

The Financial Aspects of Schools in Indonesia and PFI Viewpoint

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1. INTRODUCTION

Indonesia has approximately 17,508 islands, which covers 1,811,569 km² of land and 93,000 km² of water (Truman, 2013). Its population was approximately 244,653,000 people in 2013 (Rottier, 2013). A decentralized policy system of administration was implemented in 2001 after the economic crisis of 1998. This system reduces the authority of the central government and extends the authority of local governments. Namely, a local government is able to initiate its policies (Rasyid, 2002). The increasing population requires advanced infrastructure in many sectors, not only for economic infrastructure/facilities but also for social infrastructure/facilities. According to Regulation of The President of The Republic Indonesia 13/2010 (Concession Regulation), PPP project can be applied to infrastructures such as transportation, road, water, drinking water, waste water, telecommunication, electric, and natural oil and gas infrastructure. Therefore PPP cannot be applied to the development of school facilities at present. However, there are many successful school development project implemented by the Private Finance Initiative (PFI) systems in UK and Japan.

The purposes of this paper are the following :

- 1) Know the existing financing system in Indonesia including the regulation perspective, especially for school facility projects.
- 2) Know the roles of the public sector and the private sector for school infrastructure projects in Indonesia.
- 3) Identify space or possibilities for PPP/PFI implementation for school facility projects in Indonesia.

2. THE INDONESIA EDUCATION SYSTEM

The education system in Indonesia “*Enhancing The Effectiveness of Social Policies In Indonesia*” consists of pre-school education (kindergarten, 2 years), primary education (6 years), lower secondary education (3 years), upper secondary education (3 years), and higher education (Comola & de Mello, 2010). As a result of a decentralized system, provinces and local governments (Regency and Municipality) have the responsibility for the education services and the maintenance of primary and secondary schools.

3. THE INDONESIA FINANCING SYSTEM

3.1. Funding Allocation System in Indonesia

The Indonesian government system has three layers, namely, the National Government, Province, and Municipality. Municipality is classified as both City and Regency. According to Government Law 55/2005 which details Indonesian Law 33/2004, as shown in Fig. 1, the allocation of funding from the Central Government to local governments is classified into three categories : 1) General Purpose Grant (GPG) also known as *Dana Alokasi Umum (DAU)*; 2) Specific Purpose Grant (SPG) also known as *Dana Alokasi Khusus (DAK)*; and 3) Revenue Sharing Fund (RSF) also known as *Dana Bagi Hasil (DBH)*. The sources of the

RSF are a central government tax and fees from selling natural resources.

GPG is decided based on the Basic Grant and Fiscal Gap (determined by between Fiscal Need and Fiscal Capacity). Fiscal Need is measured using five indexes: 1) Population, 2) Administrative Area, 3) Construction Cost Index, 4) Regional

Gross Domestic Product per Capita, and 5) Human Development Index. Fiscal capacity is defined by pure local revenue and the RSF obtained. The Basic Grant is decided based on the amount of salary for regional civil servants.

SPG is decided using two steps: 1) determine the region where the grant will be used, and 2) determine the amount of the grant. The region has to meet three criteria, namely, the General Criteria, Specific Criteria, and the Technical Criteria. The General Criteria is based on the Fiscal Capacity of local government obtained from the revenue of Local Budget after expense reduction for regional civil servants. The Specific Criteria is measured using local characteristics and based on the autonomy law. The Technical Criteria is measured based on a technical index for a technically related Ministry.

3.2. Education Financing Standard

The education financing standard (BSNP, 2013) consists of 1) Investment Cost, 2) Operational Cost, and 3) Personal Cost. The Investment Cost is comprised of the provision of infrastructure and facilities, human resources development, and working capital that remains. The Operational Cost is comprised of teacher’s salaries, education material and tools/equipment, and indirect costs (water resources, telecommunication service, maintenance of facilities and infrastructure, transportation, tax, assurance, etc). Personal Cost is paid by the students.

3.3. Sector in Charge of Educational Funding

The Constitution of the Republic of Indonesia 1945 Section 31, Paragraph 4 states there is need to prioritize education spending to meet at least 20% of the National Budget and the Regional Budget (MOE, 2010). Government Regulation No. 48 of 2008, regulates the division of responsibility for education funding. There are two types of school systems in Indonesia, the Public School and the Private School. These differentiate in terms of their funding systems.

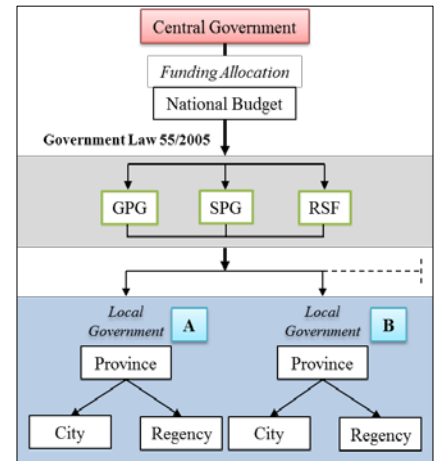


Fig. 1 Funding allocation flow in Indonesia

Source : Government Regulation 55/2005

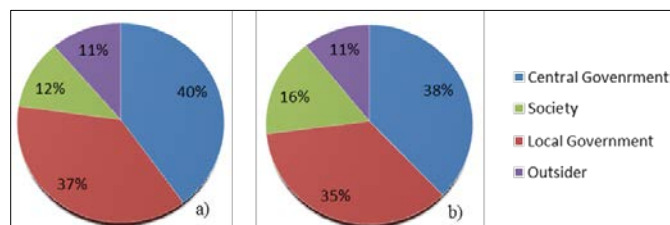


Fig. 2 Sector in charge of funding public school : a) primary school ; b)secondary-higher School

