Team Leader: Ratna Kesuma
Sector Director: Emmanuel Y. Jimenez
Sector Manager: Eduardo Velez Bustillo
Country Director: Joachim Von Amsberg
Environmental Category: C

Borrower: Republic of Indonesia
Tel: (62-21) 572-5057 Fax: (62-21) 572-5606
Bos@dit-plp.go.id

Revised estimated disbursements (Bank FY/US$m)

<table>
<thead>
<tr>
<th>FY</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual</td>
<td>375</td>
<td>125</td>
</tr>
<tr>
<td>Cumulative</td>
<td>375</td>
<td>500</td>
</tr>
</tbody>
</table>

Current closing date (Original BOS-KITA loan): 31 December, 2010
Closing date (BOS-KITA Additional Financing): 31 December, 2012

Does the scaled up project require any exceptions to Bank policies? __ Yes X No
Have these been approved by Bank management? __ Yes ___ No
Is approval for any policy exception sought from the Board? __ Yes X No

Project development objective/outcomes:
The Project Development Objective and Intermediate Outcomes remain the same. The Project Development Objective is “To improve access to quality education in Indonesia for all children of ages 7 to 15 by strengthening school-based management and community participation, improving existing fiduciary arrangements for greater transparency and accountability of the BOS program and, consequently, bringing about better utilization of BOS funds.”

Does the restructured project trigger any new safeguard policies? No.

For Additional Financing Plan (US$m.)
[X] Loan [ ] Credit [ ] Grant [ ] Guarantee [ ] Other
For Loans/Credits/Grants/Others:
Total Bank financing (US$m.): 500.00

Proposed terms: Standard. The Additional Financing will be an IBRD flexible loan (IFL) in US dollar currency with a variable spread. The final maturity is 24.5 years, including a grace period of 9 years. The front end fee of 0.25% will be paid out of GoI’s own proceeds.

Financing Plan

<table>
<thead>
<tr>
<th>Source</th>
<th>Local (US$m)</th>
<th>Foreign (US$m)</th>
<th>Total (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>3,302.70</td>
<td>-</td>
<td>3,302.70</td>
</tr>
<tr>
<td>IBRD/IDA</td>
<td>500.00</td>
<td>-</td>
<td>500.00</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3,802.70</td>
<td>-</td>
<td>3,802.70</td>
</tr>
</tbody>
</table>
I. INTRODUCTION

1. This Project Paper seeks the approval of the Executive Directors of the World Bank to provide an additional loan in the amount of US$500 million, to the Republic of Indonesia for the School Operational Assistance - Knowledge Improvement for Transparency and Accountability Project (BOS-KITA, P107661/Ln.75910-ID).

2. Original Credit/Loan: The original project is a Specific Investment Loan with IBRD financing of US$600 million, and the loan agreement was signed on October 10, 2008. The project became effective on November 11, 2008 and is scheduled to close on December 31, 2010.

3. Additional Financing: The Additional Financing of US$500 million is also an IBRD loan, and will bring the total BOS-KITA financing to US$1.1 billion. The proposed additional loan will reimburse a portion of the Government’s BOS grants made to public and private primary and junior secondary schools under the auspices of the Ministry of National Education (MoNE) for the BOS 2010 Program and the BOS 2011 and later Program, and undertake activities that will enhance the implementation of BOS-KITA, and help “scale up” the project's development effectiveness. While the strong fiduciary arrangements will be continued (as per the original BOS-KITA loan), the proposed activities will, in addition, (i) support school based management practices more directly and; (ii) strengthen the role and responsibilities of local governments for the BOS program. These activities are consistent with the original project development objective and outcomes, which remain the same under Additional Financing.

4. Partnership Arrangements: In addition to the World Bank, the current BOS-KITA loan has been supported by a US$20 million grant; the Dutch Basic Education Support Program (DESP) to strengthen government systems and community oversight of BOS. A major contribution of DESP has been collection of nationally representative data on the BOS program by independent monitors and BOS training executed by MoNE. Furthermore, the Government of Australia is in discussion with the Government of Indonesia (GoI) to contribute A$20 million to the financing of BOS training for all MoNE schools and Ministry of Religious Affairs (MoRA) madrasah in early 2011. This training will form part of a system of professional development programs for principals and supervisors that will commence in 2012 with AusAID and EC support under the forthcoming Education Sector Support Program. ADB will also provide approximately $600,000 to MoNE for training. These funds will collectively deliver training on school planning, education standards, procurement and financial management to local government staff and school committees in all districts.

II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

5. Government’s Basic Education Strategy and the BOS Program: The GoI continues to make significant investments to help meet its constitutional obligation of ensuring Basic Education\(^1\) for all Indonesian children, including the poor or those otherwise disadvantaged. Progress in terms of improving access to Basic Education, particularly at the primary level has been commendable. However, the significant increase in the cost of education as well as the opportunity cost as children progress from primary to junior secondary school is a key challenge.

---

\(^1\) Basic education in Indonesia consists of primary (grades 1-6) and junior secondary (grades 7-9).
for households and government alike. Currently\(^2\), 55% of the children in the poorest income quintile who enter junior secondary school actually complete grade nine. Another factor which affects decisions on how long children stay in school, is the quality and relevance of education offered, especially to children “at risk” of dropping out of school or not continuing to the next level, because of poor learning. In addition, where parental involvement or oversight of schools is low, it tends to make schools less accountable and responsive to student needs.\(^3\)

6. The government has developed a number of strategies to address these issues.\(^4\) The BOS program, initiated in 2005, is Indonesia’s most significant policy reform in education financing and is leading the Government’s transformation of the education sector from a centralized system to one supporting School Based Management (SBM) and community empowerment. It seeks to improve access to basic education for every child in Indonesia by: (i) disbursing block grants based on a easily understood per student funding formulae, directly to schools for operations, thereby; (ii) lowering school fees;\(^5\) and (iii) making all schools; public, private or religious, eligible for BOS financing. It is also the Government’s single largest education program; in 2009, BOS accounted for 8.9% of the total national education expenditure.

<table>
<thead>
<tr>
<th>Category</th>
<th>Status in 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage of MoNE students</td>
<td>39.5 million students; 190,000 schools (2008)</td>
</tr>
<tr>
<td>Annual allocation per student (primary)</td>
<td>Rp. 397,567 (approx US$40)</td>
</tr>
<tr>
<td>Annual allocation per student (junior secondary)</td>
<td>Rp. 570,945 (approx US$57)</td>
</tr>
<tr>
<td>BOS share in total education budget</td>
<td>8.9% (22% of the central government)</td>
</tr>
<tr>
<td>Fund flow mechanism</td>
<td>Direct transfer to schools from provincial budgets in quarterly installments.</td>
</tr>
<tr>
<td>Approval and implementation of budget at the school level.</td>
<td>By the school committee (principal and parents); the chair of the school committee co-signs the budget plan, and expenditure report.</td>
</tr>
<tr>
<td>Reporting</td>
<td>Transfers to schools recorded by the Ministry of Finance; quarterly reporting on BOS fund allocations and expenditures by schools to districts.</td>
</tr>
<tr>
<td>Audit</td>
<td>Clean audit for FY 2008 by BPKP; 2009 audit report due by June 2010.</td>
</tr>
</tbody>
</table>

7. The government and others have been regularly assessing the BOS Program since its inception.\(^6\) Findings indicated that while the program had initially lowered tuition fees, and had been associated with increasing enrolment, a number of challenges remained. These include: (i)

---
\(^2\) SUSENAS (2009). This is an improvement since 2006 when 50% of the poorest children completed grade 9.

\(^3\) See Annex 10 pg 78 of the BOS-KITA Project Appraisal Document for an illustration of the link between school based management, improved teaching – learning environment and learning outcomes.

\(^4\) A comprehensive teacher qualification and certification process is underway aimed at directly improving the quality of education services. Early childhood education has been launched to make children better prepared for schooling. One roof schools have been constructed to reduce transport costs which comprise a significant portion of schooling costs at the junior secondary level. National education standards have been developed and are being implemented to various degrees.

\(^5\) These include: (i) entrance fee for new students; (ii) registration fee for old students; (iii) uniform fee; (iv) tuition fee; (v) book fee; (vi) student worksheet; (vii) computer fee; (viii) cooperative fee; (ix) extracurricular courses/lessons; (x) scout fee; (xi) student farewell fees; (xii) study tour; and (xiii) others.

the need to address the reintroduction of school fees to meet school financing needs; (ii) the decrease in the real value of BOS unit cost due to inflation; and (iii) the inability of schools to free all poor students from all types of school fees especially in poorer communities. In terms of BOS implementation, the studies found that there was a need to: (i) improve the disbursement of funds to schools; (ii) improve financial management and reporting of the use of funds; (iii) increase the public’s knowledge of how BOS funds could be used; and (iv) strengthen the oversight role of the school committee.

8. In view of these findings, the GoI and World Bank designed the BOS-KITA project to address some of the challenges identified above, with others to be addressed through different strategies (see footnote 4 and para. 23). The project has the following specific objectives.

9. **BOS-KITA Objectives:** The Project Development Objective (PDO) is: “To improve access to quality education in Indonesia for all children of ages 7 to 15 by strengthening school-based management and community participation, improving existing fiduciary arrangements for greater transparency and accountability of the BOS program and, consequently, bringing about better utilization of BOS funds.” The three intermediate outcomes of the project are: (i) improved management of BOS funds (schools improve their management of BOS funds); (ii) increased public information and dissemination regarding BOS (improved accountability through communities and parents receiving more information about the BOS program); and (iii) improved monitoring and evaluation (BOS program managers, schools and communities increase their monitoring and evaluation of the program in order to improve its effectiveness). See Annex 1.

10. Given the short duration of BOS-KITA, improvements in education quality reflected in student outcomes (and test scores) are not expected to happen during the lifespan of the project and therefore, are not being measured. The project also addresses poverty issues to the same extent as the BOS program that makes provisions for eliminating school fees for the poor and subsidizing their transport costs. Other GoI programs address poverty issues more directly.

