Indonesian Education and the World Bank

Out of the economic and social chaos of the mid-1960s, Indonesia has achieved one of the most significant transformations in education in the developing world. It now has universal access to primary education; it is expanding secondary participation, and gradually strengthening post-secondary education. A key factor has been the Government’s consistent economic and educational policies, which were responsive to changing conditions.

The Bank’s $1.5 billion of education lending to Indonesia, for 25 projects since 1969, is its largest education portfolio. An OED study assesses the Bank’s important role in educational development in Indonesia through the contributions made by individual projects, seen against the background of government education policies and the Bank’s own evolving approach to education development issues.

Two features of the Bank’s role are striking: the sheer size of the lending program, and its diversity—covering every subsector in education. The Bank has been only one of several sources of external assistance, and its financing has formed a rather modest proportion of the government’s education budget. Nonetheless, with its emphasis on innovation and institutional development, the lending program has played an important role.

Tracing the history of the Bank’s assistance is complicated by the intricate nature of the Indonesian administration and the delicate shifts in government/Bank relationships over the period. One general characteristic of the lending program has been the seemingly inexorable way in which one project has followed another, no doubt reflecting a common interest in maintaining the flow of funds into the sector. At times, this may have ruled out the search for other investments. Bank project selection lacked a single common set of criteria, instead stressing individual subsectoral “needs”. Thus, regardless of their undeniable merits, one cannot tell whether the various investments have been economically optimal.

The Bank’s direct involvement in primary education has been minor. In secondary education it pursued vocational goals early on, then focused on improving quality. Both primary and secondary education have benefited from textbook and teacher training projects. But important elements of quality, such as the deployment, productivity, pay, and working conditions of teachers, remain wanting.

The Bank viewed higher education as the main source of skilled manpower for economic growth. In the earlier years this view tended to confine the Bank’s potential contribution. More recently, lending has aimed at building a self-sustaining development capacity. At the same time, the focus of vocational education has shifted from school-based to occupation-based training. Bank support for nonformal education continues, although information gaps about its reach and effectiveness remain.

Despite the great progress made, the education system still suffers from shortcomings in quality and external efficiency. Thus Bank assistance in recent years has focused on addressing efficiency and quality problems throughout the system, and on fostering institution building at central and subsidiary levels of government.

*“Indonesian Education and the World Bank: An Assessment of Two Decades of Lending”, Report No. 9752, June 28, 1991. OED reports are available from the Internal Documents Unit and from Regional Information Services Centers.*
Lessons

- There is a need for flexibility in the use of manpower planning elements and in the design of educational strategies, including the proper use of labor market information in upgrading manpower through on-the-job training.

- The efficacy of training components needs improving at all stages, from candidate selection through re-entry into the workplace. A closer look at benefits and costs of overseas vs. local training is needed.

- Institution building still shows shortcomings and should remain a central goal of the Bank's assistance.

- The value of the policy dialogue is apparent, as is its dependence on sound sector work.

- Sector lending began too recently for a full evaluation to be made, but experience thus far shows that success depends on a solid empirical base, an effective policy dialogue, consistent Bank and government goals, and sound implementation procedures.

- Educational equity remains, rightly, a central goal of government policy and Bank lending, but one should avoid spreading benefits too widely in pursuit of unrealistic goals. Promising avenues to greater equity include targeted quality improvements and financial help to poor families to offset the direct and indirect costs of educating their children.

- Experience with project implementation confirms the advantage of compact uncomplicated projects, the need for realistic time schedules, and the importance of appropriate covenants.

- Spending on public education has remained somewhat low by international standards (2.3 percent of GDP, vs. 4.0 on average for all developing countries, in 1985). Some increases will be needed to finance several needed initiatives, such as tackling the problem of teachers' deployment and salaries, ensuring adequate operation and maintenance, and supporting educational decentralization.

- Private schools have made important contributions to educational development over the past 20 years; broader Bank support for private, as well as public, education is warranted.

Basic issues

This review also discusses the Bank's global approach to education lending, and the lessons it has learned throughout the world about the economics of education. Over the two decades, the Bank selectively introduced the calculation, interpretation, and use of social rates of return (or similar indicators) into its information base for sectoral lending. It became more aware of the problems with traditional manpower forecasting methods, improved its perception of educational efficiency and the economic value of educational quality, and heightened its concern over problems of data and methodology. Its projects in Indonesia reflected this overall gain in experience, and most can be judged quite successful.

From a sectorwide perspective, however, one cannot discern a common criterion by which to judge these operations, except for the most general aims of developing trained manpower and of providing basic education of satisfactory quality.

Projects were begun in response to perceived needs, and were judged on specific subsectoral criteria, rather than on the basis of relative economic rates of return or similar overall yardsticks. It may be that the same output levels could have been achieved by more efficient means, or the same resources might have been put to a better use.

The lack of clearly articulated goals means that the ex post evaluation of projects has to be based on narrow input-centered targets (e.g. for enrollments or school places). Monitoring and evaluation in projects have not been pursued with enough determination.

These conclusions reinforce the case for developing a sectoral strategy that:

- is based on the economic and social objectives of the borrowing country;
- takes account of the country's manpower supply and demand situation, without being unduly influenced by it;
- can respond to changes in economic conditions and labor market signals;
- provides a solid basis for investment priorities through an understanding of relative social rates of return, or similar broad benchmarks; and
- includes appropriate monitoring and evaluation, so that progress toward goals can be assessed.

Such an approach would make best use of all relevant data, without relying exclusively on a single method. Its key elements would be economic rationality, sector-wide consistency, and flexibility.