Indonesia Assessment 1991

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Indonesia Project, Department of Economics and
Department of Political and Social Change,
Research School of Pacific Studies, ANU

Hal Hill (ed.)
Foreword

H.E. Mr Sabam Siagian*

Allow me first of all (as a University drop-out!) to express my appreciation for the invitation to speak before such a scholarly audience. For some time, I have known about the 'Indonesia Update', which every year examines recent economic and political developments and then focuses on a different aspect of Indonesia's social, economic and political life. This year the topic is a very important one, the state of higher education in Indonesia.

Any developing nation that is seriously determined to be a dignified member of the modern international community at the beginning of the 21st century cannot escape the daunting task of developing the nation's skills base and, particularly, its science and technology. A full-fledged university with a respectable level of quality is the principal instrument to achieve that goal.

In this regard Indonesia is suffering from a double disadvantage. Firstly, the Netherlands East Indies administration — understandably so — was very reluctant to establish a full-fledged university in its colonial territory. Only on the eve of the Japanese invasion at the beginning of 1942 was a sort of skeleton university formed. This comprised the already existing medical college. A college for law studies expanded with a department for literature and philosophy and the more recently established higher institute for agriculture. As such the history of the university as an institution in Indonesia is much more recent compared to the established famous universities in the Philippines, Thailand and India. One could also argue, however, that this lack of historical

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*H.E. Mr Sabam Siagian, Indonesian Ambassador to Australia, officially opened the 1991 Indonesia Update. He has kindly consented to having the text of his opening remarks reprinted as the Foreword to this volume.
tradition made it possible for the university institution in Indonesia to play a more dynamic and innovative role.

Another serious disadvantage is that while Indonesian universities experienced rapid growth and progress, science and technology in the advanced countries did not stand still. Instead they underwent quantum leaps of progress.

Therefore, Indonesian higher education institutions face at least two major tasks: on the one hand, to continuously improve their quality in order that the young men and women graduating from those institutions can play significant roles for the development and welfare of the Indonesian nation. On the other hand, the Indonesian higher education institutions have to equip themselves in such a manner that they will be able to monitor the rapid development of science and technology in the world at large. In particular, they will have to develop the ability to choose from among the rapidly advancing stock of scientific and technological knowhow, those which are relevant and important for Indonesia's development.

Needless to say I would like to commend the organisers of the Indonesia Update. In the final analysis, discussions such as today's are extremely beneficial to us in Indonesia. Certainly not all the presentations and remarks made in this lecture theatre will be fully agreed to by Indonesians. However, we are mature and open enough to listen to views and opinions which are not necessarily in line with ours. The truth is that we welcome any constructive criticism and novel ideas that will be beneficial to the welfare and progress of the Indonesian nation.

The overall achievement of Indonesian development efforts during the last 25 years has brought about new, more difficult and more complex sets of challenges. That is why we welcome efforts such as today's which allow us to look at our problems from a different perspective. After all, if we fail in our gigantic effort to continuously uplift the social welfare of the Indonesian people, in which the principle of equal opportunity is honoured, while at the same time preserving national unity throughout the vast archipelagic state — the dire consequences of such a grand failure are not for us alone to bear. A stagnant Indonesia suffering from chronic social and political instabilities would have ramifications throughout the neighbouring regions.

I would also like to take this opportunity to commend the Indonesian participants of this conference who have been willing to leave their comfortable surroundings in order to deliver their
intellectual contribution in this encounter with their Australian colleagues. Diplomats like to talk about improving bilateral relations. However, the real work in order to substantiate such lofty statements is carried out by Indonesians who have been prepared to attend conferences such as this Indonesia Update. Indeed, I would like to suggest, having in mind our national interest, that following the present conference the Indonesian participants should hold an informal exchange of impressions. My hope is that they would come up with a number of pertinent points, encapsulating relevant ideas regarding the task of improving the quality of higher education in Indonesia. If they could formulate their impressions in the form of a memorandum, perhaps addressed to the Minister of Education and Culture, then the Indonesian participants could leave Canberra with a sense of satisfaction that they have been engaged in an intensive discussion of issues of great importance for the future of Indonesia.