11. **BOS-KITA Performance to date:** BOS-KITA has effectively raised the bar in terms of the fiduciary standards of the BOS Program, specifically its procedures for: (i) financial management; (ii) procurement; and (iii) governance (see Annex 2). The project has been under implementation for over a year and as such, while all important procedural improvements to the BOS fiduciary framework have been completed, it will take some time for improved practices to take root. Important activities to date include: (i) financial management: instituting quarterly reporting of BOS disbursements to schools by all levels of government, instead of annual reconciliation of accounts; (ii) training on financial recording and reporting to school BOS teams, nationally; (iii) procurement: inclusion of purchasing guidelines in the BOS manual and creation of purchasing team in schools; (iv) governance: launching a national TV campaign to increase public awareness of BOS and the role of the school committees; and (v) initiating independent monitoring of the Program through a national survey.

12. More broadly, there have been a number of improvements in the institutional environment for education service delivery, which are being driven by the BOS program and supported by BOS-KITA. First, the program has been vital in shifting GoI’s policy and education financing

---

7 “Program” refers to GoI’s BOS program. “Project” refers to support to BOS under the BOS-KITA loan.
8 BOS-KITA supports the BOS Program the general objective of which is stated: “to reduce the public’s financial burden on education in the framework of quality 9-year compulsory education.” Source: The BOS Manual 2009.
focus to a whole school approach, whereby decisions regarding spending of BOS funds are being made at the school level according to individual school needs. Second, every school surveyed now has a school committee which represents the local community and is engaged in BOS planning and budgeting decisions. Furthermore the school committees are now viewed as integral to the management and oversight of schools, and are being trained on BOS procedures alongside school staff. Third, the program has provided rural schools especially in poor areas with much needed resources for school operations, which could not be fully met by parental contributions.

13. In terms of institutional arrangements, BOS-KITA has helped reactivate a formal inter-agency working group representing MoNE, the Ministry of Home Affairs (MoHA), the Ministry of Finance (MoF), the Inspectorate General of MoNE (IG-MoNE), and BAPPENAS (National Development Planning Agency) to discuss and resolve BOS implementation issues. The group met in October 2009 following the Bank’s implementation support (supervision) mission and has made solid progress in tackling long standing issues such as the source of tax deduction on BOS funds. In terms of improvements to systems and processes under BOS-KITA, one valuable contribution has been the completion of a nationally representative baseline survey. This has provided MoNE and GoI with up-to-date information on performance of the BOS program via the amount of funds received by schools, spending patterns, decision making processes etc. This information is being used to pilot improvements to BOS monitoring systems, in terms of the indicators being measured, data collection methods, data analysis and the use of information with a view to being disseminated nationwide. BOS-KITA is also assisting MoNE with improvements to its complaints handling system, which has begun to systematically categorise and follow up on the status of complaints. The project also supports formal procurement processes at the school level.

14. The project’s progress toward the development objective, project management and counterpart funding are all rated satisfactory (Table 2). In terms of the PDO, while enrolment rates are increasing, at both the primary and junior secondary level (including for the poorest quintile) and progress has been good in terms of reducing dropouts at the primary level, different strategies are needed to sustain the decline in the dropout rate at the junior secondary level (see footnote 12). Attainment of the PDO (influenced by many factors other than BOS-KITA) is therefore more likely over the medium term. In terms of intermediate outcomes, slight progress has been made in improving the fund flow, but this varies by quarter and needs to be further improved especially in the third quarter (i.e., start of the school year). With regards to SBM, more school committees are approving budget plans but schools need to do more in terms of approving expenditure reports and disclosing information on school notice boards.

<table>
<thead>
<tr>
<th>Table 2: BOS-KITA Implementation Status and Results Report (ISR) Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Summary Development Objective Rating</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Overall implementation Progress</td>
</tr>
<tr>
<td>Financial Management</td>
</tr>
<tr>
<td>Project Management</td>
</tr>
<tr>
<td>Counterpart Funding</td>
</tr>
<tr>
<td>Procurement</td>
</tr>
<tr>
<td>Monitoring and Evaluation</td>
</tr>
</tbody>
</table>
15. The moderately satisfactory rating for financial management and for monitoring is mainly due to reduced budget for monitoring of the BOS program in 2009, due to an ill-timed development (i.e., cancellation of central “safeguarding budget” for district BOS Management teams by the National Parliament), and the late request to districts to allocate needed resources. Internal audit was also delayed in 2009. The moderately satisfactory rating for procurement reflects the fact that training of schools in improved procurement procedures was completed recently and it will take some time for these procedures to be satisfactorily implemented. These factors resulted in an overall implementation rating of moderately satisfactory for the project.

16. GoI is working proactively with the task team in addressing these implementation issues in terms of monitoring, districts have already been advised to: (i) integrate BOS supervision within regular supervision of schools, and (ii) allocate adequate resources for monitoring BOS during 2010 (see Annex 3). School supervisors will be trained to conduct integrated monitoring of BOS in 2010 with grant funding from AusAID. With regards to internal audit, IG MoNE completed training on the BOS program for all Inspectorate Daerah (district audit offices) during 2009 and also completed a joint internal audit of the BOS program with the Inspectorate Daerah in 150 districts albeit by November 2009. 9 On procurement, the main issue was that the improved procurement procedures in the BOS manual were new to schools, and thus more time was required to fully see the results in schools. The focus going forward will be on monitoring adherence to procurement processes, procedures and disclosure of procurement plans.

17. Disbursements under BOS-KITA have been as planned. By December 2009, 100% of the original loan amount had been disbursed. For 2008, the project received an “unqualified audit opinion” from BPKP and the 2009 audit report is due by June 2010, with findings to be discussed and addressed as agreed with GoI. BOS funds are largely being used for the purposes intended; no systematic misapplication of funds has been detected or reported through the Program’s complaints handling mechanism, by the media, or during consultations with Indonesia Corruption Watch (ICW). 11 A few cases that have been reported have been investigated and handled according to procedures agreed with GoI and outlined clearly in the BOS Operations Manual. For instance, school principals and school committees have returned BOS funds that have not been used in accordance with the criteria laid out in the BOS Manual to the school account.

18. **Lessons Learnt:** The implementation of BOS-KITA thus far has yielded many useful lessons, which have been used to design the additional activities, and will inform the policy dialogue with GoI, under the Additional Financing. First, in terms of development results, while student enrolment has increased, complementary programs are needed to improve retention of students at the junior secondary level if GoI’s goal of universal basic education is to be attained. 13

---

9 Key findings included incomplete identification of poor students, school fees being charged and inadequate disclosure of BOS information on notice boards.

10 BPKP Audit of BOS in 2008 identified 200 cases of inappropriate use of BOS funds equivalent to IDR 9,961,792,543 (approx. US$ 996,000).

11 The ICW highlighted: (i) the need to increase accountability of districts and school principals to local communities for funds received; (ii) develop the complaint handling mechanism at the district level, and; (iii) train teachers and school committee members on how funds should be managed transparently.

12 Information on these cases has been provided to the World Bank’s Department of Institutional Integrity (INT).

13 For instance complementary (i) social safety net policies, which can guard against the likelihood of children being forced to drop out of school in view of changing household conditions and during periods of slower economic growth (ii) Teacher training programs that impart skills to address the learning needs of students “at risk” of dropping out.
Second, there is currently a trade-off involved in accuracy of (enrolment) data for BOS funding and the timely fund flow to schools; fund flow slows due to frequent revisions to data. More information is needed on this and other impediments to fund flow, as these can vary across districts. Third, the fiduciary practices being introduced at the school level through BOS-KITA are making fundamental changes to how public funds for education are accounted for to the general public. The Bank’s assessments indicate that most schools have better records of BOS funds than other government programs. However, there are questions regarding interest and taxation issues of BOS funds, and confusion about communities’ financial contributions to schools after the announcement of Free Basic Education by GoI in 2009 (voluntary contributions are allowed but tuition fees cannot be solicited). Fourth, BOS funds continue to predominately finance teachers i.e. through temporary teacher honoraria and or for activities related to testing/assessments, but it is unclear how these activities are linked to school operational needs or student specific access or learning needs. Fifth, in terms of SBM, while school committee chairs are trained and sign off on BOS expenditure reports, there is a need for review of BOS plans and actual expenditures by the full school committee for effective oversight and to ensure that schools disclose this information to parents accurately and regularly. In this regard, recent findings from a World Bank impact evaluation of school committees in two provinces in Indonesia indicate that schools with elected school committees, including 30% parents, who are trained or have links with the village council, are associated with better learning outcomes. Sixth, the quality of monitoring at all levels needs to go beyond reporting on inputs i.e., BOS usage by allowable and unallowable categories, to include outcomes attained at the school and district level with BOS and other funds. Lastly, findings from the Regional Independent Monitoring (RIM) survey of BOS (under BOS-KITA), provides GoI with a more complete picture of BOS implementation nationwide. RIM findings suggest that improving institutional practices nationally as envisioned under BOS-KITA are likely to take place over the medium term (see Annex 4).

19. **Rationale for Additional Financing:** GoI has made the request for $500 million in Additional Financing for the BOS-KITA project to undertake activities that will “scale up” the project’s development effectiveness in light of: (i) implementation experience to date; and (ii) recent and upcoming policy changes. The original loan will be closed on December 31, 2010, as scheduled, and the new loan is expected to become effective by July 2010 and will close on December 31, 2012. BOS allowable expenditures will continue to be financed under the Additional Financing (as per the original loan) and activities will continue to be undertaken to further strengthen financial management and governance practices. In addition, new activities will be introduced to support school based management practices more directly and to increase the role and responsibilities of local governments in financing and managing the BOS program (see Table 3).

20. The underlying motivation of the Additional Financing and additional activities is to move BOS-KITA from simply being a project that strengthens fiduciary requirements to one which, in addition, directly helps schools and districts make the critical link between assessing school performance, planning for improvements and using funds (including BOS funds from central and

---

14 EQCPI (2009). Survey conducted in six districts in Central Java and D.I Yogyakarta. A nationally representative study on SBM practices in Indonesia by the World Bank is currently underway.

