
Indonesia: Public Financing of Block Grants for Privately Delivered Services

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More than 28 million children ages 0–6 years live in the Republic of Indonesia, a vast, multiethnic nation of more than 17,000 islands. The total population numbers almost 220 million people. The country’s underlying economic indicators show strong economic growth and macroeconomic stability.

For example, all components of the human development index increased in the past few years. By 2002, adult literacy had risen to 87.5 percent, and the combined gross enrollment rate (primary school to higher education) was 65 percent (World Bank 2003). However, poverty remains a key challenge to development. More than 35 million people still live below the national poverty line, and many are vulnerable to poverty.

The Government of Indonesia is committed to reduction of poverty. It has formulated a national development vision for 2004–09 which embraces the realization of a safe and peaceful life for its people, basic human rights, and an economy that creates opportunity and provides for sustainable development. The National Medium-Term Development Plan of 2004–2009 sets forth a comprehensive strategy for reducing poverty by improving productivity. Education is regarded as one of the most important elements for improving productivity and boosting human capital, and early childhood education is part of this vision.

Data on Indonesia’s children and participation in schooling convey some of the major problems and challenges in improving young children’s care and education. The government is instituting policies, programs, and innovative financing strategies to encourage early child development (ECD) programs that combine education and care. A key financing strategy is the use of public monies to fund competitive block grants that are awarded to villages.

Early Child Development: Current Situation
Financing Opportunities and Strategies
A New Model: Matching Funds and Community Decisions

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Early Child Development: Current Situation

In Indonesia, ECD is a broad concept that includes various services for children from birth to age 6 years. Provided under different auspices, some services focus on education, while others emphasize physical care, health, or nutrition. The Ministry of National Education (MONE) is responsible for early childhood education (ECE) services, and the Ministry of Health, National Family Planning Board, and Ministry of Social Welfare are responsible for care services. Box 1 lists the ECD services available in Indonesia.

Box 1. ECD Services in Indonesia

- ECE services delivered through formal and nonformal mechanisms—
 - Formal programs: Kindergarten (Taman Kanak-Kanak) and the Islamic kindergarten [Raudhatul Afthal (RA)] targeted to children ages 4–6 years
 - Nonformal programs: Playgroup (Kelompok Bermain) and childcare centers targeted to children ages 2–6 years who are not served by formal programs
- Care services (or informal ECE services)—
 - Posyandu (village health post), which focuses on health and nutrition
 - Bina Keluarga Balita (BKB), a mothers' education program.

Enrollment for young children in early childhood programs remains limited. The percentage of Indonesian children who have access to early childhood education is improving—and rose to 27.35 percent in 2005. However, a large proportion (72.65 percent, or 20.6 million children) still did not have access to early educational opportunities (Sardjunani and Suryadi 2005).

Families living in poverty are less likely to enroll their children in ECD programs than are families living above the poverty line. World Bank data show that the richest children in Indonesia are twice as likely as the poorest children to be enrolled in ECD programs (World Bank 2006a). The percentage of children ages 3–6 years who participate in ECD services ranges from 18 percent in the poorest socioeconomic quintile to 39 percent in the richest socioeconomic quintile, for an average of 23 percent.

Educational services for young children are biased toward urban areas. In 2003, the percentage of young children in Indonesia attending preschool education programs was twice as high in urban areas as in rural areas. For children ages 3–4 years, the percentage was 18.1 percent in urban areas and 9.3 percent in rural areas; for children ages 5–6 years, it was 45.3 percent in urban areas and 24.1 percent in rural areas (Sardjunani and Suryadi 2005). Even across urban areas, the percentage of children ages 5–6 years who are attending preschool varies significantly, from a high of more than 80 percent to a low of slightly more than 20 percent (Sardjunani and Suryadi 2005).

The disparities of enrollment in early childhood programs may be reflected later in school dropout rates. In 2004, the MONE conducted a large study of school dropout among students in primary and junior secondary schools (MONE 2004). The data show that the average dropout

rates vary across grades 1–6 and are much higher for students attending Islamic schools, which serve a majority of Indonesia’s poor and rural young children.