May I say finally that, on a personal level, I already feel enriched by this meeting: I read in the one and a half page abstract of Dr Colin Brown's presentation on recent political developments in Indonesia that 'the MPR will nominate Suharto for a further term as President in 1993 ...'. I have gained an important piece of information that I was not aware of before. I asked the President, when paying a farewell visit on 8 June 1991, which happened to be his 70th birthday, what would I say if I have to respond to questions from Australians regarding his plans in 1993. He said with a disarming smile that it is not up to him. The selection of the new President, according to Mr Suharto, is entirely the prerogative of the MPR which will still have to be elected in 1992. It just shows that, in our global village, answers to interesting questions that I cannot obtain in Jakarta are readily available in Canberra.

Allow me, finally, to congratulate the organisers for the convening of today's Indonesia Update.
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Preface

It is a pleasure to thank the many individuals and institutions who contributed to the 1991 Indonesia Update conference, and to this volume.

Financial support was kindly provided by the Department of Foreign Affairs and Trade (through its annual grant to the ANU's Indonesia Project), the Australian International Development Assistance Bureau (through its International Seminar Support Scheme), the Australia Indonesia Institute, the International Development Program of Australian Universities and Colleges, the Asian Development Bank, and the ANU's Research School of Pacific Studies.

I am greatly indebted to the speakers at the Update and to the contributors to this volume for their lively and interesting oral presentations and for their willingness to produce papers to a tight deadline. Six of the chapters were not actually presented at the conference: those of Sukadji Ranuwihardjo, who for personal reasons had to withdraw at the last minute, H.W. Arndt, Joan Hardjono, Ahmad D. Habir, Masri Singarimbun, and Thee Kian Wie. H.E. Sabam Siagian, Indonesian Ambassador to Australia, kindly agreed to open the conference. The text of his informative opening remarks is reproduced as the preface to this volume.

The success of the Update owed much to the outstanding work of a number of people. Martin O'Hare, of Indonesia & Southwest Pacific Consultants, assumed primary responsibility for the conference organisation, handling matters superbly. He was ably supported by the staff of the Indonesia Project, Liz Drysdale, Julie Londey, Lynn Moir and Thuytien Truong, and by several Indonesian graduate students on the day.

Martin O'Hare also assisted with the production of the final volume, which was expertly transformed from messily-edited papers to a well-presented manuscript by Norma Hiscock of Adgendus Management Services. Finally I wish to acknowledge the assistance of Ruth Daroesman, a walking encyclopedia on Indonesian higher education, in the formulation of the program and in providing much useful advice.
This is the third volume in the *Indonesia Assessment* series. The first volume, *Indonesia Assessment 1988*, was produced on an experimental basis. The response to it and to the second volume was most encouraging, and it is now planned to produce them on an annual basis.

