1. Country and Sector Background

Indonesia is currently ranked as a lower-middle income country, with GDP per capita of $4,248. In recent years, Indonesia has restored macroeconomic and financial stability; economic growth has increased from 3.8 percent in 2001 to 5.6 percent in 2005 and the percentage of the population living in poverty has fallen from 27 percent in 1999 to below 16 percent today. However, Indonesia continues to under-perform its neighboring countries in access to quality health, education and other basic services, as reflected in the MDG indicators. The legacy of Indonesia’s centralized development planning and service delivery systems improved overall access to basic services but fell short in ensuring quality.

In particular, the quality of education in Indonesia is of serious concern. In the standardized tests of the Third International Mathematics Science Study, (TIMSS 2003, see Figure 1, page 28), Indonesian student performance ranked 34th out of 45 countries, and in the 2003 Program for International Student Assessment (PISA), which looks at how well 15 year olds are prepared for life, Indonesia ranked last out of 40 countries. On a proficiency scale from zero to six for mathematics, over 5 percent of Indonesian students did not reach level one, and none reached level 5 or above. In reading, only 31 percent could complete more than the most basic reading tasks. Even after taking family socio-economic status into account student outcomes in Indonesia were lower than neighboring countries suggesting deficiencies in the learning experiences teachers provide their students.

In recent years a groundswell of public support for tackling poor education quality resulted in revisions to Indonesia’s Constitution in 2003 that require twenty percent of Government
spending be directed to education. Particularly in the past two years, there has been mounting pressure through Parliament to substantially increase education spending.

Average Indonesian teachers’ salary as multiple of GDP per capita is low compared with neighboring countries. According to UNESCO estimates, an Indonesian primary school teacher earns US$ 1,002 to US$ 3,022 per annum, a mere 50 percent of GDP per capita. In comparison, primary school teachers in the Philippines and Thailand earn over twice as much as GDP per capita, in relative terms a fourfold greater salary than their Indonesian counterparts. GOI has accepted for some time that accountability for professional conduct requires a professional level of remuneration, and that quality improvements will be possible only if the teaching force earns a living wage.

In December 2005 GOI passed a law that requires teachers to have (a) a minimum academic qualification of at least 4 years of post-secondary education, (b) obtain practical experience as a classroom teacher, and (c) pass a certification examination that will examine proficiency in four competency domains: pedagogical, professional, personal and social before being certified as a teacher. Once they are certified, teachers will receive a professional allowance (equal to 100 percent of their base civil service salary), a smaller functional allowance, and a special allowance for assignment in disadvantaged areas (also equal to 100 percent of their base civil service salary). In total this means that under the new law, all teachers will have their salary doubled upon certification and receive a functional allowance equal to approximately a further 20–30 percent of base salary depending on their civil service grade. Teachers in remote /disadvantaged areas will benefit even more from the new law: they will have their salaries tripled upon certification, (receiving a special location allowance in addition to the professional allowance and functional allowance).

This new strategy has the potential to be a major turning point in Indonesian education. Indonesia has in the past tried to lift the quality of teaching/learning by raising the minimum academic qualification for teachers, and there have also been separate programs in the past to raise teaching salaries (although not on the proposed scale of doubling and tripling base salaries). Both initiatives have met with mixed results and experienced only limited success. The current Government initiative draws on that experience and proposes a substantial across-the-board increase in remuneration for teachers, contingent on meeting quality standards. This initiative presents an unprecedented opportunity to enhance the quality of professional development and training provided to teachers and to create a culture of teaching centered on instructional excellence. The impact will be system-wide ultimately affecting every school and every teacher in the nation.

2. Objectives

The development objective is to contribute to the improvement of the overall quality and performance of teachers through enhancing teachers’ knowledge of subject matter and pedagogical skills in the classroom.

In terms of higher level objectives, the project will contribute to improving teacher competency and performance to promote student learning and thus contribute to the development of quality
human resources, ultimately leading to a growth in productivity and the improvement of Indonesia’s competitiveness in the global economy.

