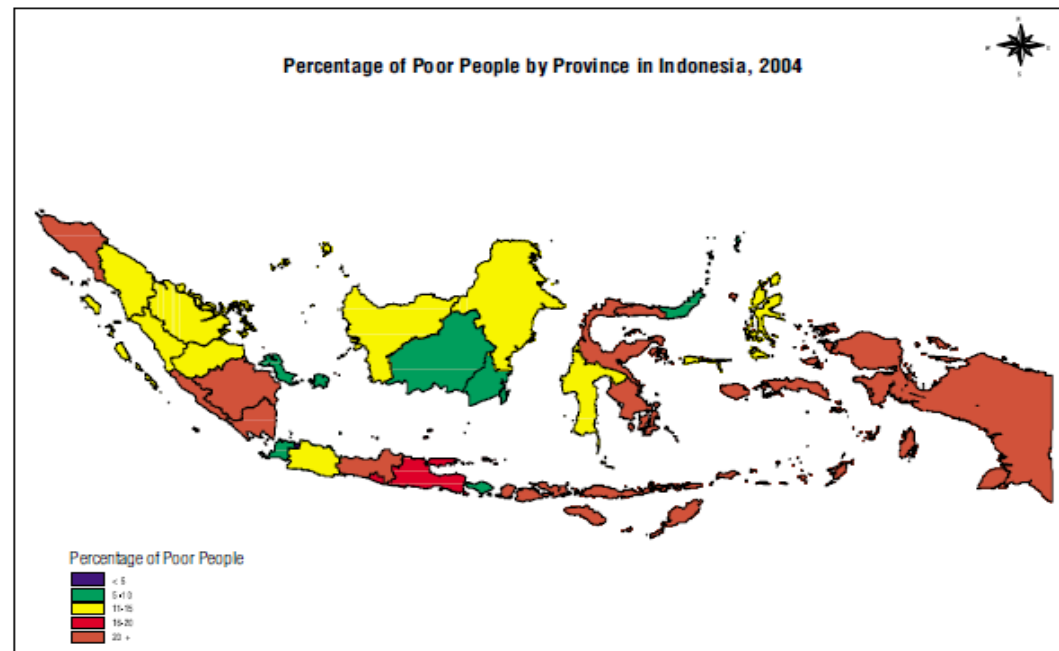


PUBLIC EXPENDITURE ANALYSIS AND TRACKING OF LOCAL BUDGET: FREE BASIC EDUCATION



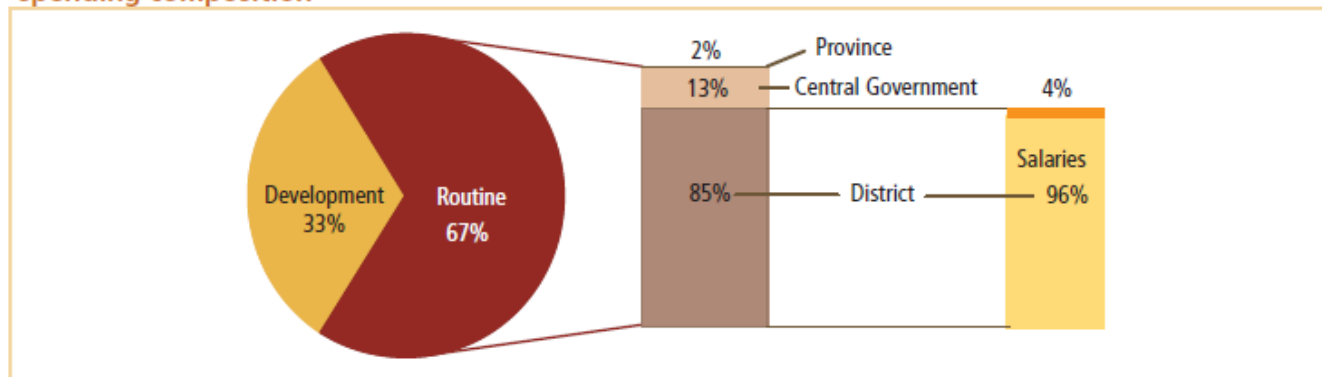
BACKGROUND & CONTEXT

- **Government set up free basic education program on 2008**
 - Compulsory and free basic education stipulated on Constitution (revision 4th)
 - Government increase special scheme (BOS, operational school fund, directly to school) as a main policy to achieve free basic education program
 - Not clear framework: concept of free, timeframe, how to finance between tiers of government
 - Despite huge increasing on budget: fees still high, enrollment rate increasing very slowly, quality of basic education is low
- **Why the budget fails to achieve free basic education?**