Source : Government Regulation 48/2008

Fig. 2 shows that the Central Government shares 40% and 38% of funding for public primary schools and secondary-higher schools, respectively. Local governments play a major role for funding responsibility as 37% and 35% for Public School system. Outsider total 11% of funding. These statistics mean that most education cost are covered by governments, while there are spaces where PPP/PFI plays a role for the development and operation of public schools, and private sectors have a chance to attend.

4. CHARACTERISTICS OF PFI SCHOOLS

4.1. PFI in Schools in the UK

The United Kingdom is an advanced country in the PFI system and has a lot of experiences beginning in 1997 (Foster, 2003). The dominant PFI system used in the UK for school projects is DBFO (Design-Build-Finance-Operate), where a PFI provider (Special Purpose Company: SPC) has the responsibility for designing, building, financing, and operating a school facilities project. In the operation process, the SPC is responsible for cleaning and maintenance of the school. From their experience with the PFI process, UK improved the DBFO system to DBO synergies (Design-Build-Operate synergies). The main point of this DBO synergies system is to guide the PFI provider to have a foresight about operational and maintenance costs that depend on the design model of the school facilities. Doing so can save money for managing a school in the long term.

4.2. PFI in Schools in Japan

Japan has many PFI projects including an education facilities project. There are 29 education facility projects by PFI from 2009 until 2013 (PFI, 2013). **Fig. 3** shows the proportion of the type of these 29 projects and 79% are done by the BTO (Build-Transfer-Operate) system. Then 17% and 4% are done, respectively, by BOT (Build-Operate-Transfer) and RO (Rehabilitate-Operate). **Table 1** shows their Value For Money (VFM) and project/contract years. Most of the BTO take 13-30 project years. While RO takes shorter time at minimum of 5 years, a maximum of 30 years, and a majority at 15 years. VFM for the 29 school PFI projects varies from 1.4% to 30.9%. which means that private sectors have a possibility to join the development of school facilities if PPP/PFI can be applied in Indonesia.

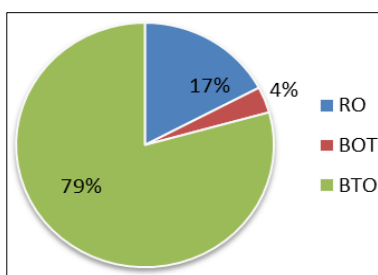


Fig. 3 PFI project types in 29 education facilities in Japan

Source : Japan PFI/PPP Association, 2013

Table 1. VFM and contract year of 29 education facilities in Japan

No.	PFI Number	VFM		Business System	Project Period (years)
		When Selection of Qualified Project	After Bidding		
1	487	-	-	RO	-
2	471	7.1%	-	RO	10
3	469	7.3%	-	BTO	13
4	443	4.0%	26.6%	RO	5
5	424	2.5%	23.7%	RO	5
6	398	11.0%	-	BTO	15
7	386	4.0%	1.4%	RO	6
8	353	13.0%	30.9%	BTO	15
9	350	9.5%	11.8%	BTO	13
10	328	12.1%	-	BTO	15
11	323	7.8%	14.9%	BTO	15
12	315	3.9%	-	BTO	20
13	311	6.5%	11.0%	BOT	13
14	310	9.0%	-	BTO	13
15	302	6.8%	-	BTO	20
16	263	10.1%	11.0%	BTO	15
17	241	21.0%	23.7%	BTO	15
18	217	2.0%	-	BTO	20
19	209	8.0%	9.1%	BTO	15
20	207	10.0%	28.0%	BTO	13
21	204	13.6%	28.0%	BTO	15
22	203	18.8%	31.8%	BTO	15
23	172	11.0%	30.9%	BTO	15
24	142	11.1%	29.6%	BTO	13
25	115	21.0%	21.5%	BTO	30
26	110	3.6%	-	BTO	15
27	91	10.0%	30.3%	BTO	20
28	37	10.4%	-	BTO	20
29	12	17.0%	30.5%	BTO	15

Source : Japan PFI/PPP Association, 2013

5. SUMMARY

The results for this paper are summarized as follows:

- 1) In Indonesia, local governments have the responsibility to manage their education services and maintenance of schools as the result of decentralization.
- 2) Public schools in Indonesia are funded mostly by governments.
- 3) From a financial aspect in Indonesia, there is space for outsiders, namely, the private sector, to play a role in developing education facilities. These aspect means that private sector/third parties can take part in improving school facilities if PPP/PFI can be applied.

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