For example, at level V primary education, the average dropout rate in 2004 was 2.48 for general primary school and 4.93 for Islamic primary school. For Islamic schools, the average dropout rates were comparatively higher at almost all levels of parents’ income.

National projections to 2025 indicate that approximately one-fourth of Indonesia’s population will continue to be children ages 7–12 years and that, without intervention, only about 28 percent of these children will enroll in primary school. The need for interventions to increase the number of young children attending preschool—and to, thereby, better prepare them for school—is obvious.

Problems and Challenges

Indonesia faces some major problems and challenges in improving early childhood education. The government (Sardjunani and Suryadi 2005) has defined these opportunities for change as follows.

Few Facilities. Indonesia has a limited number of centers and institutions providing early childcare and education.

Unequal Services. Although approximately 60 percent of Indonesia’s children ages 0–6 years reside in rural areas, ECD services are mostly provided in urban areas and target children who are better off.

Lack of Demand for ECD. The government has insufficiently emphasized the importance of early childhood care and education to families and other education stakeholders, resulting in a general lack of public awareness about the benefits of ECD programs.

Poverty. Many of Indonesia’s families and communities live in poor socioeconomic conditions.

Nonintegrated Services. Indonesia has only a limited number of comprehensive, integrated ECD programs that offer care and education, and include health, nutrition, and parenting services, for children ages 0–6 years.

Unsustained Cooperation. Collaboration between government agencies concerned with early childcare and education is sparse and intermittent.

Poor Staffing. The quantity, quality, and distribution of personnel for delivering early childcare and education services are insufficient.

The government and education sectors in Indonesia are responding to these challenges, as described below.

ECD Policies and Programs

The MONE has outlined overall policy directions for education, which are defined in the National Medium-Term Development Plan of 2004–2009. This plan denotes three developmental targets: improved equality and expansion, improved quality and relevance, and increased governance and accountability. The specific goals are to:

- Increase expansion of, and more equitable access, to education services
- Increase the quality of education services
- Increase the relevance of education to national development
- Strengthen the effectiveness and efficiency of managing and providing education services.

In the National Medium-Term Development Plan of 2004–2009, the government has developed a strategic plan for early childhood education for 2005–09. The government has identified equity and expansion of access to ECE services as a main development objective for its education sector.

Increasing the provision of nonformal services to children living below the poverty line—by giving incentives to private sector providers to deliver ECE services—is one focus of this objective.

Specifically, the MONE will:

- Provide education facilities and infrastructure—an activity that includes optimizing the use of existing facilities (e.g., general and Islamic primary school classrooms) for conducting early-age education
- Develop learning models in accordance with the needs of regions and areas
- Provide support for implementing educational activities
- Support teachers and educational personnel
- Increase the quality of teachers and educational personnel
- Provide operational funding and/or operational subsidies or grants for education.

The plan states targets the following for early childhood education—an “increased proportion of children served by early-age education.” Although the plan does not specify quantitative targets, the MONE has calculated projections for targeting services to young children, and these projections are guiding the ministry’s formulation of program announcements requesting proposals for block grants.

The main beneficiaries are:

- Children ages 5–6 years in the formal education system (i.e., in kindergarten).
- Children ages 0–6 years in the nonformal system, especially those who do not receive preschool education services. Nonformal avenues for early childhood education include day-care centers and play groups.

Secondary beneficiaries include parents, prospective parents, and families; teachers and organizers of ECE programs; all institutions providing ECE services; communities; and stakeholders with an interest in early child education.

Integration of early childhood education with programs of health, nutrition, and psychosocial stimulation—the cornerstone of ECD interventions—is essential for improving young children’s ability to learn, in school and beyond, and is more readily accomplished locally in nonformal settings. In Indonesia, nonformal settings are an effective venue for integration of ECE services.

Financing Opportunities and Strategies

The resources for financing early childhood education in Indonesia come from a variety of sources—

- The MONE—the principal source of funds.
- Local, district-level governments.
- Beneficiaries (i.e., parents and families)—most ECE programs, including some of those financed in part with public funds, charge some form of fees.
- International organizations that support grants and loans.