Hal Hill  
Canberra  
October 1991
## Glossary

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<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ABRI</td>
<td>Indonesian Armed Forces</td>
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<tr>
<td>APDN</td>
<td>Academy of Home Affairs Administration</td>
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<tr>
<td>AS</td>
<td>Mechanical arts vocational school</td>
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<tr>
<td>Badan</td>
<td>Board / Institution</td>
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<tr>
<td>BAKN</td>
<td>Civil Service Administration Board</td>
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<tr>
<td>Berhak</td>
<td>Have the right to</td>
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<tr>
<td>BPPC</td>
<td>Clove Marketing and Support Body</td>
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<td>Bulog</td>
<td>Logistic Agency</td>
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<tr>
<td>Calon pegawai</td>
<td>Probationary staff</td>
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<tr>
<td>CS</td>
<td>Agricultural vocational school</td>
</tr>
<tr>
<td>D1</td>
<td>Diploma (one-year program)</td>
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<td>D2</td>
<td>Diploma (two-year program)</td>
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<tr>
<td>D3</td>
<td>Diploma (three-year program)</td>
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<td>D4</td>
<td>Diploma (four-year or professional training program)</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<td>Departemen</td>
<td>Department</td>
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<td>DGHE</td>
<td>Directorate General of Higher Education</td>
</tr>
<tr>
<td>Dosen</td>
<td>Lecturer</td>
</tr>
<tr>
<td>Dosen tetap</td>
<td>Permanent, full-time teaching staff</td>
</tr>
<tr>
<td>Dosen tidak tetap</td>
<td>Casual teaching staff</td>
</tr>
<tr>
<td>DPR (Dewan Perwakilan Rakyat)</td>
<td>House of People's Representatives</td>
</tr>
<tr>
<td>DS (Dessa School)</td>
<td>Village School</td>
</tr>
<tr>
<td>ELS (Europese Lagere School)</td>
<td>European Lower School</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GDY</td>
<td>Gross Domestic Income</td>
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<td>Gestapu</td>
<td>September 30 (1965) Movement</td>
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<tr>
<td>Haj</td>
<td>Pilgrimage to Mecca</td>
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<td>HBS (Hogere Burger School)</td>
<td>Higher Citizen School</td>
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<td>HCS (Hollands Chinese School)</td>
<td>Dutch Chinese School</td>
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<td>HIS (Hollands Inlandse School)</td>
<td>Dutch Native School</td>
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<tr>
<td>HUB universities</td>
<td>Hasanuddin, Udayana and Brawijaya Universities</td>
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<td>IGGI</td>
<td>Inter-Governmental Group on Indonesia</td>
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<td>Indonesian Term</td>
<td>English Translation</td>
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<tr>
<td>Ijin operasional</td>
<td>Licence to operate</td>
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<tr>
<td>IKIP (Institut Keguruan dan Ilmu Pendidikan)</td>
<td>Teacher Training College</td>
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<tr>
<td>INMEN (Instruksi Menteri)</td>
<td>Ministerial Instruction</td>
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<td>INPRES (Instruksi Presiden)</td>
<td>Presidential Instruction</td>
</tr>
<tr>
<td>IPB (Institut Pertanian Bogor)</td>
<td>Bogor institute of Agriculture</td>
</tr>
<tr>
<td>ITB (Institut Teknologi Bandung)</td>
<td>Bandung Institute of Technology</td>
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<tr>
<td>Jilbab</td>
<td>Head covering worn by Muslim women</td>
</tr>
<tr>
<td>Jurusan</td>
<td>Department</td>
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<tr>
<td>Kabupaten</td>
<td>District (below Province)</td>
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<tr>
<td>Kanwil (Kantor Wilayah)</td>
<td>Provincial Office</td>
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<tr>
<td>Kebudayaan</td>
<td>Culture</td>
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<td>Kecamatan</td>
<td>Sub-district</td>
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<td>Keharusan</td>
<td>Requirement</td>
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<td>Kepala</td>
<td>Head</td>
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<td>KEPMEN (Keputusan Menteri)</td>
<td>Ministerial Decree</td>
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<td>KEPPRES (Keputusan Presiden)</td>
<td>Presidential Decree</td>
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<td>Komisi</td>
<td>Committee</td>
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<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>KOPERTIS (Koordinator Perguruan Tinggi Swasta)</td>
<td>Private Higher Education Institution Coordinator</td>
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<tr>
<td>KS (Kweekschool)</td>
<td>School for teacher education</td>
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<tr>
<td>Lektor</td>
<td>Associate Professor</td>
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<tr>
<td>Lembaga</td>
<td>Institution</td>
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<tr>
<td>LNG</td>
<td>Liquid Natural Gas</td>
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<tr>
<td>MENPAN (Menteri Pendayagunaan Aparatur Negara)</td>
<td>Minister for the Utilisation of the Government Apparatus</td>
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<tr>
<td>MKDU (Mata Kuliah Dasar Umum)</td>
<td>Basic Courses</td>
</tr>
<tr>
<td>MLS (Middelbare Landbouw School)</td>
<td>Bogor school for assistant agricultural extension workers and forest rangers</td>
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<tr>
<td>MPR (Majelis Permusyawaratan Rakyat)</td>
<td>People's Consultative Assembly</td>
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<tr>
<td>MPRS (Majelis Permusyawaratan Rakyat Sementara)</td>
<td>Provisional People's Consultative Assembly</td>
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<tr>
<td>MTS (Middelbare Technische School)</td>
<td>School for assistant civil and mechanical engineers</td>
