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Indonesia: Higher Education Financing

58956 Policy Brief

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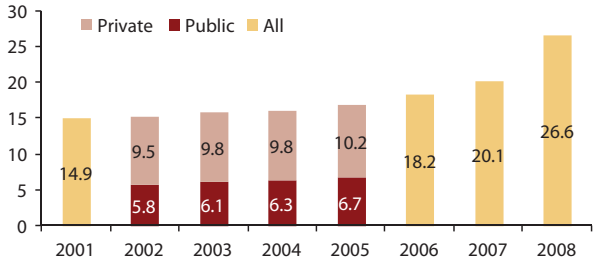
Indonesia's higher education sector has expanded rapidly since Independence. Nearly 4 million students are enrolled in higher education institutions (HEIs) nationwide representing a gross enrollment rate of 26.6 percent. The expansion is characterized by the growing provision of higher education by private institutions. There are currently more than 130 public- and over 3,000 private HEIs. Although public institutions represent just 4 percent of the total, they account for 32 percent of enrollments, with the remaining 68 percent enrolled in private institutions. Due to the expansion in the number of private providers, Indonesia's tertiary education enrollment rates exceed population growth rates, with approximately 27 percent of 18-22 year-olds enrolled in higher education.

Figure 1: Gross tertiary enrollment rates in private and public institutions, 2001 – 2008.



Source: SUSENAS Core Module 2001-2008; Enrollments in private vs. public institutions were only collected in selected years

Despite a steady increase in the enrollment rate in recent years, higher education access by, and the participation of the rural population and socio-economically disadvantaged groups remain a critical concern. The government wants to increase the relevance of higher education so that it can provide graduates in the fields where they are needed to respond to the rapidly growing economy and the structural changes required for Indonesia to be competitive in the global economy. One indicator of the possible mismatch between the output of the higher education system and the needs of the economy is the long waiting period between graduation and employment.

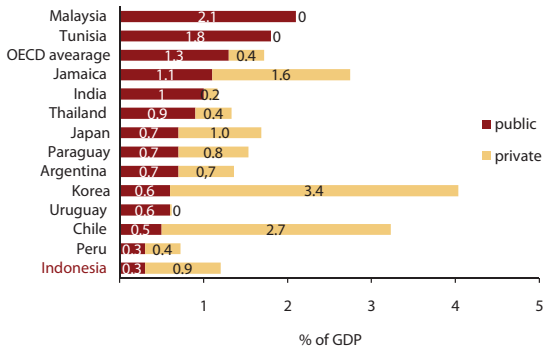
Key higher education financing issues

A. Resource mobilization: Is Indonesia investing sufficiently in higher education?

Total spending on public and private higher education in Indonesia is low as a percentage of GDP and reflects the low enrollment rate in HEIs. Indonesia's tertiary education participation rate is at the lower-middle end of the scale compared with other middle-income countries. Developed countries such as Denmark and Finland, spend between 2-3 percent of GDP on tertiary education and have higher tertiary graduation rates. Indonesia by comparison spends about 1.2 percent of GDP on tertiary education. Like many other lower middle-income countries, the relative figure mostly reflects lower enrollment and therefore graduation rates.

One distinctive feature of tertiary education financing in Indonesia is the large share of financing from households/private sources. Of the 1.2 percent of GDP spent on tertiary education, 0.9 percent or three-quarters is contributed from private sources, mostly in the form of tuition and other fees and levies. The private share is one of the highest in the world.

Figure 2: Public and private spending on Tertiary Education as percentage of total GDP



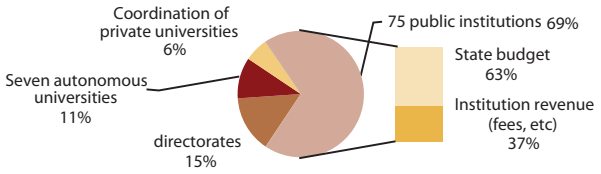
Source: UNESCO: World Education Indicators (WEI, 2007). Figures reflect estimates for 2004-05. Indonesian figure is from 2009 budget

B. Resource allocation: Do public funding mechanisms reward performance and promote accountability?

A large proportion of the Directorate General for Higher Education (DGHE) budget goes to public institutions. The 2009 government budget for higher education is Rp 18.5 trillion, or US$ 1.8 billion. Roughly 85 percent of the budget is to support tertiary education institutions: 69 percent is allocated to 76 nonautonomous public HEIs, 11 percent to seven autonomous institutions, and 6 percent is to subsidize private institutions.[1]

1 Some civil servant lecturers and professors also work at private institutions. This form of public subsidy to private institutions is not included in these estimates..

Figure 3: Composition of the DGHE's Rp 18.5 trillion budget (2009 approved)[2].