BACKGROUND & CONTEXT

- **Education budget is decentralized, but still a form of centralization**
 - 1/3 of budget is spent by local government
 - But mostly on routine expenditure, 80% of local government budget must be spent on salary, only small envelope for development
 - Central government hold 75% of capital/development spending

Figure 3.2. Education spending by economic classification, level of government and routine district spending composition

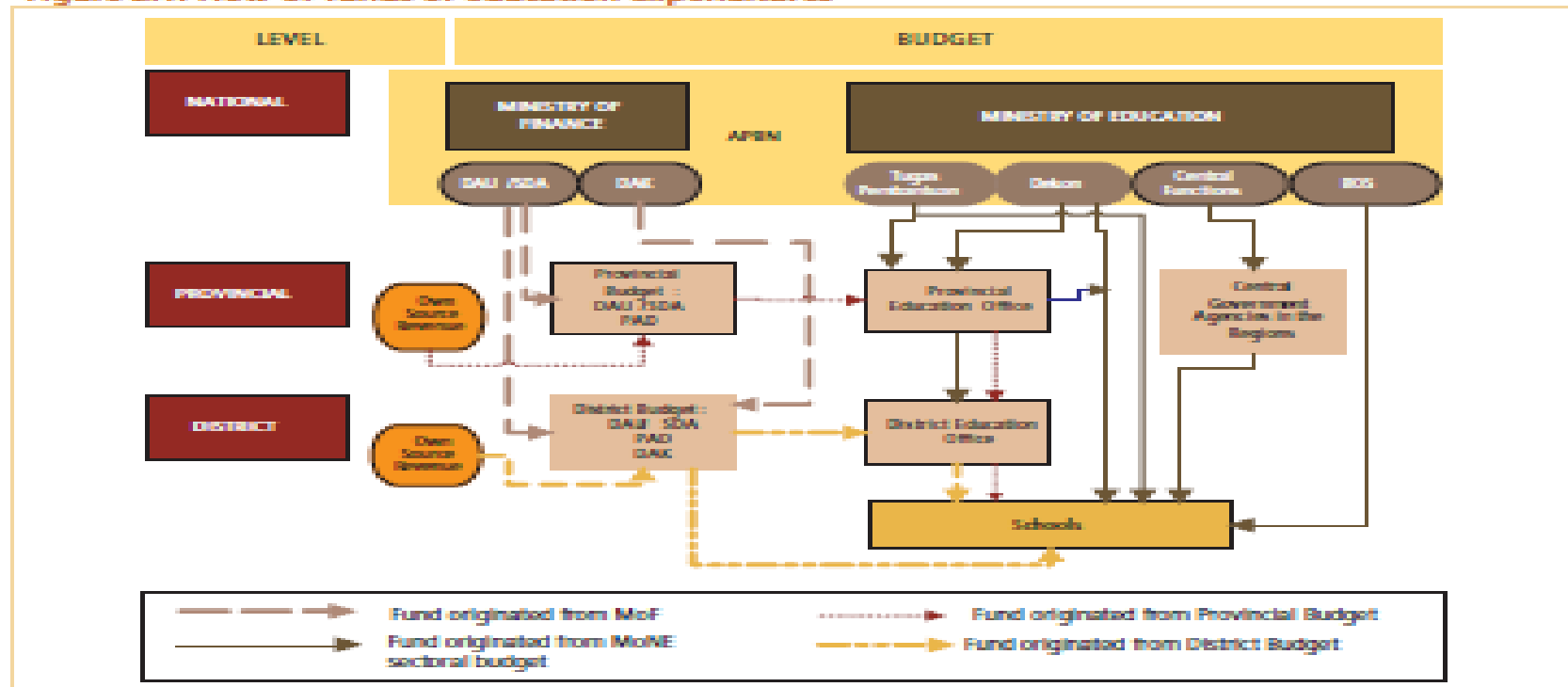


Source: World Bank staff calculations based on data from MoNE.