</tr>
<tr>
<td>MULO (Meer Uitgebreid Lager Onderwijs)</td>
<td>More Elaborate Lower Education</td>
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<tr>
<td>Nasional</td>
<td>National</td>
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<td>NBFI</td>
<td>Non-Bank Financial Institution</td>
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<td>Acronym</td>
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<tr>
<td>NIAS (Nederlands Indische Artsen School)</td>
<td>Surabaya school for 'local' physicians</td>
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<td>NIEs</td>
<td>Newly Industrialising Economies</td>
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<tr>
<td>NIVS (Nederlands Indische Veeartsen School)</td>
<td>Bogor school for 'local' veterinarians</td>
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<tr>
<td>Non-pribumi</td>
<td>Indonesian of foreign extraction</td>
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<td>NTBs</td>
<td>Non-tariff barriers</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>Pakto</td>
<td>October 1988 financial reforms</td>
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<tr>
<td>Pancasila</td>
<td>Five Principles (Indonesia's national philosophy)</td>
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<td>PDI (Parti Demokrasi Indonesia)</td>
<td>Indonesian Democratic Party</td>
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<tr>
<td>Pembaharuan</td>
<td>Reform</td>
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<td>Pendidikan</td>
<td>Education</td>
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<td>Peraturan</td>
<td>Regulation</td>
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<td>PERMEN (Peraturan Menteri)</td>
<td>Ministerial Regulation</td>
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<tr>
<td>PGRI (Persatuan Guru Republik Indonesia)</td>
<td>Indonesian Teachers Association</td>
</tr>
<tr>
<td>PMDK (Penelusuran Minat dan Kemampuan)</td>
<td>Talent scouting</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<td>PP (Peraturan Pemerintah)</td>
<td>Government Regulation</td>
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<td>Pribumi</td>
<td>Native Indonesian</td>
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<td>Program Non-gelar (SO)</td>
<td>Non-degree programs</td>
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<td>Program studi</td>
<td>Study program</td>
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<tr>
<td>PT (Perseroan Terbatas)</td>
<td>Limited Liability (company)</td>
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<tr>
<td>PTN (Perguruan Tinggi Negeri)</td>
<td>Public Institution of Higher Education</td>
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<td>PTS (Perguruan Tinggi Swasta)</td>
<td>Private Institution of Higher Education</td>
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<td>Repelita</td>
<td>Five-year Development Plan</td>
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<td>RUU (Rancangan Undang-Undang)</td>
<td>Proposed Bill</td>
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<td>Sarjana (S1)</td>
<td>Undergraduate program</td>
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<td>Sarjana (S2)</td>
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<td>Doctoral program</td>
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<tr>
<td>Satuan Kredit Semester (SKS)</td>
<td>Semester Credit Unit</td>
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<td>Satuan Struktural di dalam Fakultas</td>
<td>Structural Unit of a Faculty</td>
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<td>SBI</td>
<td>Central Bank Certificates</td>
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<td>SBPU</td>
<td>Money Market Instruments</td>
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<td>Schakel School</td>
<td>Bridging School</td>
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<td>Indonesian Term</td>
<td>English Translation</td>
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<tr>
<td>SD (Sekolah Dasar)</td>
<td>Primary School</td>
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<td>Sekolah Tinggi</td>
<td>College of Higher Education</td>
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<tr>
<td>Siap pakai</td>
<td>Ready-to-use</td>
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<td>SIPENMARU (Seleksi Penerimaan Mahasiswa Baru)</td>
<td>New Students Selection</td>
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<td>Skripsi</td>
<td>Thesis</td>
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<td>SMA (Sekolah Menengah Atas)</td>
<td>Senior High School</td>
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<td>SMP (Sekolah Menengah Pertama)</td>
<td>Junior High School</td>
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<tr>
<td>SO</td>
<td>Diploma course of study</td>
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<td>Spesialis 2 (Sp2)</td>
<td>Professional Doctorate</td>
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<td>Spesialis 1 (Sp1)</td>
<td>Professional Master's</td>
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<td>SPG (Sekolah Pendidikan Guru)</td>
<td>Teacher Training Schools</td>
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<td>SPP (Sumbangan Pembangunan Pendidikan)</td>
<td>Tuition Fees</td>
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<tr>
<td>Tokoh</td>
<td>Prominent individual</td>
</tr>
<tr>
<td>UGM (Universitas Gajah Mada)</td>
<td>Gadjah Mada University</td>
</tr>
<tr>
<td>UI (Universitas Indonesia)</td>
<td>University of Indonesia</td>
</tr>
<tr>
<td>UMPTN (Ujian Masuk Perguruan Tinggi Negeri)</td>
<td>Public Institution of Higher Education Entrance Examination</td>
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<td>UT (Universitas Terbuka)</td>
<td>Open University</td>
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<td>Abbreviation</td>
<td>Description</td>
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<td>UTUL</td>
<td>Written Exams</td>
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<td>UUD</td>
<td>Constitution</td>
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<td>UUSPN</td>
<td>Law on the National System of Education</td>
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<tr>
<td>VS</td>
<td>People's School</td>
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<tr>
<td>VVS</td>
<td>Continuing School</td>
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</table>