3. Rationale for Bank Involvement

The World Bank Group’s Country Assistance Strategy (CAS) for Indonesia is built on two main pillars – improving the investment climate and making service delivery responsive to the needs of the poor – while the overarching and cross-cutting theme of the CAS is improving governance in all sectors. The CAS was designed as a results-focused country strategy, and it states among its key strategic and longer term goals (country outcomes) the achievement of better education outcomes for the poor. One key indicator for this is the improvement in Indonesia’s performance in international standardized assessment; intermediate indicators to track implementation towards the expected CAS outcome include: (i) new policies on teacher management and performance adopted and implemented; and (ii) new policies on quality standards adopted and implemented. BERMUTU targets this key long term country outcome of the CAS explicitly.

It is worth underlining that with the new Teacher Law, the Government has launched a highly ambitious, fully country-owned effort to upgrade the quality of its teachers. The Bank’s support and advice through supervision of BERMUTU and implementation of parallel Bank-executed Trust Funds can help ensure that this ambitious effort and the Government’s large investment translate into more effective teachers and improved learning outcomes for students. The Bank’s input will be value-added; complementing and not substituting for Government funding of certification, scholarships and incentive allowances to teachers. The design enables BERMUTU to deliver quality enhancement of the teaching force independent of the certification process. The quality enhancements through upgrading pre- and in-service teacher training will be based on teacher competencies defined by the Teacher Law and standards defined by the National Education Standards Agency. The international experience the Bank and its network of consultants has in the education sector in general, and in teacher management and education quality assurance in particular, will assist the Government in managing the process and mitigating the risks. To support the Government’s endeavor in improving teaching quality against the backdrop of the decentralized education service delivery in Indonesia, the Bank team can also facilitate close cross-sector collaborations and the sharing of lessons of experience from other sectors that have managed policy reforms in a decentralized system.

4. Description

The Project consists of four components:

Component 1: Reforming University-Based Teacher Education. The quality of teachers entering the profession will be upgraded through development of an accreditation process to ensure that the curricula of teacher training institutions, and associated teaching methods for delivering curricula, are revised in line with international best practice. Distance learning modules will be developed in order to assist teachers to upgrade to meet certification requirements without leaving their post.

Component 2: Strengthening Structures for Teacher Improvement at the Local Level. The quality of the teachers already in and entering the profession will be improved through the
implementation of teacher classroom performance assessment and the professional development elements of the upgrading and certification process.

**Component 3:** Reforming teacher accountability and incentives systems for performance appraisal and career advancement. The objective of this component is to develop an integrated framework designed to sustain and continually enhance the quality and accountability of teachers, post-certification.

**Component 4:** Improving Program Coordination, Monitoring and Evaluation. This component will support the monitoring of project components 1 through 3, development of an improved teacher database and a range of research and evaluation studies to document the effects of the project on teaching behavior and student achievement.

5. Financing

<table>
<thead>
<tr>
<th>Source:</th>
<th>($m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BORROWER/RECIPIENT</td>
<td>60.5</td>
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<tr>
<td>International Bank for Reconstruction and Development</td>
<td>26.0</td>
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<tr>
<td>International Development Association (IDA)</td>
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<tr>
<td>NETHERLANDS: Min. of Foreign Affairs / Min. of Dev. Coop.</td>
<td>52.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200.0</strong></td>
</tr>
</tbody>
</table>

6. Implementation

Agreement was reached between GOI and the Bank during preparation that this would be a central project. To simplify project design and ensure smooth implementation, all activities will be implemented by existing structures of the Government, and each unit carrying out the project activities will ensure all activities are budgeted in DIPA in compliance with normal Government procedures. Consistent with their routine operational functions three Directorates of MONE will share implementation responsibilities. In addition an overall project coordination unit (PCU) will be established to provide coordination and the production of consolidated reports for stakeholders and World Bank missions monitoring implementation progress. Specific MONE units involved in the implementation of the project, and their core responsibilities, are specified in Table 1 below:

**Table 1: Institutional Responsibility for BERMUTU Implementation**

<table>
<thead>
<tr>
<th>MONE Unit</th>
<th>Responsibilities for BERMUTU Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCU (aligned with QITEP)</td>
<td>Coordinate overall project implementation, monitoring and reporting, and provide a single window for consolidated reporting to the Bank, Donors and stakeholders</td>
</tr>
<tr>
<td>QITEP</td>
<td>Implement Components 2 and 3 including the policy and guidelines for teachers’ quality improvement and grants to teacher, principals and supervisor working groups and LPMP / P4TKs</td>
</tr>
<tr>
<td>DIKTI</td>
<td>Implement Component 1, including policy and Accreditation Incentive Grants for improvement of LPTKs, Distance Learning Development Grants to LPTKs and UT</td>
</tr>
<tr>
<td>BALITBANG</td>
<td>Implement Component 4 Monitoring and evaluation activities, funding of BAN-PT operational costs and support for stakeholder involvement</td>
</tr>
</tbody>
</table>
Manageability of the project is enhanced by limiting its scope in a number of ways: (i) focusing funding on school cluster working groups of elementary school teachers and school cluster working groups of junior secondary school teachers only, and, (ii) limiting the number of districts involved to less than 100 covering 14 provinces. Districts having access to other similar donor school-based programs are excluded. This strategy will provide a better focus for scarce resources and will ensure that where funds are provided they will be sufficient to develop quality activities and bring real improvement to the work of the school cluster-based groups of teachers. The government will provide support to school clusters in other areas through its own resources.

7. Sustainability

**Financial Feasibility / Sustainability** is evaluated under several scenarios. A worst-case scenario with the highest recurrent costs and conservative budget availability estimates assumes that: (i) no efficiency gain through increasing in student-teacher ratio is achieved; and (ii) the education budget relative to GDP does not increase, but stays fixed at the 2007 level of 3.9% of GDP. Under these assumptions the total cost of teacher remuneration will increase from IDR 38 trillion in 2006 to IDR 170 trillion in 2016, or in relative terms from 37% to 81% of the total national education budget. In summary, even though the government would have the financial capacity to do so, by allocating most of the projected steady increase in education budgets (due to healthy projected GDP growth) for teacher compensation, combining compensation increases with a continued expansion of the teacher force would severely limit the available budget for non-salary expenditure, but technically the reform could be financed.

The more likely scenario would involve (i) efficiency gains achieved by keeping the number of teachers constant for the foreseeable future (but replacing attrition). This would gradually increase the student-teacher ratio from 18:1 to 25:1 at primary level and from 13:1 to 20:1 at secondary level\(^1\); (ii) an increase in the education budget up to 20% of the national budget, or 4.4% of GDP over the next a few years, and (iii) application of the minimum standard workload for teachers required by the Teacher Law. Under this scenario, it is estimated that teacher remuneration would increase from IDR 38 trillion to IDR 111 trillion in 2016, or from 37% to 47% of the total national education budget, and thus could more readily be financed.

The project will operate within existing organizational structures at each level – national, Provincial, District and institution – thus no new organizational or structural burdens will be placed on Government. The two primary indicators of Government commitment and the chances for sustainability are; (i) that at the national level the Government has already enacted a new Teacher Law (UU) and supporting Regulations (PP) providing the necessary legislative and regulatory framework for reform and; (ii) at the District level commitment and the likelihood of sustainability is evidenced by the willingness of participating Districts to enter a formal agreement to commit funding equal to twenty percent of the implementation costs.

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\(^1\) This would be in line with comparable countries. Regulation provides for a weighting for smaller schools. For the more critical variable the policy has not been changed.
8. Lessons Learned from Past Operations in the Country/Sector

**Key Lessons Learned from Indonesian and International teacher preparation training:**

- Assessment (of students as well as teachers) is essential to the quality improvement process. The project design addresses these observations by establishing teacher certification criteria which necessitate assessment of classroom performance against continually improving standards of practice.