BACKGROUND & CONTEXT

- **Constitution threshold 20%, not clear assignment of funding between tiers of government**
 - Increasing in education budget driven by mandate of constitution
 - The funding scheme is complex, not clear assignment between tiers

Figure 2.1. Flow of funds of education expenditures



Source: Interviews with district and provincial education Dinas officials.

BACKGROUND & CONTEXT

- **Categories of education expenditure:**
 - Schooling level Cost:
 - (i) Operational learning
 - (ii) Operational Human Resources
 - (iii) Investment Human Resources
 - (iv) Investment Infrastructure/maintenanceConcept of free: government cover all this 4 categories
 - Management Cost (government level)
 - Assistance Cost: bursary, poor-targeted
- **Costing study: need 75% of total education budget to cover the 4 cost to be free – not enough budget**



METHODOLOGY OF STUDY

- **PEA (public expenditure analysis)**
 - Region: 10 (4 city, 6 district)
 - Source of data: local gov (detail) budget, 2007–2009
 - Aim: Trend & pattern of local budget on education (general profile) and on supporting free basic education (detailed analysis)
- **PETS (public expenditure tracking surveys)**
 - School samples: 30
 - Junior high school, all public school
 - Source of data: primary (questionnaire, school's finance book, 2009)
 - Aim: Tracking school's real expenditure

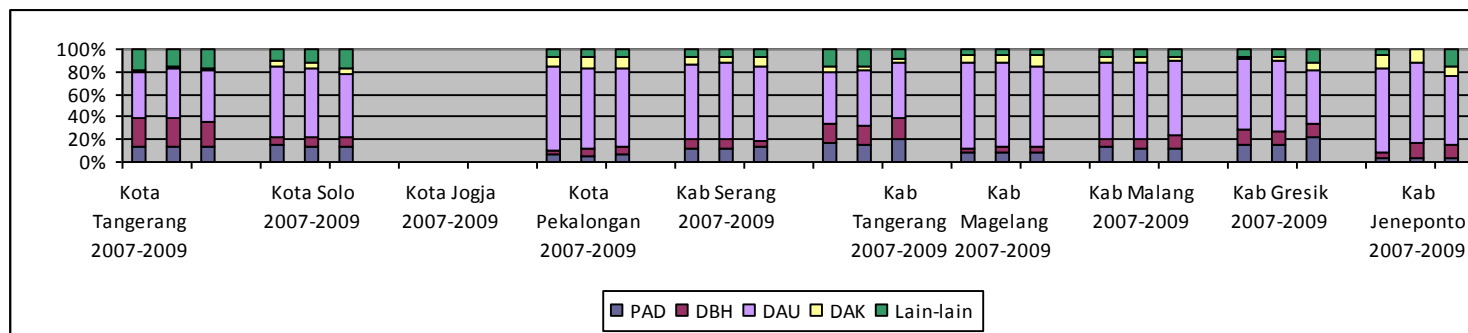
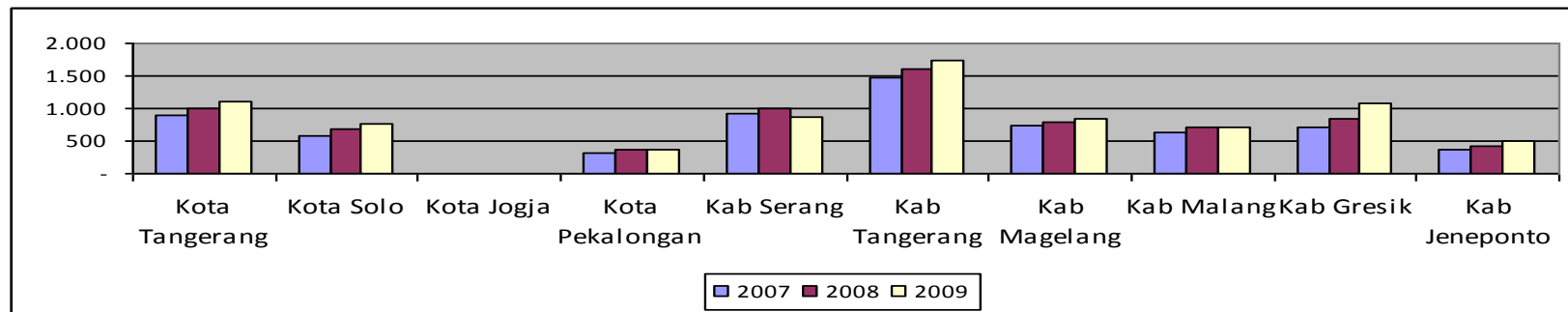
RESEARCH QUESTION