Unless otherwise stated, dollar ($) amounts are expressed in US$. 
Contributors

Professor H.W. Arndt is Emeritus Professor of Economics, Research School of Pacific Studies, Australian National University, and Editor of the Journal *Asia-Pacific Economic Literature*. He headed the Department of Economics 1963-80, established the Indonesia Project and founded the *Bulletin of Indonesian Economic Studies*.

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Dr Joan Hardjono is a member of staff in the Faculty of Letters at Padjadjaran University, Bandung, and a frequent Visiting Fellow to the Research School of Pacific Studies at the Australian National University. She first visited Indonesia as a volunteer graduate teacher in the 1950s.

Dr Hal Hill is the Head of the Indonesia Project in the Department of Economics, Research School of Pacific Studies, Australian National University, and Editor of the *Bulletin of Indonesian Economic Studies*.

Professor Andi Hakim Nasoetion pioneered the development of statistics, mathematics and science programs at the Bogor Institute of Agriculture (IPB) where he held a range of senior appointments including Rector. He is a member of the Indonesian National Advisory Board of Education.

Dr Anwar Nasution lectures in economics at the University of Indonesia and works as a consultant for Bank Duta in Jakarta. He has had visiting research positions in Singapore, the United States, Japan and Australia.
Dr Mayling Oey-Gardiner was educated at Harvard University and the Australian National University before rejoining the Faculty of Economics, University of Indonesia, and later the Center for Policy and Implementation Studies, Jakarta. She is now the Director of a research and consulting firm, Insan Harapan Sejahtera.

Dr Ernesto Pernia is Senior Economist in the Economics and Development Resource Center of the Asian Development Bank in Manila. He was formerly Professor of Economics at the University of the Philippines.

Professor Sukadji Ranuwihardjo has been Indonesia's Director General of Higher Education in the Ministry of Education and Culture since 1984. His previous appointments include Professor of Economics and Rector of Gadjah Mada University, Assistant Minister, and Member of Parliament.

H.E. Sabam Siagian was appointed Indonesia's Ambassador to Australia in 1991. He was formerly chief editor of The Jakarta Post and research specialist on international and security affairs in the permanent mission of Indonesia to the United Nations in New York.

Dr Masri Singarimbun graduated from the Australian National University with a Ph.D in anthropology. He became a staff member of the Australian National University before being appointed to Gadjah Mada University where he established the Centre for Demographic Studies.

Professor Willi Toisuta, who obtained his Ph.D in education from Macquarie University, Sydney, is Rector of Satya Wacana Christian University in Salatiga. He is a member of the national planning team for the development of higher education in Indonesia and the National Consortium for Education.

Dr Thee Kian Wie is a senior researcher at the Indonesian Institute of Sciences (LIPI) and formerly head of its Centre for Economic and Development Studies. He is a frequent visitor to Canberra as a Visiting Fellow in the Department of Economics, Research School of Pacific Studies, Australian National University.
Introduction

Hal Hill

The New Order: 25 Years Old

The year 1991 marked one-quarter of a century of the 'New Order' in Indonesia. This has been the first period in Indonesia's recorded history of sustained and rapid economic progress. It has also been a period of remarkable political stability and predictability. The regime's economic achievements over these 25 years are far more substantial than anyone would have dared to predict in the mid-1960s. More recently, since the mid-1980s the government has successfully diversified the economy away from its heavy dependence on petroleum and towards the East Asian path of rapid, export-oriented industrialisation. Economically, Indonesia ranks as a third world success story: while not ascending the dizzy heights of some of its neighbours, it belongs to a select group of developing economies to have registered economic growth rates well above the third world average. It is for this reason, perhaps more than any other, that President Suharto has retained such a tight — indeed unchallenged — grip on national leadership. In an era of regime change, he is one of the world's longest-serving leaders and now also one of the oldest (although still rather youthful compared to some of his East Asian contemporaries).