Targeting Poor Children and Families

In Indonesia, as in other countries, there is a gap in financing ECD services—wealthier families can pay for ECD programs, whereas poorer families cannot. The advantages of focusing Indonesia’s ECD efforts on poor and disadvantaged children and families are noted in studies of the first ECD project (1998) supported by the World Bank in Indonesia. The findings—

- Study of the impact of this first ECD project clearly shows that the benefit-cost ratio of an ECD intervention is higher for poor children and families than for children and families who are not as poor (World Bank 2006a). The benefit-cost analysis focused on the medium-term education benefits and long-term increase in labor earnings due to higher educational attainment.

The results showed, on average, benefit-cost ratios of 6:1. That is, for every \$1 invested in ECD programs, the return on investment could be \$6 or more. The data showed, in addition, that the most disadvantaged children benefit the most and have the highest benefit-cost ratio—nearly \$7 in return for every \$1 dollar invested.

- Preliminary analysis of the results of the pilot ECD project yields similar evidence of the benefits of ECE programs (Cibulskis 2005). For examples, analysis of children’s school readiness scores shows that children whose parents had no schooling benefited the most from participating in the pilot project, compared with children whose parents had some or much schooling.

In addition to the evidence from well-documented studies in other countries, these findings have led Indonesia to focus its investment in early education on poor children and families. By

targeting children who are poor and disadvantaged, Indonesia may reap the greatest return for its children and society.

Promoting ECED Nationally: Block Grants

Since 2002, the MONE has funded block grants to encourage the private sector to participate in the provision of ECE programs. Through block grants, the MONE offers subsidies (seed funds) to private institutions and not-for-profit organizations to expand and operate ECE services in privately owned facilities.

The block grants support both formal and nonformal ECE programs. For formal kindergartens, the grants cover the costs of materials and the training of teachers. For nonformal programs, the grants cover the costs of organizing, enhancing, and operating the programs.

The amount of each grant varies depending on the type of service to be supported. For example, grants for integrating educational activities into the Posyandu programs total approximately US\$300, whereas grants for childcare or kindergarten programs total approximately US\$3,000. The funds cover only part of a provider's costs, and the private organizations and institutions are expected to raise complementary funding.

In the past 3 years (2002–05), the MONE's Directorate of Early Childhood Education (PAUD) has provided continuing block grants to 4,000 ECE institutions or programs and new block grants for approximately 3,000 new initiatives, which include childcare centers and playgroups.

Interested organizations submit proposals through the district-level MONE education office for review, approval, and funding by the MONE. A team of ECE specialists from the MONE's national office conducts a field visit to the applicant institution or organization. If the team approves the project, the MONE prepares a contract agreement. The MONE submits the organization's budget proposal to the national Ministry of Finance for review and approval. Once the budget is approved, the MONE issues a payment order to transfer the grant funds directly to the ECE provider's bank account.

A New Model: Matching Funds and Community Decisions

Based on its experience with the block-grant program, the MONE designed in 2006 a different model for providing block grants to support community-based nonformal ECD services (World Bank 2006b). This model has two new features—

- Involvement of local, district governments
- Community-driven approaches and decisions.

The MONE secured additional funds from the World Bank to implement this new model as an Early Childhood Education and Development (ECED) Project (World Bank 2006b). The objective of the project is to—

Increase the delivery of ECED services while building a sustainable ECED system—by providing matching block grants to communities to implement community-based ECED services for poor children.

The aim with this new model is to use public funds to support services implemented by community groups.

Features of the New Model

The new model features three innovative approaches to the funding and delivery of ECED services. These are involvement of district governments in matching funds and allocating resources, village- and community-driven mechanisms for channeling the block-grant funds, and support for integrated ECD services.

Involvement of District Governments

Under the new model, the MONE will channel the block-grant funds from the central government to villages in 50 participating districts.

Participating districts are defined as districts that have a low human development index, low enrollment rates in ECD, high poverty rates, and a commitment to developing an ECED agenda. Indicators of a commitment to ECED include existence of a PAUD forum (a PAUD unit and staff) and readiness to cofinance ECED project activities.

The participating districts will match funds provided by the MONE. They will allocate a share of their personnel and expenditure budgets to support district-level activities—specifically, supervision of grantees’ programs in the district, provision of in-service training, and cofunding of grantees’ programs beginning in the third year of operations (to support teachers’ salaries, acquisition of supplies, and maintenance of facilities). This involvement will ensure that the new ECED programs are sustainable and that early childhood education and development is integrated into the districts’ programs.