- Within pre-service training programs, theory must be balanced by practice. The project design establishes teacher certification criteria which specify that not less than twenty percent of contact time in teacher pre-service education should be spent as observation and practice in school.

- Practicing teachers must be full partners in teacher training programs, serving not only as supervisors of student teachers, but instructors in pedagogy and collaborators in action research. BERMUTU incorporates this lesson into the design, focusing teacher upgrading through local working groups of teachers.

- Teacher training must include classes and experiences to prepare new teachers to work with special needs children, in rural and urban settings, and with graded and multi-grade classrooms. The project design supports the development of a case study approach to general and specific teaching situations, and the development of shared teaching/learning materials which will encompass, but not be limited to, areas of student special need, isolated settings and multi-grade classrooms.

**Key International Lessons on Best Practice in In-Service Education:**

- Teaching must be seen as continuous professional development and lifelong learning, not as one-time certification upon successful completion of a university program, examination or performance assessment. The project design stresses induction and probation for twelve months after the attainment of academic qualifications and before certification, and the necessity of continual professional development for progression and promotion.

- Training programs must be realistic as to the economic and technological level of the communities and schools to be served. The project design focuses on bringing appropriate global lessons of experience to guide candidates in the preparation of proposals for grants.

- Incentives can influence teacher behavior, but they should not be narrowly defined as financial incentives only through adjustment of the compensation scheme. A broader mix of career development pathways, professional recognition and opportunities for promotion may complement the monetary rewards. This is the guiding design principle of Component 3 of the project.
9. Safeguard Policies (including public consultation)

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP/BP 4.01)</td>
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<td></td>
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<tr>
<td>Natural Habitats (OP/BP 4.04)</td>
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<td>Pest Management (OP 4.09)</td>
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<td>Cultural Property (OPN 11.03, being revised as OP 4.11)</td>
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</tr>
<tr>
<td>Involuntary Resettlement (OP/BP 4.12)</td>
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<td>Indigenous Peoples (OP/BP 4.10)</td>
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<tr>
<td>Forests (OP/BP 4.36)</td>
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<td>Safety of Dams (OP/BP 4.37)</td>
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<tr>
<td>Projects in Disputed Areas (OP/BP 7.60)*</td>
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<td>[X]</td>
</tr>
<tr>
<td>Projects on International Waterways (OP/BP 7.50)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The justification to trigger the OP/BP 4.10 is that the project will be implemented in 14 provinces where there is a varying degree of presence of IVP. While the targeted primary beneficiaries are teachers, the project would have an indirect positive impact on the communities where IVP live through improved quality of teaching and learning in schools.

While no specific assessment was carried out with regard to the characteristics and profile of the IVP or the areas where groups of IVP inhabit, a survey (mentioned above) gathered feedback from local stakeholders on their needs. The results of the survey, as well as an assessment of the past education projects, identified specific education issues in access and quality, particularly for teachers in remote areas (often where the IVP live). Difficulties included access resources and opportunities for upgrading and quality and relevance of the curriculum and education materials that best fit the local context and needs.

The project design has thus incorporated above considerations through targeted support to narrow the gaps in resources and capacity. These considerations are reflected in the design of distance learning module development grants and grants for teacher, principal and supervisor working groups (in components 1 and 2). Inclusion of provinces with IVP or having conflict areas was a consideration in the selection process to ensure diversity and coverage of various groups.

To ensure the project benefits are shared equitably and to maximize the intended positive impact on IVP, a Framework for treatment of IVP has been developed by the government to provide guidance for project implementation. The Framework includes a screening procedure and criteria for selection of working groups, modules for strengthening working groups, support/facilitation to teachers in IVP areas, additional budgetary allocation and a monitoring and grievance handling system. The framework and the above elements will be integrated into the Manuals to be prepared by the government and approved by the Bank as a condition of loan effectiveness.

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas.
10. List of Factual Technical Documents


17. World Bank, “Education in Indonesia: Managing the Transition to Decentralization”.

11. Contact point

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