But success brings with it new challenges and problems. A new generation has grown up in Indonesia barely remembering the economic disintegration of the early 1960s, a generation for whom exhortations from political leaders that the present is immeasurably better than the past carry little weight. For all its achievements, Indonesia remains a very poor country, the poorest in ASEAN (although it is on track to overtake the Philippines shortly). Indonesia's urban middle classes and students see this contrast vividly when they visit Malaysia and Thailand, not to
mention the Asian NIEs and countries further afield. And the winds of political change that have swept through the Soviet Union, Eastern Europe, and parts of Northeast Asia and Latin America, have not yet reached Indonesia. For all the talk about keterbukaan (openness), Indonesia since the mid-1980s has achieved perestroika without glasnost.

Indonesia Assessment 1991, like its predecessors, examines recent economic, political and social developments in Indonesia against this backdrop. The year 1991 witnessed no spectacular developments — no major change of direction in economic strategy, no significant reconfiguration in the political constellation. But as the papers on economic and political developments document in Chapters 2 and 3, important trends are evident: in the economic domain, the focus was on consolidating the achievements of the last few years and addressing short-term macroeconomic stabilisation problems, while the political agenda came to be dominated increasingly by the 1992 general election and by the medium-term issue of presidential succession. Chapters 4 to 14 of this volume comprise a comprehensive examination of the state of higher education in Indonesia, looking especially at recent trends and issues for the 1990s. This issue has attracted much public debate in recent years from widely differing perspectives. Major reforms have been announced. Economists and industrialists see higher education as a crucial underpinning to international competitiveness in the 1990s. Social observers regard the sector as being the mainspring of a new national culture and social identity. Political scientists look to universities as a source of growing political consciousness and sophistication. Public administrators and educators are concerned to devise programs which utilise most effectively scarce public resources.

**Economics and Politics**

For the economy, as Anwar Nasution, one of Indonesia’s best known and prolific economists, appropriately observes in Chapter 2, the recent period has 'constituted both the best of times and the worst of times'. There has been an unprecedented surge in non-oil exports, private investment and private consumption. For the second consecutive year the economy in 1990 grew by more than 7% and the non-oil sector by almost 8%; preliminary indications suggest a similar, though slightly lower, rate for 1991. Few countries can
Introduction

match this record, particularly the resource-rich heavily indebted group to which Indonesia has perhaps the dubious distinction of belonging. Moreover, this growth has been accompanied by a trimming of the current account deficit and, apparently, continuing progress in poverty reduction.

However, as in past episodes of quickening growth since 1966, there are new challenges for economic policy-makers. Some of these challenges reflect the inevitable tensions accompanying rapid structural change, others a loosening in the tight and disciplined macroeconomic management which was a feature of the period 1986/89. In the former category are serious infrastructure and skill bottlenecks, while the latter include the uneven pace of regulatory reform and problems associated with the management of capital market liberalisation. For the first time since 1966, Nasution points out, private external indebtedness has become an issue of serious debate in Indonesia. Information on its magnitude and composition is sketchy, but Nasution believes it rose by some 45% to about $21 billion at the end of 1990. Concern at the mounting debt arises not so much from the fact that individuals and enterprises are borrowing abroad, on the basis of proper commercial assessment and a willingness to assume the risks associated with such borrowing. Rather, there are some who worry that the government may have offered guarantees — or even inducements — in connection with these loans for projects which have not been adequately evaluated. The mounting public debate in August and September 1991, and the government's decision to control more firmly such borrowing, was therefore regarded as a welcome indication that there would be no departure from the New Order's record of sound macroeconomic management.

In Chapter 3, Colin Brown, one of Australia's most knowledgeable observers of modern Indonesia, carefully assesses several of the major issues of political significance over this period, and then examines their implications for future political developments. On the 'will he or won't he?' question, Brown, like most authoritative commentators, is in no doubt: 'Suharto will leave the scene at a time of his choosing, and not someone else's; and that time will not be 1993'. Assuming he remains in good health for the duration of his next term, Suharto will have ruled Indonesia for one-third of a century, an extraordinary presence and equivalent to almost two-thirds of Indonesia's post-independence history. But, although the leadership issue is settled for the time being, Brown
concludes that as of August 1991 there was no obvious vice presidential candidate — and therefore possible successor — in sight; he also points to the continuing critical comment surrounding the business activities of the President's children.