Source: DGHE

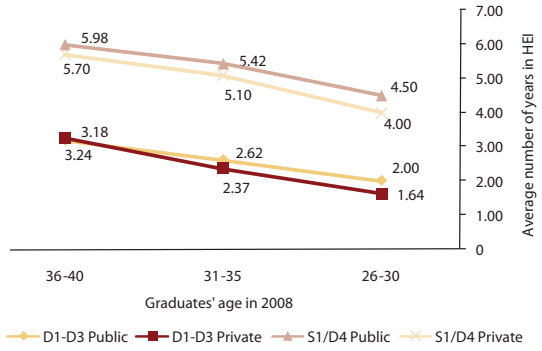
The current public financing arrangement for HEIs does not have an explicit financing formula and strong incentives at the system level that reward good institutional performance. The recurrent budget allocation is mostly incremental, and capital budgeting is mostly on a needs basis and dependent on various negotiation processes. The DGHE's per-student recurrent financing is highly uneven, even across similar institutions.

The implementation of a mechanism to channel public expenditure for higher education via a combination of block grants, competitive grants and performance-based grants started a few years ago. These resource transfers focus on improving education quality, governance, efficiency and equity. This is followed by the recent introduction of demand-side financing through higher education scholarships to high school graduates that can potentially serve as a channel to transfer funds to both public and private HEIs.

C. Resource utilization: Do HEIs use available resources efficiently?

The average length of time taken to complete a diploma or degree has decreased in recent years, possibly reflecting the increased internal management efficiency of tertiary institutions. For example, in public HEIs the older cohorts (aged 36-40 in 2008) took nearly six years to finish their four-year Degree (S1) studies. The average duration has been shortened to about four and half years for the latest graduates aged 26-30. A similar pattern is also shown for diploma programs on average. Whether the shortened graduation period reflects the efficiency gain will also depend on whether the quality of learning is being sacrificed. There is insufficient evidence to conclude one way or the other.

Figure 4: Average number of years to obtain a tertiary diploma/ degree.



Source: IFLS 4. The small sample size prevents the authors to from estimating the average study duration for D1, D2, D3 separately

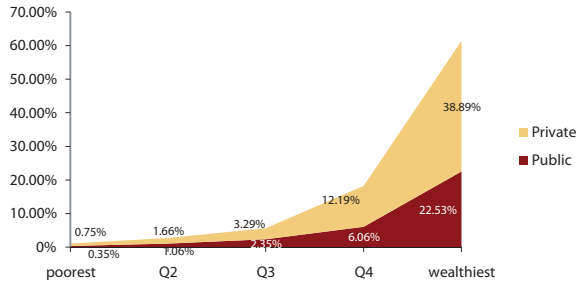
2 Among all public higher education institutions, autonomous universities' own revenues from fees, etc., are not included in the national budget (APBN), while non-autonomous institutions' revenues are reported in the APBN.

Under the Higher Education Long-Term Strategy (HELTS), the government intends to introduce a new financing innovation: performance-based funding for HEIs. Performance-based funding will tie a portion of public spending for higher education to an institution's performance, and will be first applied to the autonomous universities. However, the revocation of the Education Legal Entities Law (BHP), which removed the legal basis for performance-based funding, and the low capacity of many public HEIs has impeded its implementation.

D. Equity: Are public funds distributed equitably?

Regional disparities have been narrowing, owing to the government's continuous investment in higher education in disadvantaged areas, however there is still significant disparity in the ability of rich and poor to access tertiary education opportunities. Less than 2 percent of youth aged 19-22 from households of the lowest wealth quintile are enrolled in HEIs, compared with over 60 percent of those from the wealthiest households. The biased enrollment favoring the relatively rich leads to the highly regressive pattern of public spending on tertiary education in Indonesia: over 80 percent of the public spending on tertiary education benefits the better-off 40 percent of households, and over 60 percent benefits the richest 20 percent.

Figure 5: Tertiary education gross enrollment rate by household expenditure quintile



Source: 2006 SUSENAS Education Module

Public and private agencies offer a variety of scholarship schemes to undergraduate students. Non-government sources provide a significant number of scholarships at HEIs. It is estimated that approximately half of the scholarships at public HEIs, and over 85 percent of the scholarships at private HEIs are provided by private sources.

However, on average, less than 2 percent of higher education enrollees are beneficiaries of scholarships from government or non-government sources. The National Socioeconomic Household Survey (SUSENAS) data shows that among these scholarships recipients, over 60 percent are enrolled in public institutions. If public and private HEIs are examined separately, the scholarship coverage is 2.7 percent in public HEIs, three times as much as the 0.9 percent in private HEI institutions.

Scholarships do not benefit the most disadvantaged students due to the biased enrollment in higher education. Since most children from the poorest households drop out of the education system before they even reach higher education, and most of the relevant scholarships are awarded after one is enrolled, there is little chance that the children from the poorest households can benefit. Scholarship schemes for financially disadvantaged high school leavers who want to pursue a higher education are very rare. This inevitably limits the opportunity for them to pursue a higher education.