15 Decisions by the National Parliament (see para. 15) indicate a greater role of districts in monitoring and managing BOS. From 2009, the government also expects BOS to contribute to its focus of improving the quality of basic education by schools gradually attaining national education standards. There are also indications that GoI is considering allocating BOS funds to districts in the future for onward disbursements to schools, along with other local government funds e.g., local BOS for schools.
local governments) for needed improvements. The introduction of school improvement planning (that incorporates expected education standards), improved monitoring, gap-financing by districts, and greater oversight by school committees under the Additional Financing should help rationalize the use of BOS funds from largely financing teachers remuneration and honoraria, and redirect resources (including BOS funds) towards other school operational needs, and student needs.

21. In the interest of transparency, BOS unit costs will remain the same nationally. However, World Bank is in discussion with GoI on the development of other needs based financing instruments to make up for discrepancies among districts in terms of education outcomes.

22. In terms of the choice of the financing modality, it is appropriate to use Additional Financing under BOS-KITA rather than process a new project for several reasons. First, the BOS program will continue to disburse block grants on a per student\textsuperscript{16} basis. Second, there are currently no changes to the fund flow mechanism for BOS-KITA. Third, like the original BOS-KITA loan, the proposed Additional Financing will reimburse a portion of the Government’s BOS grants to primary and junior secondary schools, under the auspices of MoNE. Fourth, there are no changes in terms of coverage (as all schools are already eligible for BOS). Details of the proposed activities under Additional Financing are discussed in Section III.

\textbf{Figure 1}

<table>
<thead>
<tr>
<th>Dutch Education Support Program Grant funding</th>
<th>Original BOS-KITA Loan (school level) 2008-2010</th>
<th>• Improved procedures for transparency and accountability</th>
<th>BOS-KITA Additional Financing (2011-2012)</th>
<th>• School Based Management; • Increased management of BOS by Local Government</th>
<th>Future World Bank Support (district level) (forthcoming)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Continued support to school based management study</td>
<td>• Emphasis on reducing disparities among schools and districts in education performance and financing</td>
</tr>
<tr>
<td>Basic Education Capacity Trust Fund (Dutch and European Commission) Grant funding</td>
<td>• Monitoring and Evaluation • Social Marketing and information Campaigns • School Based Management study • BOS Training</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EC and AusAID financed Education Sector Support Program, (Grant funding forthcoming)</td>
<td></td>
<td>• Improving systems for planning, financial, management and governance in 50 districts • Piloting of EMIS tool • Independent M&amp;E • Design of improved training for schools and districts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB Minimum Service Standards Project (Grant funding)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Training in Education Standards</td>
</tr>
</tbody>
</table>

\textsuperscript{16} As experience with these programs grows and monitoring systems become more reliable, indicators such as average daily attendance can be considered.
23. **Consistency with World Bank’s Country and Sector Strategies:** By strengthening a Government led program, BOS-KITA clearly supports the World Bank’s Country Partnership Strategy 2009-2012 for Indonesia which seeks to “invest in Indonesia’s institutions” and focuses on developing core engagements in key sectors; including education. Supporting BOS is also a key element of World Bank’s education sector strategy which is to work with GoI in improving education service delivery in a decentralized environment. While BOS-KITA supports fiduciary improvements mainly at the school level, the Dutch and EC financed BEC-TF (managed by the World Bank) is currently assisting 50 districts to identify improvements to education planning, management information systems and service delivery. These districts can then apply for GoI funding to implement needed changes through a competitive process which can be supported by the World Bank and other development partners through future programs. These programs collectively offer a comprehensive program of World Bank’s support to Basic and Secondary Education in Indonesia (see Figure 1).

III. **PROPOSED CHANGES**

24. The status of current activities under BOS-KITA and proposed changes with the Additional Financing are summarized in Table 3 below:

**Table 3: Summary of Key Developments in BOS under BOS-KITA and planned under Additional Financing**

<table>
<thead>
<tr>
<th></th>
<th>BOS Program in 2005</th>
<th>BOS Program in 2008 (Pre-BOS KITA)</th>
<th>BOS-KITA (BOS with WB support)</th>
<th>BOS-KITA STATUS April 2010</th>
<th>BOS-KITA AF (BOS with Additional Financing) 2011-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL MANAGEMENT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Release of Funds</td>
<td>• On average, delay of 1-3 months</td>
<td>• Delay has been reduced to 2-4 weeks, but first quarter is still above one month.</td>
<td>• Delays of 1-3 weeks are expected.</td>
<td>• There are still some delays in the first and third quarters, due to quarterly revisions to data (e.g. enrollment) that are considered for BOS allocations and disbursements.</td>
<td>GoI to identify reasons for delays and prioritize actions to address these.</td>
</tr>
<tr>
<td>Use of BOS Funds</td>
<td>• Insufficient clarity on allowable/unallowable expenditures</td>
<td>• Allowable/unallowable expenditures clarified • Prioritization of poor students clarified.</td>
<td>• Capacity building on financial recording and reporting on use of funds at schools. • Quarterly reports from schools to district.</td>
<td>• Sustained</td>
<td>• Further clarification on allowable/unallowable expenditures in the revised BOS Manual 2010. • Clarification on the role of schools in terms of taxation (retail and on honoraria) and use of interest earned on BOS funds.</td>
</tr>
</tbody>
</table>
### Allocation per school
- Determined at central level and no adjustment allowed
- Provincial teams are allowed to re-allocate funds from districts or schools that have surpluses to those experiencing shortfalls.
- Quarterly reports of disbursement to schools and reconciliation of provincial bank account.
- Sustained.
- Local governments advised to allocate local BOS to meet gaps in financing school operations.
- Quarterly Reporting and reconciliation of accounts to continue
- Provincial teams are allowed to re-allocate funds from districts or schools that have surpluses to those experiencing shortfalls.
- Stabilized internal audit in collaboration with local government auditors.
- Capacity building of local government auditors completed.
- Internal audits carried out by IG-MoNE and Inspectorate Daerah in 150 districts in 33 provinces.
- Local governments advised to include BOS within their internal audit program.
- Enhanced coordination for the internal audit of BOS by IG-MoNE and all local governments in 2010 and beyond.

### Internal Audit
- Duplication between Inspectorate General and local government auditors
- Inspectorate General agreed to collaborate with local government auditors.
- Strengthened internal audit in collaboration with local government auditors.
- Sustained.
- Annual Audits to be continued.
- Audit findings to continue being shared across agencies and across all levels of government.

### External Audit
- Government auditor carried out performance audit
- Ex-post audit by Supreme Auditor as part of MoNE’s audit.
- Government auditor with agreed terms of reference.
- Sustained.
- To continue.
- Posters listing BOS objectives, BOS unit costs, allowable and unallowable expenditures and the role of SCs, to be provided to all BOS recipient schools.
- BOS allocations per annum for each school advertised in local newspapers.

### Transparency
- Insufficient action
- Posting BOS Allocations on school notice boards.
- Posting report of use of funds on school notice boards
- Bank’s Anti-Corruption Guidelines included in manual.
- Done, but the practice of posting information on BOS usage is better in some districts than others.
- To continue.
- Posters listing BOS objectives, BOS unit costs, allowable and unallowable expenditures and the role of SCs, to be provided to all BOS recipient schools.
- BOS allocations per annum for each school advertised in local newspapers.

### Goods
- No formal procedures
- Procurement of books through shopping.
- Provision of simple guidelines.
- Sustained.
- Implementation of improved procurement procedures.

### Works
- No formal procedures but in practice by community participation
- By community participation
- Provision of simple guidelines
- Sustained
- Implementation of improved procurement procedures.

### Purchasing team
- Not defined
- Not defined but assumed by existing school team.
- Team at school consisting of three persons, at least one of whom is a parent representative from the local community.
- Sustained. Procurement committees are the same as the school BOS team.
- Publish names of purchasing team as part of the record of purchasing information.
<table>
<thead>
<tr>
<th>Role of school committee</th>
<th>• Signing off on budget plan</th>
<th>• Involvement in planning, particularly in support of poor students.</th>
<th>• Additional role of Chair of school committee to sign-off expenditures report.</th>
<th>• Done.</th>
<th>• Training school committee members to review and approve school budgets, purchasing procedures and cashbooks and expenditure statements.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complaints handling</td>
<td>• Toll-free phone and email for complaints</td>
<td>• Continued but no systematic record of follow-up and rate of resolution.</td>
<td>• Adding SMS system and staff for recording follow up and resolution.</td>
<td>• Underway.</td>
<td>• To continue • Separate toll-free phone numbers for primary and junior secondary directorates provided.</td>
</tr>
<tr>
<td>Remedies</td>
<td>• Remedies (e.g. demotion of position, relocation) specified in manual</td>
<td>• There is evidence that remedies are being applied.</td>
<td>• Additional staff for monitoring actions for non-compliance.</td>
<td>• Remedies have been applied e.g. action was taken on three cases of misapplication of funds during Jan-Oct 2009.</td>
<td>• To continue.</td>
</tr>
<tr>
<td>Monitoring</td>
<td>• Monitoring exist but need to be strengthened</td>
<td>• Provision of financial reporting forms • Independent monitoring (by NGOs and Press) exist due to public awareness and high visibility process</td>
<td>• Clarification on responsibilities for monitoring • Independent monitors hired by Bank</td>
<td>• Done. Reduction in local government monitoring coverage in 2009 due to absence of funds for this purpose. • RIM Baseline and 2009 survey completed. 2010 survey underway.</td>
<td>• Local governments advised to integrate monitoring of BOS into their monitoring of schools (e.g. by school supervisors) • Local governments advised to provide sufficient safeguarding funds for BOS • Training to decrease redundant reporting requirements on BOS from schools; • Training to improve the quality of BOS monitoring and feedback to schools.</td>
</tr>
<tr>
<td>School Improvement Planning</td>
<td>• Training school BOS teams and SCs in School Improvement Plans (SIP), financial management of BOS, complaint handling and information disclosure. • Development of SIPs, which identify outcomes and inform how BOS funds (along with other school funds) are spent.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieving National Education Standards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• BOS funds from Central and local governments are used to attain relevant National Education Standards (PP 19/2005).</td>
</tr>
</tbody>
</table>

25. The reforms in Table 3 will be initiated through: (i) further refinements to the BOS Manual; (ii) piloting activities such as improved monitoring; (iii) improving the content of the training on BOS to schools, schools supervisors and school committees to tackle real
implementation issues being faced by schools; and (iv) issuance of joint circular letters from MoNE and MoHA to local governments to strengthen districts’ role in the BOS program.