Among other issues, Brown highlights the increasingly prominent public roles played by Islamic and 'politically critical' groups. The government continued its efforts to establish relations with Islam, notably through the formation of the Association of Indonesian Moslem Intellectuals (ICMI), chaired by the influential Minister for Research and Technology, and the Suharto family made the pilgrimage to Mecca. But political liberalisation has not proceeded very far, notwithstanding several statements from senior government figures and the establishment of 'political space' by some government critics. International issues have also occupied the political agenda, perhaps to a greater extent than previous years. The government condemned Iraq's invasion of Kuwait but refused to participate in the American-led anti-Iraq coalition; indeed there were vocal public supporters of Saddam Hussein. Diplomatic relations with China were restored, reflecting Indonesia's growing economic and political integration into East Asia.

Higher Education

The remaining 11 chapters of this book address a variety of issues related to the state of higher education in Indonesia. Together they present a wealth of information on what is going to be one of the most challenging areas of public policy during the 1990s.

Anyone who has been reading Indonesian newspapers recently or following the country's lively seminar 'industry' would appreciate how prominent a topic of public discussion and debate higher education has become. The following press reports present but a tiny fraction of this public comment, but they capture the flavour of important elements of the debate. Thus, for example, Professor Sukadji Ranuwihardjo, the Director-General of Higher Education and the author of Chapter 4 of this volume, lamented the fact that communication between higher education and the business world was not functioning effectively (macet) (Kompas, 13 June). In a similar vein, the Rector of the Open University argued that the education system is still more suited to an agrarian economy and that it must become more 'industry-oriented' (Jakarta Post, 8 May). A leading
law educator maintained (in *Kompas*, 23 January and 2 February) that the quality of law graduates was poor and even declining, while another columnist (in *Media Indonesia*, 24 January) queried whether university graduates received sufficient practical training. The Minister for State Administrative Reform, Ir. Sarwono Kusumaatmadja, addressed another set of policy issues, arguing that an 'administrative approach' (*pendekatan administratif*) was not conducive to the development of educational institutions (*Kompas*, 6 September); he also continued to voice his concern over the current salary structure of civil servants, which includes staff in state universities (*Kompas*, 10 June). Emphasising yet another strand of discussion in intellectual circles, Professor Daoed Joesoef, a former Minister of Education and Culture, returned to a theme he has often publicly expounded, stating that Indonesians have not yet incorporated science into their culture (*Kompas*, 29 August). The international development community has also focused on educational issues, notably in the form of a World Bank report (*World Bank, 1991*) arguing for the promotion of a stronger vocational education system.

The papers presented in this volume address these and many other topics. Structurally, the layout of the volume is designed to, first, provide an overview of recent trends and policy initiatives, followed by an examination in greater depth of the issues. Thus two of Indonesia’s most experienced and authoritative educators lead off, Professor Sukadji Ranuwihardjo, Director General of Higher Education and formerly Rector of a major university, and Professor Andi Hakim Nasoetion, formerly Rector of the Bogor Institute of Agriculture. Sukadji emphasises the daunting challenges facing policy-makers, in particular the explosive growth in enrolments, the balance between strong egalitarian sentiments and the need to foster excellence, and the importance of internal and external reforms. Nasoetion traces the evolution of higher education, from the period of colonial neglect through to a range of key policy issues in the 1990s. He dwells on quality issues in lower levels of education, particularly senior high schools, points to the tremendous pressure on universities to accept larger numbers of students than they are capable of handling, and voices his concern over the downgrading of science subjects and over low academic salaries.

The next four chapters focus on particular sets of issues. Dr Mayling Oey-Gardiner, who has conducted research on higher education for many years, looks especially at the policy-making and
regulatory processes in higher education. She stresses the highly centralised decision-making processes, with power firmly in the bureaucracy, and then provides an illuminating account of how the regulatory system works in practice. Professor Willi Toisuta writes authoritatively as the Rector of a leading private university, commenting especially on how these universities adapt to the demands of the market place and to bureaucratic procedures related to accreditation and training. Mrs Ruth Daroesman, who has decades of first-hand knowledge of Indonesian education, investigates training issues, and how universities — particularly the regional ones — may utilise foreign donor programs more effectively. In the process she stresses the need for internal administrative reforms, and cautions against initiatives to promote inter-regional 'institutional equity' too quickly, as the weaker regional institutions depend on the established metropolitan universities for much of their training and research programs. Mr. Ahmad Habir, a faculty member of one of the country's leading business schools and a most knowledgeable observer of Indonesian business, examines a recent feature of Indonesia's higher education system — the growth of business education. These business schools have proliferated in response to the needs of an increasingly sophisticated commercial-industrial complex. An unusual feature of their development, in the Indonesian context, is the minor role played by the government. The initiative has come from the private sector, Habir points out, and the schools have responded flexibly and creatively to private sector requirements.