- **PEA (public expenditure analysis)**
 - How is the trend & pattern of local budget on education (general profile) and on supporting free & quality basic education (detailed analysis)?
 - How much is actually disburse to school?
- **PETS (public expenditure tracking surveys)**
 - How school spent its budget to support free & quality basic education achievement?

MAIN FINDING: PUBLIC EXPENDITURE ANALYSIS

PATTERN ON LOCAL REVENUE

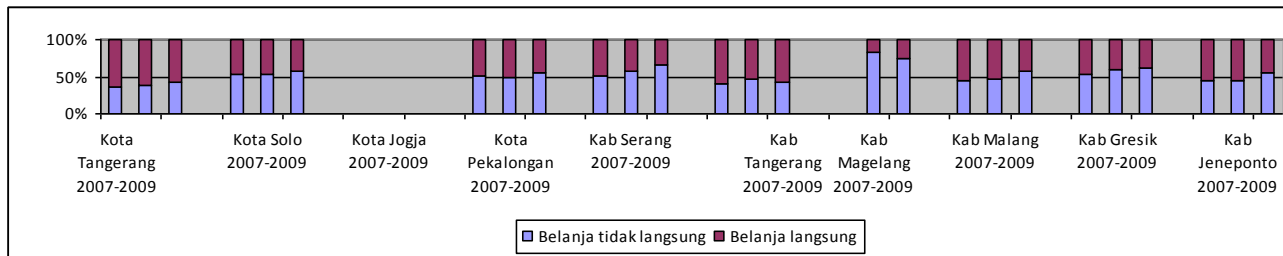
- Local budget increasing, revenue dominate by fiscal transfer from central**
 - Increasing by 12% (2007-2008), 8% (2008-2009)
 - Fiscal transfer dominantly (80%) which tied to salary of civil service
 - In DAK (specific allocation fund) education increasing 3 fold, dominate over infrastructure/other sector



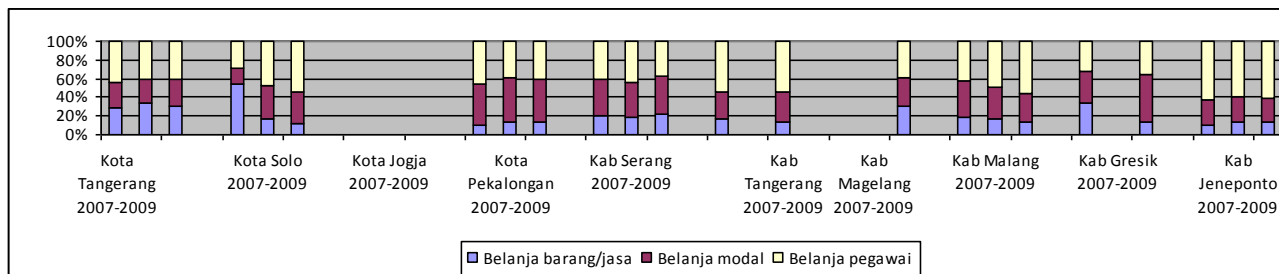
	2007	2008	2009
PAD	12	11	12
DBH	10	12	12
DAU	63	62	59
DAK	5	5	6
Lain-lain	10	9	11
Total	100	100	100