26. **Revised Project Costs and Financing Plan:** From a financing perspective, Table 4 lists the revised local and foreign financing component of the BOS-KITA project. Table 5 shows the components of the original loan as well as the proposed Additional Financing.

<table>
<thead>
<tr>
<th>Source</th>
<th>Local (original)</th>
<th>Foreign (original)</th>
<th>Local (AF)</th>
<th>Foreign (AF)</th>
<th>Total (original)</th>
<th>Total (AF)</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>2,021.50</td>
<td>0.00</td>
<td>3,302.70</td>
<td>0.00</td>
<td>2,021.50</td>
<td>3,302.70</td>
<td>5,324.20</td>
</tr>
<tr>
<td>IBRD</td>
<td>598.50</td>
<td>1.50</td>
<td>500.00</td>
<td>0.00</td>
<td>600.00</td>
<td>500.00</td>
<td>1,100.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,620.00</td>
<td>1.50</td>
<td>3,802.70</td>
<td>0.00</td>
<td>2,621.50</td>
<td>3,802.70</td>
<td>6,424.20</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Components</th>
<th>Original Cost</th>
<th>Changes with AF</th>
<th>Revised Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. School Grants</td>
<td>598.50</td>
<td>500.00</td>
<td>1,098.50</td>
</tr>
<tr>
<td>2. Front-end Fee</td>
<td>1.50</td>
<td>-</td>
<td>1.50</td>
</tr>
<tr>
<td>Total</td>
<td>600.00</td>
<td>500.00</td>
<td>1,100.00</td>
</tr>
</tbody>
</table>

27. **Disbursement Arrangements:** Through the Additional Financing, the World Bank will reimburse 40 percent of BOS grants incurred by the government during the GoI’s FY 2010, for a total of $175 million and during GoI’s FY 2011 and later for a total of $325 million. Retroactive financing is allowed for GOI's BOS Grants made on or after April 1, 2010 for a total amount not exceeding US$100,000,000.

28. **Procurement:** The procurement for the proposed project would be carried out in accordance with the World Bank’s “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004, revised in October 2006, and “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004, revised in October 2006; and the provisions stipulated in the Legal Agreements.

29. **Condition for Loan Negotiations, Effectiveness and Disbursements:** The conditions for negotiations for the Additional Financing were met as follows: (a) the provision of a draft of a joint Circular from the Ministry of National Education and the Ministry of Home Affairs to strengthen the role and responsibilities of local governments in the BOS program including: (i) advising local governments to allocate local BOS to meet gaps in school financing needs; (ii) advising local governments to integrate BOS in the regular local government audits of schools; (iii) enhancing coordination for the internal audit of BOS between the Inspectorate General of MoNE and local governments; (iv) advising local governments to integrate monitoring of BOS into their regular monitoring of schools; and (v) advising local government to provide sufficient funds for monitoring and evaluation of BOS (“safeguarding funds”), and (b) The clarification from the Ministry of Finance to the World Bank of implementation issues related to the role of
satisfaction to the Bank and the Borrower for the purposes of making BOS Grants.

30. **Financial Management and Audits:** The financial management and audit (Financial and Performance) arrangements will continue as agreed under the original loan. The 2009 audit by BPKP is currently underway, and the report is due in June 2010. GoI and the World Bank have agreed on the need to regularly review the audit arrangements so as to determine their continued applicability to the project under the Additional Financing.

31. **Project Institutional and Implementation Arrangements:** The existing project implementation arrangements will apply to the Additional Financing. The Ministry of National Education will continue to be the executing agency, and BOS management teams at the provincial and local government level will continue to be responsible for monitoring and reporting BOS. The interagency working group will meet regularly to discuss and resolve BOS implementation issues. However, local governments are expected to gradually take a more prominent role in BOS monitoring and to integrate BOS auditing within regular Inspectorate Daerah (local government auditors), with a view to preparing local governments for managing BOS in the future.

32. **World Bank Implementation Support:** World Bank will provide close implementation support to GoI on an ongoing basis and supplement this with formal reviews at least twice per annum that will cover at least 4% of districts (20 districts), and at least 4 schools per district.

33. **Closing Date of the BOS-KITA Project:** The Additional Financing loan will close on December 3, 2012. This will enable a second round of training to schools and provide schools adequate time to develop and implement school improvement plans during 2011-2012. It will also allow sufficient time to assist GoI with changes in BOS financing and management mechanisms being supported by parallel grant funded programs (see Figure 1). In addition, the expected approval and implementation of Minimum Service Standards (linked to National Education Standards) may require further refinements to the BOS Manual in 2011, and ongoing advice to GoI in terms of the roll out of education standards in terms of school operations.

IV. **SUMMARY OF PROJECT APPRAISAL**

34. A World Bank team conducted an appraisal of activities to be financed with the US$500 million Additional Financing for BOS-KITA with GoI during April 2010. A summary of key findings and agreements reached is discussed below.

35. **PDO Results:** One of the objectives of BOS is to reduce school fees charged to households. Poor students are exempt from all school fees, and in addition are to receive a subsidy for transport costs. In order to determine whether these policy objectives were being met, the Bank’s task team analyzed SUSENAS survey data to assess changes to households’ education expenditures as well as net enrollment rates (NERs) as outlined in the BOS-KITA Results
Framework. A comparison of SUSENAS 2006 and 2009 shows an increase in real education expenditures for all income quintiles\textsuperscript{17} for both primary and junior secondary levels. Encouragingly, despite an increase in education expenditures, there has been a statistically significant increase in NERs at the basic education level across all quintiles. Furthermore, the average rate of increase in NER for the poorest income quintile exceeds that of the other quintiles at the junior secondary level, and has increased between 2005 and 2009.

36. In terms of education expenditures, all school fees decreased in real terms between 2006 and 2009 except tuition fees, and the increase in monthly tuition fees, cost of uniform and transportation accounted for the overall increase in education expenditures of households across income quintiles. Schools reported charging tuition fees to finance operations due to the decline in the real value of BOS funds since 2005. Although BOS funds per student increased in real terms in 2009, these are still estimated to be below what is required to meet minimum education standards. GoI is in the process of designing how best to meet school needs through BOS, Local BOS and other cost sharing arrangements with the local government and the task team will continue its policy dialogue and technical support during this process as appropriate.

37. Although the BOS program makes specific provisions for eliminating school fees for the poor and subsidizing their transport costs, the task team’s analysis shows that even the poorest deciles pay school fees and only a small percentage of BOS funds (1\% - 2.5\%) is used to help poor students with transport expenses. One reason for this may be inadequate identification and hence coverage of poor students. GoI (with World Bank assistance) is planning to launch an identification document for poor households in 2011, which should help GoI better implement and monitor its policies with regards to poor students.

38. \textit{Complementary GoI Programs to help attain the PDO}: The government is already undertaking a scholarships program to assist poor students with uniform purchase and other education expenses. Future programs for pre-service and in-service teacher training are currently being designed to provide teachers with the skills needed to address learning issues of “at risk” students, so as to retain children and help them progress through the education system.

39. \textit{BOS Monitoring arrangements}: Given the move towards greater decentralized management of the BOS program, 8 district governments will begin a pilot program to collect data on key intermediate outcomes during the Additional Financing (which are currently being collected through independent surveys) so as to help develop monitoring systems that can be gradually introduced nationally. The central Government estimates that most districts are willing to integrate BOS monitoring during visits to schools by supervisors, but need training on which aspects of school financing, management and outcomes to monitor. Examples of good practices from districts will be shared with other districts to encourage them to adopt similar practices.

40. \textit{Measures to improve Fund Flow}: The central government regularly meets with provincial BOS management teams to ascertain reasons for delays in BOS fund flow. However, clearer

\textsuperscript{17}The increase in education expenditures for the poorest quintile can be explained by differences in the questions regarding transportation costs between SUSENAS 2006 and 2009; the increase in transportation costs in general due to a decline in fuel subsidies, the low percentage of poor students receiving transport subsidy from schools; the decrease in the real value of BOS between 2005 and 2008, and; the change in BOS policy in 2007 which allowed schools to charge fees, to be later reversed by the free basic education policy of 2009. What enabled the poorest quintile to spend more on education can be partly explained by (i) a decline in the poverty level (from 17.8\% in 2006 to 14.2\%\textsuperscript{2} 2009), as well as (ii) an unconditional cash transfer to 30\% of the poorest households in 2008/09 following the financial sector slowdown in late 2008.
categorization of reasons for delays and occurrence by quarter is needed to tackle these. The World Bank has offered to assist the government with such analysis if needed and can incorporate this analysis under district education public expenditure reviews, as requested.

41. **AusAID and ADB parallel-cofinancing:** The task team and GoI have shared ongoing results of BOS-KITA with development partners and attracted an interest in parallel co-financing. The Bank’s task team reconfirmed that the decision on the amount of co-financing by AusAID (expected to be A$20 million) will occur in May 2010. ADB has confirmed the provision of approximately $600,000 to MoNE for training on education standards.