The participation of district governments, as a main feature of the new block grants, has other benefits as well—

- Supervision of grantees will be more manageable and transparent. The MONE’s capacity centrally to monitor and supervise a large number of grantees in several districts is limited.
- The process of selecting grant recipients will be more transparent—decisions will be based on input from village committees and district offices, which are more knowledgeable about local needs.
- The model supports the MONE’s newly decentralized organization—in which district governments are responsible for implementing, supervising, and financing ECED

services, while the central government supervises and empowers district governments to implement ECED programs.

Village- and Community-driven Mechanisms

The new model of block grants incorporates village- and community-driven mechanisms to channel funds for block grants directly to villages. Typically, villages comprise an average of five communities (dusuns) each of which has approximately 60 children ages 0–6 years.

With some technical support, villages will decide on the type of services (from a limited menu of options) that best suit their local needs and the mechanisms and structures that should be established to provide holistic ECED services for families with children ages 0–3 years and 3–6 years (“where, for whom, and by whom”). Villages will have the following requirements and responsibilities:

- They will be required to use the grant funds to enhance or expand existing ECED services, increase the number of poor children and families served, and assure that services comply with standards of health and safety.
- They will decide on the scheduling, distinctive features, implementation, and physical setting of the ECED program(s).
- They may choose to contract with community organizations or other private providers already operating in the area to deliver the ECED services.

Villages will have flexibility in determining—

- Strategies to ensure that programs serve the poorest children and families
- Space used for ECED services
- Targeting of programs to both age groups simultaneously or only one initially
- Fees by providers to families receiving services and use of the income received
- Implementation of the nutrition and health component
- Delivery of services for children ages 0–3 years (home- or group-based)
- Details in scheduling ECED services
- Types of in-kind or income contributions provided by families.

Villages will establish an informal forum for selecting community members as representatives who will be responsible for managing the community grant funds. With the participation of community representatives and technical support from facilitators, the villages will write and submit proposals to the district office.

Facilitators will help to identify priority communities within the villages, assess existing services and unmet needs, and establish a community team that will be responsible for managing the grant, identifying human resources to serve as teachers and child development workers, and writing the grant proposal. Groups of facilitators will work with villages to inform them about the importance of early childhood interventions, the opportunity to receive a grant to establish or improve ECED services, and their collective responsibility in providing the services.

Villages that are interested in participating in the project are expected to submit an expression of interest to their district office, which, in turn, will confirm their interest in participating.

Integrated ECD Services

The block-grant program will support integrated ECD services. Even though the program will be financed by the MONE, the services to be offered will focus not only on education, but also on facilitating integration with programs of health, nutrition, and psychosocial stimulation. These programs, and their integration with education, are essential for improving young children's ability to learn inside and outside of school.

The Grant Award Process

The central offices of MONE will award block grants and funds to eligible villages in the participating districts. The villages, in turn, will distribute the funds via contracts to communities and community organizations to support privately delivered ECED services.

Planning Phase

Before launching the new block grant process, the MONE will undertake a "preconditioning" phase in coordination with the governments of the participating districts. The aim will be to raise public awareness of the importance of early childhood education and development and ECED services for strengthening children's readiness for school and building human capital for Indonesia's future.

Each participating district will identify priority villages within the district based on level of poverty and potential demand for ECED services (i.e., number of young children). A team of facilitators, hired by MONE central, will then work with approximately 20 eligible villages to ensure that they are aware of the:

- Importance of early interventions for young children
- Opportunity of receiving a grant to establish or improve ECED services
- Responsibility they must assume collectively in order to receive the grant.

The MONE facilitators will encourage villages that are interested in receiving a block grant to submit a letter of intent to apply to the district.

Following this action, the MONE will coordinate with the district governments to initiate a participatory planning process. Each village will be advised to establish an informal meeting or forum to:

- Identify priority communities to receive ECED services within the village
- Elect village members to manage the communities' grant funds
- Suggest individuals who could serve as teachers or ECD workers
- Specify facilities and space that could be used for ECED programs.

The MONE facilitators will then help villages write and submit a proposal to receive block-grant funds.