PATTERN OF LOCAL EXPENDITURE

- Expenditure increasing but tend to slower, dominate by in-direct/current expenditure (civil service salary)**
 - Increasing sharp on 2007-2008, slightly on 2008-2009
 - Un-direct expenditure still slightly dominate, but for rich region composition begin to balance or lower than direct exp
 - Un-direct exp dominate by salary, direct exp dominate by capital exp



	2007	2008	2009
In-direct exp	50	51	50
Direct exp	50	49	51
Total	100	100	100



PATTERN OF EDUCATION EXPENDITURE

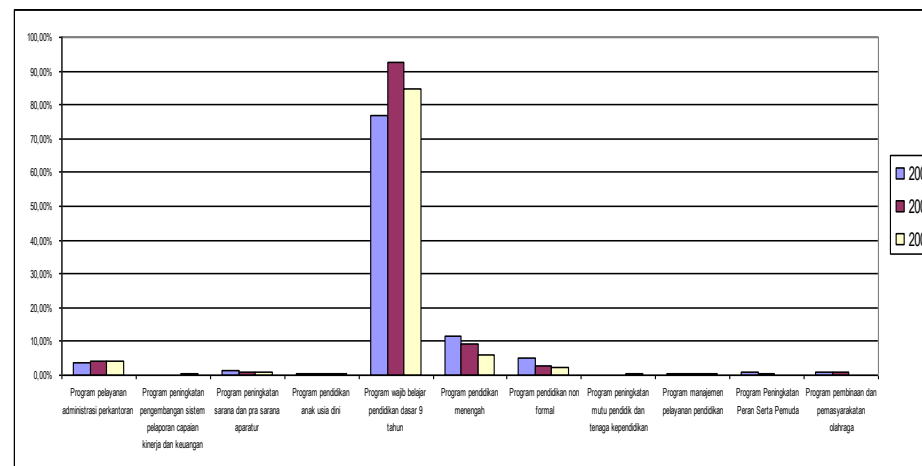
- **Education expenditure increasing**
 - Increasing sharp on 2007-2008, slightly on 2008-2009
 - Dominate over local expenditure, but not decreasing others
 - Achieving the constitution threshold if include in-direct/current exp, but very low if exclude current expenditure
 - Education exp dominate by in-direct/current exp, but begin to balancing in rich region

	2007	2008	2009
Education	27	36	38
Health	6	5	5
Publik working	6	6	7
Social	1	2	2
Transportation	1	1	2
Public administration	20	15	11
Others	39	36	35
Total	100	100	100

Education Exp as % of Total Exp	2007	2008	2009
Education Expenditure	27	36	38
- Direct exp	5	7	9
- In-direct exp	22	29	29

PATTERN OF BASIC EDUCATION EXPENDITURE

- **Education (direct) expenditure commonly spent on 11 program, which dominate by basic education program, but spent mostly by government rather than by school**
 - Basic education as main program (67%), among commonly 11 program
 - In basic education program, 62% spent by government, only 38% disburse to and spent in school



PATTERN OF BASIC EDUCATION EXPENDITURE

- **Basic education dominate by investment infrastructure and operational learning categories, but mostly spent by local government**

Categories	Common Project	%	Spent by Gov	Disburse to school
Operational-learning	11 projects	20	5	15
Operational-HR	3 projects	5	4	1
Investment-HR	2 projects	1	1	
Investment-Infrastructure	7 projects	55	42	13
Others (asisstance)	2 project	19	10	9
Total		100	62	38

MAIN FINDING: PUBLIC EXPENDITURE TRACKING

SCHOOL REVENUE

- **4 source of school revenue, low portion of local government funding, fees decreasing but still high**
 - Source of revenue: central/provincial fund, local gov fund, parents (fees), others (donation)
 - Dominate by central/provincial fund, especially School Operational Fund (BOS)
 - Highly variation on total rev: 800.000.000 – 4.000.000.000.000
 - Fees still high, especially in urban schools, decreasing pattern but still high
 - Too many scheme to disburse funding to schools, diverse in regulation (disbursement, reporting)