42. MoNE has used the current opportunity for the redesign of the BOS training to engage relevant development partners in the process and, to mainstream piloted tools in the new training curriculum. During early 2010, MoNE held consultations with training specialists from Dutch ESP and Dutch/EC BEC-TF (both managed by the World Bank), AusAID’s Australia-Indonesia Basic Education Program (AIBEP), ADB’s Minimum Service Standards Project and USAID’s Decentralized Basic Education (DBEI) among others, on school assessment, school standards, school planning and training methodologies. Based on the above a proposal to support nationwide training on BOS during 2011 has been developed. Key improvements to the training proposed by previous BOS trainees includes: (i) longer training courses; i.e., one-day orientation is insufficient to support school BOS teams to produce integrated school improvement plans, budgets and school reports; and (ii) further training on financial management and procurement, especially for school committees. In addition there was a request to increase the orientation/awareness of parents and the community to clarify the difference between Free Basic Education and voluntary contributions. Under the Dutch financed BEC-TF, high quality, interactive training toolkits will also be prepared to assure that trainees apply learning at the school level. Proposed trainees for the cascade training program include MoNE staff, and staff from the provincial and district education offices, school BOS teams and, school committee members.

43. **Economic Analysis:** The BOS program through its impact on processes and sector outcomes, is expected to generate important economic gains; both private returns to individuals and public gains. The first source of these gains is through increasing the lifetime earnings of those children who, because of BOS, pursue their education to higher levels of schooling. Using updated data, the net present value of private gains continues to exceed that of direct and indirect costs of basic education, and hence the project remains viable. Additional benefits include savings to the education system obtained from decreasing repetition rates. Using an updated estimate of the per-pupil cost of public provision at each level of education, it is estimated that even a modest decrease in repetition rates\(^{18}\) of half a percentage point would translate into yearly savings of over US$43 million at the primary school level and US$22 million at the junior secondary school level.

44. **Fiscal Sustainability:** Under previous analysis for the original BOS-KITA loan it was concluded that the BOS program would be financially sustainable provided the GoI only introduced unit cost increases of less than 10 percent (in total) in the per pupil funding formula.\(^{19}\) However, the allocation of 20 percent of the Central Government budget to education from 2009 onwards and the substantial increase in education resources that resulted has altered the landscape.

---

\(^{18}\) For MoNE schools, repetition rates in primary declined from 3.95% in 2005/06 to 2.98% in 2007/08, and in junior secondary from 0.47% in 2005/06 to 0.42% in 2007/08. Source: Education Indicators in Indonesia, MoNE. 2008.

\(^{19}\) See BOS-KITA project appraisal document, Pg. 13.
regarding the financial sustainability of the BOS program. An updated analysis indicates that even if unit costs grow substantially in 2011 to be in line with estimates of what is required to meet education Minimum Service Standards, and are adjusted annually for inflation thereafter, the GoI would not be spending significantly more on BOS as a percentage of national spending on education, than it did pre-BOS-KITA (around 9 percent).

45. **Safeguards.** The proposed Additional Financing and the nature of additional activities are such that they will not change the Safeguards categorization for Environment, Indigenous People and Involuntary Settlement as under the original BOS-KITA project. The project will remain as a “Category C” project. No exceptions to Bank policies are needed for the Additional Financing, nor does the Additional Financing trigger any new safeguard policies.

V. **EXPECTED OUTCOMES**

46. The PDO and intermediate outcomes remain unchanged under the Additional Financing (see Annex 1).

47. **Changes to Performance Indicators in the Original Loan:** A minor change to an indicator for the PDO is “dropout rate (%)” instead of “% net dropout rates” (due to a previous typing error in the BOS-KITA PAD). There has also been a change in the baseline values of the PDO indicator “Average monthly household expenditure per student on education by poorest quintile” which now includes registration and other fees.

48. **Changes to Performance Indicators for the Additional Financing Loan:** There are some changes to performance indicators in the Results Framework (Annex 1) to reflect the Additional Financing. Progress of the first intermediate outcome “improved management of BOS funds by schools” will be assessed by three new indicators: (i) “% of school committees that review and approve expenditure reports”; (ii) % of schools that have a school improvement plan; (iii) % of schools with relevant procurement plans, which will replace the current indicator. To assess progress of the second intermediate outcome “increased accountability through improved public information and dissemination regarding BOS” two new indicators; “% of parents who know the unit costs of BOS” and “% of parents who know the objectives of BOS” will replace the current indicator to measure parental knowledge of BOS.

49. The Bank’s task team reviewed the Government's 5 year Education Strategy document (Renstra 2010-2014), consulted with MoNE and reviewed changes in outcomes since 2005 when the BOS program was launched before establishing targets for indicators under the Additional Financing.

50. **Implementation Completion and Results Report (ICR):** There will be one ICR for the BOS-KITA project to be prepared within six months after the closing of the project on December 31, 2012.

VI. **RISKS AND PROPOSED MITIGATION MEASURES**

51. **Approach to identifying Risks:** The request for Additional Financing for BOS-KITA is being made after approximately one year of project operation. During this period the team has had an opportunity to reassess the risks identified during project preparation for the original loan, identify new risks due to changes in the policy and financing environment for the education sector
and, monitor the effectiveness of current mitigation measures. An operational risk assessment was undertaken and identifies current risks which can have an impact on attainment of the PDO while taking the overall Country and Governance risks as given. It will be updated as risks change during implementation.

52. **Risks:** The overall risk to the PDO during project implementation is moderate after taking into consideration the proposed mitigation measures. Currently, four key risks have been identified: (i) There is weak monitoring of BOS by districts (Capacity Risk); (ii) there is misapplication of funds (Fraud & Corruption Risk); (iii) there is less effective use of BOS funds (Delivery Quality Risk); and (iv) School Committees are providing limited oversight (Governance Risk). The task team and GoI have identified specific actions under the Additional Financing to mitigate these risks. Nonetheless, the nature of the PDO is such that its attainment in terms of children not only enrolling in school but completing nine years of education is more likely over the medium term.

53. The first risk, *weak monitoring of BOS by Districts* (Capacity Risk) has emerged from the decision of the National Parliament, for a second consecutive year (2009, 2010) to allocate funds for monitoring BOS to the Central and provincial governments only. Although a more effective mechanism, in the interest of decentralized education service delivery, is indeed for districts to allocate resources for monitoring BOS implementation, there is a risk that not all districts may allocate needed resources.

54. For the second risk, *there is misapplication of funds* (Fraud & Corruption Risk), BPK’s FY 2007 and FY 2008 (first semester) audit report on BOS program and other funds financing basic education expressed an unqualified opinion but most of its findings (200 cases out of 7,605 schools) relate to fund usage not compliant with the BOS Operations Manual. There are a number of factors that can contribute to this. First, the misapplication can result from being unclear about the eligibility of certain expenditures e.g., costs for ceremonies, and training that should be borne by communities or districts. Second, schools do not operate in a vacuum and are also subject to broader corruption risks. During January – October 2009, the central BOS management complaint handling system (which is being supported under BOS-KITA) handled cases relating to forgery of signatures (4/123 complaints), ‘lack of transparency” (37/123 complaints), “deductions i.e., receiving less BOS funds than entitled (4/123 complaints) and “school fees charged” to parents (62/123 cases). To date, 52% of all complaints recorded have been resolved (for details see Annex 4, Table 1). Allegations of misapplication of funds are documented and reported to the INT.

55. The third risk, *there is less effective use of BOS funds* (Delivery Quality Risk) arises, because the majority of funds are currently being used on honoraria and supplemental teaching activities, followed by exam preparation/assessments and extracurricular activities without a strong basis, or plan, for how these allocations were made. For instance it is unclear how the specific learning or development needs of “at risk” children are being met. This would be crucial to attaining the project development objective, by helping to reduce drop outs and increasing the likelihood of children continuing from one level of education to another, especially between the primary and junior secondary levels.

56. The fourth risk, *School Committees are providing limited oversight* (Governance Risk) is relevant since school based management practices and involvement of school committees and communities in school operations are slowly taking root in Indonesia. Traditionally, school principals make major decisions related to planning and financial management of schools and
therefore tend to exert a strong influence on BOS fund allocation. Although the BOS manual clearly states the role of the school committee, there is a risk that school committee members with weak planning and budgeting skills (to fully execute their oversight role) may have even less leverage vis a vis school staff. The involvement of parents in school management may have also weakened recently due to a reported reduction in their financial contributions to schools (and hence influence) following the announcement by MoNE of Free Basic Education.

57. **Proposed mitigation measures:** The mitigation strategies for key risks are outlined below. To address *weak monitoring of BOS by Districts*, MoNE (in a letter dated November 12, 2009) has asked local governments to allocate “safeguarding” funds for BOS as well as provide local BOS in 2010. The World Bank, MoNE and MoF will need to monitor how many districts actually do so and build appropriate follow on incentives through upcoming programs. Districts have also been allowed to integrate BOS supervision/facilitation within regular supervision visits to schools. In addition, districts are being encouraged to prepare quarterly reports on number of schools visited, and key observations made with regards to the use of BOS.

58. The *misapplication of funds* will be reduced by: (i) conducting workshops whereby auditors clarify “grey” areas in terms of BOS allowable expenditures, using concrete examples; (ii) providing training to members of the school committee in addition to the Chair; (iii) improving the content of training delivered to school BOS management teams, and school committees by including clear cases of misapplication of funds, abuse of authority, different forms of corruption and outlining sanctions and *benefits* lost; (iv) advising schools to conduct biannual meetings between the school BOS team, school committee, parents and teachers to discuss BOS usage plans, actual expenditures and outcomes; (v) continuing improvements to the complaints handling functions at the central, and district levels, by implementing SMS (text messaging system) and analyzing data to improve BOS procedures. Assistance in complaint handling also includes ways to better monitor and investigate allegations regarding misusage of funds.

59. Although GoI has issued a Ministerial decree (No. 19, 2007) on the need for schools to develop a school plan, this is widely interpreted as simply preparing a budget plan. To improve the *use of funds* the World Bank has initiated policy dialogue on adoption of school improvement planning by all SD and SMP schools, under the current BOS-KITA loan. School BOS teams will be trained under the Additional Financing to develop a simple school improvement plan that indicates how BOS (along with other sources of funding) will be used to attain the school improvement goals guided by local needs and National Education Standards. Although spending on temporary teachers is allowed, this will need to be guided in the SIP by standards for students to teacher ratio, as well as the need for specialist teachers for extracurricular activities that cannot be undertaken by existing civil service teachers. The training will also explain that spending on teacher allowance for extra classes, exam preparation activities will also need to be rationalized with other strategies that improve student learning.