The Way Forward

1. Increase public funding and rationalize public expenditure for greater efficiency

Benchmarking efficiency using service standards and unit costs will be a useful tool for institutions to reflect on their internal management issues. This is particularly applicable to the operational or recurrent costs for undergraduate education in public HEIs. The cost calculation can be based on the average standard, and account for several parameters such as curriculum, class size, and student-staff ratios. To reflect the special costs associated with certain types of institution, some weighting will be applied at a later stage. This will also include a weighting to recognize different costs for different fields of studies as well as variability in the average price index in different parts of the country.

HEI's public funding sources, particularly for research, can be further diversified. The imminent need for investment in improved infrastructure, facilities, and teaching and learning will possibly crowd out other needs such as research funding to some extent. Setting up different funding mechanisms to support these activities can also be considered. In terms of research, one lesson that can be learned from developed countries is the advantage of diversifying government funding sources. Research contracts and grants can be generated from a variety of government agencies and tied to specific research need in various sectors: health, agriculture, poverty reduction, science and technology.

Looking ahead, the key interventions should still strive to improve the institutional capacity to manage finances, personnel, and procurement effectively.

2. Innovative and integrated support to private institutions

A large proportion of central support to higher education can be through direct support to students in the form of grants or loans to cover tuition fees, and work-study programs. These sources will eventually finance institutions' operations. Channeling through targeted families and students will provide them with "choices" of institutions, create incentives for institutions to improve service delivery, in order to compete for students, –and narrow the large tertiary education participation gap between rich and poor. However, successful implementation will also require greater administrative capacity and an adequate data system for targeting, tracking, and collecting student loans.

3. Increased student financial aids to improve equity

Inequity in access to tertiary education can only be reduced by bridging the "wealth divide". Supply-side equity has been achieved in the provision of higher education, particularly as a result of the government's decision in the 1960s to have at least one public institution in each of the then-27 provinces. Indonesia's level of cost-recovery is currently among the world's highest and continues to rise. Even without allowing for opportunity costs, the total direct cost of higher education in Indonesia may amount to over US$ 1,000 per year per household, a major factor in why most tertiary students, in both public and private institutions, come from Indonesia's better-off households.

Financial aid also needs to be increased and the balance between institutional- and individual funding adjusted. One feasible start is to change the government financing channel to public HEIs. Instead of giving public HEIs a budget allocation inclusive of scholarships, part of the budget could be allocated as direct student financial aid. Some of this direct aid should be allocated to promising secondary school graduates. The institutions would then obtain the funding indirectly through cost-recovery from these students. This change would both improve equity and create a culture of competition between both private and public institutions.

4. Efficient pathways for future expansion

Indonesia will need to explore what type of institutions should be supported and relied on to expand coverage. Indonesia already has an open university with a large enrollment. Whether more could be established can be further explored. "Community colleges" can also be considered. They can offer 2-3 year diploma courses with credits recognized by universities if one wants to pursue a Bachelor's degree. Community colleges are generally less expensive. They could be most relevant in the Indonesian context, given the largely decentralized nature of education service delivery up to the secondary level. There has already been demand from local governments for permission to establish "local" colleges.

On the other hand, there is need to review how to better guide the expansion of private HEIs. A key issue that should be highlighted is the economic consequences of having a lot of small, private institutions. Other countries have found that this can affect potential economies of scale and the ability to offer good quality education. These countries have used accreditation decisions to close down or merge some small, private institutions that are substandard. Indonesia could examine the experience of other countries in this regard.

E. Increased overall public resource allocation to higher education

The policy measures outlined here for the way forward will require a much higher level of public resources devoted to higher education. It is estimated that to better support public and private HEIs, and to make the system more equitable, even with the current enrollment expansion rate, the total amount of public resources needed for higher education will have to increase from 0.3 percent of GDP to 0.6 percent by 2020. If the education budget remains at 20 percent of total GoI budget, the increased amount will be equivalent to 49 percent of the total MoNE budget (APBN – central government budget) by 2020.

Looking ahead, rationalizing public expenditure at HEIs and increasing the level of public funding will be the key to strengthening Indonesia's higher education sector.

Recommendations

- Benchmark efficiency using service standards and unit costs to provide a tool for institutions to reflect on their internal management issues.
- Diversify public funding sources to HEIs, particularly for research.
- Channel direct financial support to students (grants or loans) to encourage "choice" of HEIs by "consumers", and competition among HEIs.
- Increase financial aid and balance institutional and individual funding to reduce the wealth divide.
- Explore the types of institutions that should be supported and relied on to expand coverage of higher education.
- Review the economic consequences of having many small, private institutions.
- Increase the public resources devoted to higher education.

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Human Development Sector,
World Bank Office Jakarta
Indonesia Stock Exchange Building,
Tower 2, 12th Floor
Jl. Jenderal Sudirman Kav. 52 – 53
Phone: (021) 5299 3000,
Fax: (021) 5299 3111

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World Bank, Jakarta, Indonesia