	2007	2008	2009	SCHEMES
Central/prov gov funding	62	63	62	BOS, Block Grant
Local gov funding	11	15	19	BOSDA, BOP, DAK, Rehab, others
Parents (fees)	24	21	18	Fees (annual, monthly, others)
Others	3	1	1	Donation
Total	100	100	100	

SCHOOL REVENUE

- Allocation of revenue (intended plan) dominate by operational learning categories**
 - 78% of revenue intend to cover operational learning cost & investment HR
 - only 27% for covering investment infrastructure category (operational HR = salary, pay directly by local gov)

	2009	CATEGORIES (% , schemes)			
	%	Op-learning	Inv-HR	Op-HR	Inv Infrastucture
Central/prov gov funding	62	56 (BOS)	-	-	6 (BG)
Local gov funding	19	12 (BOSDA, BOP)	-	-	7 (DAK, Rehab)
Parents (fees)	18	5	-	-	13
Others	1	-	-	-	1
Total	100	73	-	-	27

SCHOOL EXPENDITURE

- 15 type of school expenditure (4 categories)**

Categories	Type of Expenditure	Intended Fund	Formal Report	Actual Expenditure
Operational-learning	1. Office equipment		6	4
	2. Books & learning equipment		10	5
	3. Meetings & transportation		7	4
	4. New student acceptance		4	2
	5. Examination		7	5
	6. Electricity/water etc		5	5
	7. Extracurricular		12	5
	8. Small maintenance & equipment		8	5
	Un-explainable			2
	Sub-total			59
Operational-HR	1. Additional salary for civil service teacher		0	20
	2. Additional salary for honorer teacher/staff		8	10
	Un-explainable			
	Sub-total		8	30
Investment-HR	1. Training/workshop/study		3	3
	2. Recruitment		0	0
	Un-explainable			
	Sub-total	73	3	3
Investment-Infrastructure	1. New infrastucture		8	7
	2. Building rehab		17	15
	3. Meubeleir		5	4
	Un-explainable			4
	Sub-total	27	30	30
Total		100	100	100

CONCLUSION & POLICY RECOMMENDATION

CONCLUSION

1. Government budget is not enough to cover all cost of basic education to be free, but weak policy and in-effective allocation worsening the result
2. Local education budget increasing significantly, mostly driven by fiscal transfer but accompanied by lack of direction to spent, result in diverse pattern of expenditure. In region which high budget, those increasing fiscal transfer began to allocate more on direct/capital expenditure.
3. Sub-sector expenditure in education budget dominate by basic education expenditure. However, the direct expenditure of basic education only 38% disburse to school, while 62% spent by local government. Also dominate by operational learning, undermined the infrastructure and investment of human resources. This reflect the concept of free basic education of local (and central) government, which aim practically to increase the school operational fund only.

CONCLUSION

4. Tracking expenditure on school reveals the basic problem facing by school on providing free basic education: not enough fund from government to cover all cost, not allowed to collect fees. Tracking actual expenditure from the formal report reveal that school spent less on operational learning expenditure, and more on additional salary for teacher (civil service teacher and honorer).
5. Fees collected by school to fill the gap, especially driven by the need on additional salary for teacher, and by investment infrastructure/maintenance, that underfunded by government funding.

POLICY RECOMMENDATION

- **Central government** should develop a clearer concept and policy on free basic education, and making a road-map to finance this policy. The road-map including: clearer division of responsible between tiers of government, simplifying the financing scheme, and clearer mechanism of enforcing, to ensure the effectiveness of education budget.
- **Local government** should develop a local road-map to financing free basic education, including: costing study, as a base to allocate budget. Local government should also considering the more effective policy of school fees, such as targeting policy (charging fees on rich parent), in the transition time, until government budget is enough to fund this program.
- **Local government** should distribute more fund to school, rather than spent by local government. School expenditure guarantee more matchness with the need to cover free basic education. Local government should increase the allocation of this direct fund (BOSDA, local school operational fund) and develop for other categories (DAKDA, local school investment fund).

POLICY RECOMMENDATION

- 4. Local government** should increase the allocation for additional salary for teacher through spesific fund, and enforcing the regulation and monitoring mechanisme to avoid the use of operational learning fund (or other) by this categories. Simplifying and spesific schemes will allow stronger accountability mechanism.