60. To enhance *community oversight of schools*, the National Parliament has allocated funds for provincial governments to publish BOS allocations to schools in local newspapers in 2010. MoNE will also publish all BOS allocations to schools on its website in 2010. In addition, results

---

20 Rencana Pengembangan Sekolah (RPS)
21 Rencana Anggaran Pendapatan Belanja Sekolah (RAPBS)
22 BOS Manual (2009) does not allow financing of civil service teachers’ salaries.
from a study under the ongoing BOS-KITA loan on improving education quality by enhancing community oversight are being shared with GoI. Another study on school based management and role of school committees is currently underway; these are expected to inform government policies on the structure of school committees and to lead to interventions during the Additional Financing implementation to improve the functioning and oversight role of school committees and increase communities’ support to schools to improve the teaching-learning environment. GoI has expressed interest to learn the results of the information campaigns for BOS under the ongoing BOS-KITA loan. These have been designed to increase communities’ awareness regarding the need to be involved in planning the use of BOS through the school committees and of their rights to information on BOS expenditures.

VII. FINANCIAL TERMS AND CONDITIONS FOR ADDITIONAL FINANCING

61. The Additional Financing will be an IBRD flexible loan (IFL) in US dollar currency with a variable spread. The final maturity will be 24.5 years, including a grace period of 9 years. The front end fee of 0.25% will be paid out of GoI’s own proceeds.
### Annex 1: Results Framework and Monitoring Arrangements

**Indonesia: School Operational Assistance – Knowledge Improvement for Transparency and Accountability AF**

#### PDO

**To improve access to quality education in Indonesia for all children of ages 7 to 15 by strengthening school-based management and community participation, improving existing fiduciary arrangements for greater transparency and accountability of the BOS program, and, consequently bringing about better utilization of BOS funds.**

<table>
<thead>
<tr>
<th>PDO</th>
<th>Project Outcome Indicators</th>
<th>Use of Project Outcome Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>To improve access to quality education in Indonesia for all children of ages 7 to 15 by strengthening school-based management and community participation, improving existing fiduciary arrangements for greater transparency and accountability of the BOS program, and, consequently bringing about better utilization of BOS funds.</td>
<td>No change</td>
<td>For Indonesian primary and Junior Secondary schools (disaggregated by gender, region and income quintile)</td>
</tr>
<tr>
<td></td>
<td>Net Enrollment rates (%)</td>
<td>No Change</td>
</tr>
<tr>
<td></td>
<td>Net Dropout rate (%)</td>
<td>No Change</td>
</tr>
<tr>
<td></td>
<td>Average monthly household expenditure per child on education by poorest quintile</td>
<td>No Change</td>
</tr>
</tbody>
</table>

#### Intermediate Outcomes

**Improved Management of BOS Funds: Schools improve their management of BOS funds.**

<table>
<thead>
<tr>
<th>Intermediate Outcome Indicators</th>
<th>Use of Intermediate Outcome Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>Proposed</td>
</tr>
<tr>
<td>No change</td>
<td>% of schools receiving funds on time.</td>
</tr>
<tr>
<td>% of schools receiving full allocation of funds based on student numbers.</td>
<td>No Change</td>
</tr>
<tr>
<td>% of school committees that approve annual budget plans.</td>
<td>No Change</td>
</tr>
<tr>
<td>% of school committees that receive expenditure reports.</td>
<td>NEW: % of school committees that review and approve expenditure reports.</td>
</tr>
<tr>
<td>% of schools that have a school improvement plan.</td>
<td>NEW: % of schools with relevant procurement plans</td>
</tr>
<tr>
<td>% of schools that disclose the BOS expenditure by category on the notice board.</td>
<td>No Change</td>
</tr>
</tbody>
</table>

**Increased Public**

| Number/type of socialization materials | No change | This information will gauge |
| Information and Dissemination regarding BOS: Improved accountability through communities and parents receiving more information regarding the BOS program. | distributed. | the progress and effectiveness of BOS in disseminating information about the program to the general public. | % of parents knowledgeable on BOS, its uses and school budgets and plans. | NEW: % of parents who know the unit cost of BOS.  
NEW: % of parents who know the objectives of BOS. |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved Monitoring and Evaluation: BOS program managers, communities and schools increase their monitoring and evaluation of the program in order to improve its effectiveness.</td>
<td>No Change</td>
<td>Annual Consolidated reports produced as a result of MIS improvements.</td>
<td>No change</td>
<td>This information will assist in the regular monitoring of the program at different levels and ensure the program is proceeding according to its guidelines.</td>
</tr>
<tr>
<td></td>
<td>Final process evaluation and special studies undertaken.</td>
<td>No change</td>
<td>M&amp;E information will allow program stakeholders to undertake corrective action as needed to improve the program and gauge overall results and impact.</td>
<td></td>
</tr>
</tbody>
</table>
## Arrangements for Results Monitoring

<table>
<thead>
<tr>
<th>Project Outcome Indicators</th>
<th>Baselines</th>
<th>Target Values</th>
<th>Data Collection and Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>Proposed</td>
<td>Frequency and Reports</td>
</tr>
<tr>
<td>Total</td>
<td>93.8%</td>
<td>94.36%</td>
<td>94.75%</td>
</tr>
<tr>
<td>Male</td>
<td>93.9%</td>
<td>94.48%</td>
<td>94.81%</td>
</tr>
<tr>
<td>Female</td>
<td>93.6%</td>
<td>94.23%</td>
<td>94.62%</td>
</tr>
<tr>
<td>Poorest Quintile</td>
<td>91.9%</td>
<td>93.81%</td>
<td>94.12%</td>
</tr>
<tr>
<td>Total</td>
<td>66.6%</td>
<td>67.40%</td>
<td>68.10%</td>
</tr>
<tr>
<td>Male</td>
<td>66.0%</td>
<td>66.75%</td>
<td>67.83%</td>
</tr>
<tr>
<td>Female</td>
<td>67.3%</td>
<td>68.09%</td>
<td>68.36%</td>
</tr>
<tr>
<td>Poorest Quintile</td>
<td>52.4%</td>
<td>58.55%</td>
<td>61.87%</td>
</tr>
<tr>
<td>Primary</td>
<td>2.37%</td>
<td>1.79%</td>
<td>1.61%</td>
</tr>
<tr>
<td>Junior Secondary</td>
<td>2.88%</td>
<td>3.96%</td>
<td>3.36%</td>
</tr>
<tr>
<td>Primary</td>
<td>82.0%</td>
<td>79.40%</td>
<td>80.90%</td>
</tr>
<tr>
<td>Junior Secondary</td>
<td>89.2%</td>
<td>95.42%</td>
<td>96.37%</td>
</tr>
<tr>
<td><strong>Average monthly household expenditure per child on education by the poorest quintile</strong></td>
<td>No Change</td>
<td>SUSENAS (2006)</td>
<td>SUSENAS (2009)</td>
</tr>
<tr>
<td>Primary</td>
<td>Rp.18,276</td>
<td>Rp.31,270</td>
<td>Rp.31,270</td>
</tr>
<tr>
<td>Junior Secondary</td>
<td>Rp.41,601</td>
<td>Rp.58,542</td>
<td>Rp.58,542</td>
</tr>
</tbody>
</table>

---

24 Actual value at time of Additional Financing appraisal is the revised baseline.
27 Updated values, which include expenditure on registration fees.
28 In 2006 prices.
29 No targets have been established but changes in average monthly household spending per child on education (including on school fees) will be monitored.
<table>
<thead>
<tr>
<th>Intermediate Outcome Indicators</th>
<th>Baselines</th>
<th>Target Values</th>
<th>Data Collection and Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>YR1 (At AF Appraisal)</td>
<td>YR2</td>
</tr>
<tr>
<td></td>
<td>No Change</td>
<td>68.5%</td>
<td>69%</td>
</tr>
<tr>
<td>% of schools receiving funds on time</td>
<td>No Change</td>
<td>84.5%</td>
<td>93.5%</td>
</tr>
<tr>
<td>% of schools receiving full allocation of funds based on student numbers</td>
<td>No Change</td>
<td>92%</td>
<td>94.5%</td>
</tr>
<tr>
<td>% of school committees that approve annual budget plans</td>
<td>No Change</td>
<td>92%</td>
<td>94.5%</td>
</tr>
</tbody>
</table>


32 BALITBANG (2009) *Studi Efektivitas Pelaksanaan Program BOS.* Jakarta. Estimates based on asking districts whether the funds received for BOS are based on average student numbers as indicated in the MOUs with schools for Semester 1 and 2.
<table>
<thead>
<tr>
<th>Intermediate Outcome Indicators</th>
<th>Baselines</th>
<th>Target Values</th>
<th>Data Collection and Reporting</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of school committees that receive expenditure reports</td>
<td>NEW: % of school committees that review and approve expenditure reports&lt;sup&gt;33&lt;/sup&gt;</td>
<td>n/a</td>
<td>43% (April 2010) 55% (2011) 60% (2012)</td>
<td>Quarterly, Local government and MoNE reports Local government MIS, School Records Local government, MoNE</td>
</tr>
<tr>
<td>% of schools that have a school improvement plan</td>
<td>NEW: % of schools that have a school improvement plan&lt;sup&gt;33&lt;/sup&gt;</td>
<td>n/a</td>
<td>32% (April 2010) 45% (2011) 55% (2012)</td>
<td>Annual, SIPS Local government MIS, School Records Local government, MoNE</td>
</tr>
<tr>
<td>% of schools that disclose the BOS expenditure by category on the notice board</td>
<td>No Change</td>
<td>20% (RIM Phase I 2008)</td>
<td>20% (2009) 30% (2010) 40% (2011)</td>
<td>Quarterly Reporting Local government MIS Local government, MoNE</td>
</tr>
<tr>
<td>Intermediate Outcome II: Number/type of socialization materials distributed</td>
<td>No Change</td>
<td>Only manual &amp; local newspaper distribution</td>
<td>Wider distribution and types of materials</td>
<td>Annual Surveys MoNE and local government MIS, Media reports MoNE, Media</td>
</tr>
<tr>
<td>% of parents knowledgeable on BOS, its uses and school budgets and plans.</td>
<td>NEW: % of parents who know the unit costs of BOS&lt;sup&gt;35&lt;/sup&gt;</td>
<td>n/a</td>
<td>2.4% (2009) 10% (2010) 20% (2011)</td>
<td>2010: SMIC study 2010: SMIC survey Independent Evaluation study, MoNE surveys</td>
</tr>
</tbody>
</table>

<sup>33</sup> To be measured by including only those school committees that respond positively to two separate questions on reviewing and approving expenditure.