Proposal Submission and Grant Award

The submission and review of proposals and awarding of block grants will be an iterative process and will be facilitated by the team of facilitators hired by MONE central and supervised by officials in each district. Villages may apply for one consolidated grant, which may include an average of two subgrants to support provision of ECED services to two of the poorest communities in the village. The MONE will award the block grants to approximately 3,000 eligible villages in the 50 districts (i.e., approximately 60 eligible villages per participating district).

The district project offices will review the villages' proposals and will recommend villages to receive the block grants. The district governments will announce the selected proposals. The leader of the village group will sign a community grant agreement with the district project office.

The MONE will award block grants twice a year after the proposals have been reviewed and approved. Grant funds will be released in stages to accommodate each village group's capacity and accountability, and the release of funds will be contingent upon the village group's submission of progress reports.

The MONE anticipates funding the first block grants under this new model in 2007. Each block grant will be for 4 years and for an amount equivalent to US\$10,000. Community groups will receive an initial payment for start-up costs and several subsequent payments in the following years, contingent upon their submission of progress reports. In their proposals, applicants must differentiate between up-front expenses and subsequent expenses (e.g., supplies, materials) that will arise during the grant period.

Operational Requirements and Flexibility

The requirements of the MONE, districts, and villages are described below.

MONE

MONE central will provide the block grants to villages and fund the training of facilitators, teachers, and child development workers.

Districts

The districts will provide counterpart funding to MONE central's block grant beginning in the 3rd year of implementation and continuing after the end of the block grant. This funding will cover the basic operational costs of the ECED services, including the honoraria for teachers and workers. The districts also will supervise the team of facilitators hired by MONE central.

Villages

Villages that receive a block grant will have to meet certain requirements. Specifically, each community that receives grant funds from the village will have to:

- Demonstrate a commitment to reaching the poorest children and families
- Target both age groups (0–3 years and 3–6 years)
- Enhance any ECED efforts that already exist
- Comply with essential standards of quality for health and safety
- Ensure that teachers and child development workers complete an ECED training course
- Include a nutrition and health component in the ECED program
- Guarantee the program’s sustainability.

Villages may use the block-grant funds to pay for the following expenses:

- Small or major improvements and renovations to an existing community space to meet the quality standards for children’s health and safety
- The purchase and/or development of equipment, materials, and supplies for ECED programs
- Cooked meals for children
- Health-promoting activities, such as deworming
- Materials and tools to maintain the physical facilities
- Basic utilities, such as electricity.

Conclusion

The new model featuring matching block grants and decisionmaking by communities and villages is innovative for Indonesia. Building on the initial block grants offered since 2002, the new model reflects a combined approach—decisions are made jointly by villages/communities and local governments, and local governments have an active role in the financing of early childhood education and development.

Experience with community-driven platforms to provide ECED services is limited, and the results of this innovative approach will be informative for Indonesia and other countries. The design is deliberate—

- The financing strategy will strengthen early childhood education and development in Indonesia by creating a new and expanded base of informed demanders and providers.
- The preconditioning and planning phase will facilitate dissemination of information about the importance of children’s early years—and, by doing so, create further demand for ECED services, particularly among poor communities and families.
- The quality of ECED services in Indonesia will improve—because grantees have to meet specified requirements and standards.

- Insertion of the block-grant mechanism into MONE's overall effort to build a quality ECED system will promote both integration and sustainability of ECED programs in Indonesia.

The outcomes of the block-grant program for Indonesia could be significant, as an estimated 738,000 children ages 0–6 years who live in the poorest villages in the poorest districts will have access to ECD services. By 2009, the proportion of children ages 0–6 years who have access to publicly financed, privately delivered ECED services is expected to increase by 8 percentage points. On average, this increase would raise the participation rate from 23 percent to 31 percent for children ages 3–6 years in targeted districts.

The gap in access to ECED services between rich and poor children is expected to fall by 9 percent points. The rate of participation in ECED programs among children in the poorest socioeconomic quintile would increase to 27 percent, while that of children in the richest quintile would remain at 39 percent.

Web Resources [as of November 2006]

Ministry of National Education (MONE) [in Bahasa]: <www.depdiknas.go.id>

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