<sup>34</sup> E.g. BOS Operations Manual Form 13 (Comparative Prices of Goods and Services), Form 17 (Goods and Services Needs plan), Form 18 (For Maintenance/minor works Plan)

<sup>35</sup> In one fiscal year.
<table>
<thead>
<tr>
<th>Intermediate Outcome Indicators</th>
<th>Current</th>
<th>Proposed</th>
<th>Baselines</th>
<th>Target Values</th>
<th>Data Collection and Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Original</td>
<td>YR1 (At AF Appraisal)</td>
<td>YR2</td>
</tr>
<tr>
<td>Intermediate Outcome III: Annual Consolidated reports produced as a result of MIS improvements</td>
<td>No change</td>
<td>MIS needs assessment completed; M&amp;E needs assessment completed</td>
<td>n/a</td>
<td>43.6% (2009)</td>
<td>47%  (2010)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MIS tool for schools developed; Pre-testing of M&amp;E process completed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Piloting of improved M&amp;E system and MIS tool in 8 districts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Continuous M&amp;E capacity building report</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final process evaluation and special studies undertaken</td>
<td>No Change</td>
<td>SMIC and SBM study underway</td>
<td>n/a</td>
<td>SMIC Study completed and findings disseminated to GoI and others</td>
<td>SBM Study completed and findings disseminated to GoI and others</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Management</th>
<th>Specific Issue</th>
<th>BOS Program</th>
<th>BOS-KITA measures to strengthen fiduciary</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Control activities at school.</td>
<td>Segregation of authorization and approval procedures for transactions between School Principal, School Committee and Treasurer.</td>
<td>No Change.</td>
<td>Sustained</td>
</tr>
<tr>
<td>2</td>
<td>Reporting on the number of students and use of funds at school.</td>
<td>Schools are required to report on number of students and expenditure by category.</td>
<td>No Change.</td>
<td>Sustained</td>
</tr>
<tr>
<td>3</td>
<td>Transparency in the use of funds at school.</td>
<td>Schools are obligated to post budget plan but not report use of funds on school notice board.</td>
<td>Obligating schools to also post record of purchasing information and results; and use of funds on the school notice board.</td>
<td>DONE. Changes made in the Operations Manual 2009. Practice of displaying BOS expenditure information is better in some districts than others.</td>
</tr>
<tr>
<td>4</td>
<td>Reporting of fund disbursements at province.</td>
<td>Provincial level is required to report on grant disbursements but reconciliation of province account is only made at the year end.</td>
<td>Obligating quarterly reporting of disbursement to schools and reconciliation of provincial account.</td>
<td>DONE. Provinces regularly preparing Quarterly reports on disbursements. Timely reconciliation of Provincial accounts needed.</td>
</tr>
<tr>
<td>5</td>
<td>Monitoring and supervision.</td>
<td>Monitoring undertaken but need systematically improved.</td>
<td>Clarity on monitoring responsibilities of central, province and district teams, district committee including review of school reports.</td>
<td>DONE. Clarification on roles made in the Operations Manual 2009. Monitoring reduced during 2009 due to cancellation of Safeguarding fund by Parliament.</td>
</tr>
<tr>
<td>6</td>
<td>Internal audit and oversight inspection.</td>
<td>Internal audit/inspection undertaken but need systematically improved.</td>
<td>Mechanism for systematic internal audit by IG-MoNE, in collaboration of BAWASDA in field audits.</td>
<td>Training of all Inspectorate Daerah (local government auditors) by IG MoNE completed in 2009, and joint audits with Inspectorate Daerah undertaken in 150 districts in all 33 provinces by November 2009. In 2010, IG MoNE will follow up on its 2009 Audit findings. Coverage of local audits needs to be increased in 2010 and beyond.</td>
</tr>
<tr>
<td>7</td>
<td>External audit arrangements.</td>
<td>BPKP performance audit reported 95% of funds reached the beneficiaries; BPK audits indicate no major issues.</td>
<td>Appointment of auditor (BPKP) in accordance with an agreed term of reference.</td>
<td>SATISFACTORY. BPKP’s Financial Audit report of FY2008 expressed an unqualified audit opinion; Audit findings have been shared across different levels of government and found useful by participants.</td>
</tr>
<tr>
<td>8</td>
<td>Capacity building on financial recording and reporting at schools.</td>
<td>Training was carried out in past two years.</td>
<td>Training to BOS teams at school, district and province levels on the revised Operations manual.</td>
<td>DONE. Training undertaken for all school BOS teams; nationwide. Training in Papua was completed in December 2009.</td>
</tr>
</tbody>
</table>
### Procurement at School Level

<table>
<thead>
<tr>
<th>Procurement at School Level</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 Purchasing team at school.</td>
<td>Role of BOS school team is not defined as the purchasing team. Defining the BOS team at school consisting of three persons at least one of whom is a parent representative from the local community will be responsible for purchasing. DONE Enhanced purchasing guidelines included in the Operations Manual 2009. Need to monitor implementation.</td>
</tr>
<tr>
<td>10 Purchasing process at school.</td>
<td>Shopping and Community. Participation Provision of simple guidelines for purchasing Refer to item 3. Need to ensure that complete information on the purchasing process is disclosed (names of purchasing committee; dates, values and names of suppliers awarded purchase orders)</td>
</tr>
<tr>
<td>11 Disclosure of information.</td>
<td>Schools are obligated to post budget plan on school notice board. Refer to item 3 refer to item 3</td>
</tr>
</tbody>
</table>

### Governance

<table>
<thead>
<tr>
<th>Governance</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 School Committee role in BOS.</td>
<td>School committee already involved and signs-off on budget plan. Strengthen role of school committee, including sign-off expenditures report. DONE. Strengthened role is included in the Operations Manual 2009.</td>
</tr>
<tr>
<td>13 Complaint handling.</td>
<td>Toll-free phone and email for complaints; but no systematic record of follow-up and rate of resolution. Complaint handling system with SMS and add consultant/staff for recording follow up and resolution is strengthened in September 2008. DONE. Records of complaints and investigation are available. Categorization of complaints is also underway.</td>
</tr>
<tr>
<td>14 Remedies</td>
<td>Remedies (e.g. demotion of position, relocation, and job loss) already specified in manual and there is evidence that they are being applied. To add consultant/staff for monitoring actions for non-compliance in September 2008. DONE. Actions were taken in response to three violations during Jan-Oct 2009. Allegations of misusage of funds are documented and reported to the INT. Assistance in complaint handling also includes ways to better monitor and investigate such cases.</td>
</tr>
<tr>
<td>15 Independent monitoring.</td>
<td>Monitoring program exists but needs to be strengthened. Independent monitors initiated monitoring in early 2009, and capacity building activities in late 2009. Independent Monitoring is underway and is providing timely information to the central government. Dissemination of findings to local governments is planned after completion of the full survey.</td>
</tr>
<tr>
<td>16 Public Awareness &amp; information campaign.</td>
<td>High awareness that there is a BOS program. Public awareness and information campaign continuing; Baseline study completed in late 2009. Publication in newspaper of BOS allocations for school by districts (2x per year) did not take place in 2009, due to cancellation of Safeguarding funds. However, the central government published BOS allocations for schools in provincial newspapers in November 2009. Central government has also allocated Safeguarding Funds to publish BOS allocations in 2010. Study on alternative social marketing and information dissemination strategies is currently underway.</td>
</tr>
</tbody>
</table>
Annex 3. MoNE letters to Local Government

Unofficial Translation

Date : November 12, 2009
Number : 5214/C.C3/TU/2009
Attachment : 1 copy
Subject : Circulation Letter
To : Head of Provincial Education Office
From : Prof. Suyanto, Ph.D.
     Director General for Management of Primary & Secondary Education.

This is to confirm that BOS management activities in 2010 will remain the same as in 2009, therefore the BOS Management Team should be established at the Province level.

In relation with the above mentioned activities, we request you to immediately do the following:

1. Publish a decree for the appointment of the 2010 Province BOS Management Team (the composition of the management team attached).

2. Prepare the BOS fund distribution for the period of January-March 2010 as soon possible to avoid delays.

3. Provide additional funds for school operational from the Province APBD (Local Government Budget).

4. Provide funds for operations, monitoring and supervision for the Province BOS Management Team from the Province APBD.

Thank you for your kind attention and cooperation.

Cc:
- Minister of Education
- Secretary Directorate General for Management of Primary & Secondary Education
- All Governors in Indonesia
- Director for Primary Education
- Director for Junior Secondary Education
To: Head of District/City Education Office

From: Prof. Suyanto, Ph.D.
Director General for Management of Primary & Secondary Education.

This is to confirm that BOS management activities in 2010 will remain the same as in 2009, therefore the BOS Management Team should be established at the district/city level.

In relation with the above mentioned activities, we request you to immediately do the following:

1. Publish a decree for the appointment of the 2010 District/City BOS Management Team (the composition of the management team attached).

2. Issue a decision letter for the allocation per school receiving BOS fund for the period of January-June based on 2009/2010 academic year.

3. Provide additional funds for school operational from the District/City APBD (Local Government Budget).

4. Provide funds for operation, monitoring and supervision for the District/City BOS Management Team from the APBD.

Thank you for your kind attention and cooperation.

Cc:
- Minister of Education
- Secretary Directorate General for Management of Primary & Secondary Education
- All Regents/Mayors in Indonesia
- Director for Primary Education
Director for Junior Secondary Education
Annex 4: The Regional Independent Monitoring Survey

Background: The BOS program has been in operation since 2005, and has an internal monitoring system comprising of BOS management teams at the Ministry of National Education and each of the 33 provinces, which in turn monitor over 500 districts. Parallel to this is the supervision of schools by district education offices. The internal monitoring system currently provides mainly administrative data, including student enrollment which is used to calculate BOS allocations per school.

In terms of external monitoring, the BOS Program has also been assessed by SMERU (see Rapid Assessment of BOS 2006), and by BALITBANG (Center for Education Policy and Innovation Research) in 2006, 2007 and 2008.

At the time of BOS-KITA preparation, baseline values for some process indicators were established using available data (see Annex 1). However, both the GDS 2 (2006) and the EQCPI (2007) surveys have certain limitations; the GDS relied on perceptions about timely fund flow while the EQCPI survey is not nationally representative.

Therefore, the World Bank and GoI agreed to independent monitoring\(^\text{36}\) of the BOS program during BOS-KITA’s implementation to serve three purposes: (i) provide for the first time, an independent quantitative and qualitative assessment of BOS implementation in all 33 provinces; (ii) monitor BOS implementation at all levels of government and schools in order to identify good practices and systemic problems; and (iii) use the RIM experience to help determine the feasibility of establishing an independent monitoring system for BOS.

The RIM survey is designed to assess five important aspects of BOS. These are:

a. **Fund allocation and disbursement:** Is there full allocation of funds to schools based on student numbers and are these funds reaching schools on time?

b. **Fund utilization:** How are schools spending BOS between the allowable categories? If funds are not spent according to guidelines, what are schools spending on?

c. **Transparency and Information Disclosure:** What is reported and to whom? Is there adequate information available for schools to be held accountable for spending?

d. **Monitoring and Complaint handling:** Who monitors BOS and how frequently? To whom does the public address its queries and concerns regarding the BOS program, and how?

e. **Socialization:** How are districts sharing information about the BOS within the education system and with the general public?

---

\(^{36}\) A total of 2160 schools will be covered by the RIM survey which is being carried out in three phases covering approx. 720 schools each; phase 1 and 2 are complete and phase 3 is underway.
f. School committee roles and functions: How are school committees involved in school planning, budgeting and oversight of BOS funds?

The following section provides a summary of results from phase 1 and phase 2 of the RIM survey. Phase 1 covered 9 provinces and BOS Implementation in FY 2008 (pre BOS-KITA), while phase 2 covered an additional 10 provinces and BOS implementation (post BOS-KITA) during January – July 2009.

i) Fund allocation and disbursement:

Fund allocation in terms of schools receiving funds according to student numbers continues to be good, and there is a relatively small discrepancy with actual student numbers. Survey findings show a majority of primary and junior secondary schools received funds within a +/- 5% range of actual student numbers e.g. in phase 2, close to 86% of schools surveyed. Slight discrepancies are expected as in the third quarter of the FY (first quarter of the school year), funds are disbursed based on the previous year’s enrollment (while new enrollment data is being collected), and adjustments to school funding based on new enrollment data is made in the fourth quarter. Schools that have discrepancies larger than 10% were brought to the attention of the local government as well as the Central BOS Management team.

Delays\textsuperscript{37} in disbursements to schools continues to be an issue due to different administrative procedures; during the first quarter, delays are caused by the government formally appointing BOS management teams, and issuing the annual budget or DIPA, while in the other quarters delays can be caused due to a number of reasons such as frequent updates in enrolment data in over 30% of primary and junior secondary schools, discrepancies between school account numbers on record and those submitted, signing authority granted to only one government official (without a designated back-up) and late submission of data by schools and or districts.

Schools cope in a number of ways to deal with delays in the arrival of funds such as borrowing (58% of schools surveyed borrowed mainly from the school principals followed by teachers) or by delaying payment to suppliers (26%). Informal /unrecorded borrowing can raise fiduciary risks for the program and therefore underlie the importance of timely fund flow to schools. Another aspect is to ensure schools clearly understand the program’s procedures as outlined in the BOS Operations Manual such as schools are allowed to carry over unspent BOS funding from one year to the next, to cushion delays in arrival of funds in the new fiscal year.

ii) Fund utilization:

Honoraria for temporary teachers and exam preparation/learning activities for students are the two most common uses of BOS funds followed by extracurricular activities in both primary and Junior Secondary schools. Private schools spend more BOS funds on temporary teachers honoraria than public schools. Spending on teacher honoraria was high in both public and private schools, regardless of the student teacher ratio.

Some of the uses of BOS noted during the surveys that are not in compliance with the BOS manual include: (i) lending BOS funds to other parties; (ii) paying for bonus of teachers; (iii) paying for routine transportation of principal, teachers, or school committee iv) paying for

\textsuperscript{37} Under BOS-KITA, funding delays refer to funds received after one month
clothing and uniforms of teachers and or poor students; (v) contributing towards the construction of new buildings/classrooms; (vi) investing in the stock market and; (vi) paying for inputs or activities that have been paid for by other government programs.

### iii) Transparency and Information Disclosure:

The BOS Operations manual outlines the obligation of provincial governments to announce BOS allocations per school to the public. In 2008, six of the nine provinces surveyed had announced BOS allocations to schools using multiple media such as radio and TV, while four of these had also announced the list of schools receiving BOS funds and the amount in local newspapers. In 2009, only one of the ten provinces surveyed had done so, due to lack of safeguarding funds.

**At the school level, information disclosure on the plan for use of BOS fund to parents and public at large, remains largely informal.** Schools use a number of ways to share information on BOS with parents; most prevalent being during annual meetings (68%). However, only 20% of schools displayed information on BOS on notice boards. One of the reasons cited for the weak display of information on notice boards is the fear of being bribed by those who would know the funds held in the school account. Some of the schools surveyed disclosed making payments to members of the Press, NGOs, and officials who visited schools and demanded “transport” fees, and sometimes threatened schools with finding violations, if the fees were not paid. In other cases, schools were unaware that they had to display updated BOS information on notice boards.

School committees at the primary school level in urban areas appear to be the most active in terms of knowing about BOS funds allocated to their school (67%), compared with school committees in junior secondary schools (57%). In terms of expenditures, 71% of the Chairs of School Committees surveyed, reported being aware of BOS expenditures, and more school committees in urban areas had received BOS expenditure reports (78%) than those in rural areas (58%).

### iv) Monitoring and Complaint handling:

**Monitoring of schools was adequate in 2008:** 85% of schools surveyed had been monitored by one or more agencies. Most schools also submit quarterly reports to districts on fund usage. Some schools received monitoring visits by multiple agencies offering contradictory advice. However, in 2009 monitoring was considerably reduced partly as a result of cancellation of a budget for this by the National Parliament.

The Project also has engaged a team to assist MONE with logging and responding to complaints on the BOS program. Results from the **complaint handling system** between January – October 2009 indicate most complaints (50.4%) related to school fees (in view of the 'free education campaign' launched by MoNE in early 2009), followed by lack of transparency (30.1%) and use of funds not in accordance with BOS criteria (6.5%). Most complaints were received by mail and phone.
Table 1. Summary of Complaints regarding BOS (January – October 2009)

<table>
<thead>
<tr>
<th>Type of Complaint</th>
<th>Frequency</th>
<th>%</th>
<th>Resolved</th>
<th>%</th>
<th>Not Resolved</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>School fees charged despite FBE</td>
<td>62</td>
<td>50.4</td>
<td>24</td>
<td>19.51</td>
<td>38</td>
<td>30.9</td>
</tr>
<tr>
<td>Lack of Transparency</td>
<td>37</td>
<td>30.1</td>
<td>25</td>
<td>20.33</td>
<td>12</td>
<td>9.8</td>
</tr>
<tr>
<td>Deductions made from BOS funds</td>
<td>4</td>
<td>3.3</td>
<td>3</td>
<td>2.44</td>
<td>1</td>
<td>0.8</td>
</tr>
<tr>
<td>Signature Forgery</td>
<td>4</td>
<td>3.3</td>
<td>2</td>
<td>1.63</td>
<td>2</td>
<td>1.6</td>
</tr>
<tr>
<td>Data Manipulation</td>
<td>2</td>
<td>1.6</td>
<td>1</td>
<td>0.81</td>
<td>1</td>
<td>0.8</td>
</tr>
<tr>
<td>Use of Funds not in accordance with BOS criteria</td>
<td>8</td>
<td>6.5</td>
<td>6</td>
<td>4.88</td>
<td>2</td>
<td>1.6</td>
</tr>
<tr>
<td>Bappeda or Dinas collusion</td>
<td>3</td>
<td>2.4</td>
<td>1</td>
<td>0.81</td>
<td>2</td>
<td>1.6</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>3</td>
<td>2.4</td>
<td>2</td>
<td>1.63</td>
<td>1</td>
<td>0.8</td>
</tr>
<tr>
<td>Total</td>
<td>123</td>
<td>100</td>
<td>64</td>
<td>52</td>
<td>59</td>
<td>48</td>
</tr>
</tbody>
</table>

Source: Complaint Handling Unit, 2009. Central BOS Management, Jakarta

(v) **Socialization:** During 2008, districts teams held orientation sessions on BOS, but only 13% of participants were from the school committees. During 2009, BOS orientation was extended to more community members funded under the Dutch Education Support Trust Fund.

(vi) **School Committee roles and functions:** Under the BOS program, the role of the school committee is to help with planning the use of the BOS funds, identifying poor students and approving budget plans as well as expenditure reports.

All the schools surveyed had a school committee, whose members tend to be selected through a process of acclamation. School committees chairs were asked several questions to gauge their understanding of the objectives of the BOS program, and over 80% of them demonstrated a solid understanding. The survey findings also revealed that the oversight role of the full school committee needs to be clarified as it is more than the Chair co-signing BOS plan and expenditure reports. 68% of school committees chairs were involved in school planning and 82% of school committee’s chairs surveyed reported that they would like more information on actual BOS fund usage in schools.