Dr Ernesto Pernia, a human resource specialist formerly at the University of the Philippines and now at the Asian Development Bank, provides an important regional perspective on the development of Indonesian higher education. Pernia concludes that, although Indonesia is very much a late-comer and still has low retention rates, its record according to a number of efficiency (for example, unit costs) and equity (the balance between gender and between various levels of education) indicators is good.

Four distinguished researchers complete the volume with a series of personal reflections. Professor H.W. Arndt, founder of the ANU's Indonesia Project and for many years a frequent visitor to Indonesian universities, outlines a program to improve educational quality: salaries need to be raised (financed by higher fees and research contracts); there should be stronger incentives for higher quality teaching and research; and stricter academic performance
Introduction

requirements need to be imposed on staff once better conditions are achieved. Dr Joan Hardjono, who has decades of first-hand experience in Indonesian universities and who is one of the country's leading researchers on rural development, provides an intimate view of universities from the lecture room. She points out that while the system's quantitative achievements are impressive, many daunting problems remain — the absence of a link between teaching effort and reward (intellectual or material), inappropriate criteria for promotion, inbreeding and widespread 'multiple jobbing'. Dr Masri Singarimbun, one of Indonesia's leading demographers and a prominent social commentator, offers a broadly similar diagnosis. Better quality research, he maintains, will be achieved only if salaries are improved and a more conducive research environment is established, including better libraries and a stronger academic culture. Dr Thee Kian Wie, one of Indonesia's foremost economists and a senior staff member at the Indonesian Institute of Sciences, agrees with these recommendations. He laments the fact that much of the research on the Indonesian economy of lasting significance is undertaken by foreigners, arguing that the domestic intellectual environment frustrates efforts to improve research quality.

While the authors of this volume adopt widely differing approaches and draw on diverse experiences, a number of common themes emerge from the discussion. Some of these themes point to the need for direct public policy initiatives, while others highlight deep problems which can be tackled and resolved only in the longer run.

The first and most obvious point is that the system is under stress owing to the neglect of higher education before 1970, and especially during the colonial era, and the rapidly growing demand for places thereafter. Nasoetion (Chapter 5) emphasises the systematic denial of higher education opportunities for the indigenous population during the colonial era (in contrast, it might be noted, to British India or American Philippines). Singarimbun (Chapter 13) points to the desperate state of affairs in 1965, when Indonesia's entire education budget was similar to that of a single tertiary institution abroad, the Australian National University. Pernia (Chapter 10) draws attention to Indonesia's late-comer status in regional terms, but also to its rapid catch-up in recent years, and to its good performance according to a number of equity and efficiency criteria. Sukadji (Chapter 4), as the government official charged with the responsibility for higher education, poses the challenges
during the current Repelita [Five Year Development Plan] V starkly: an expected 50% increase in student enrolments in the context of tight fiscal conditions and still limited general appreciation in the community of the issues associated with higher education.

A second theme relates to the search for an *appropriate balance between autonomy and accountability* for universities, particularly those in the state sector. Paternalistic government intervention in the economy (not to mention political and social life) has been a feature of most of Indonesia's post-independence history. However, deregulation and even privatisation have become prominent slogans since the mid-1980s, and the government has begun to withdraw from its previously very detailed regulation of higher education for much the same reasons as it has enacted liberal economic reform more generally — pervasive intervention could not be sustained financially during an era of soft oil prices, and there has been a growing recognition that the earlier patterns of regulation were both costly and ineffective in meeting their goals. As Oey-Gardiner (Chapter 6) documents in considerable detail, the very centralised system of the 1970s and 1980s was widely flouted by stronger institutions (and individuals) when it suited them. Centralised control, apparently, did not improve equity or efficiency. But how far should the reform process go? In the case of business education, Habir (Chapter 9) points out, the government has played a minor role: the private sector has set the agenda, and the absence of official 'recognition' (for example over accreditation) apparently has had little effect.

There is, third, a question of goals: *how much is it mass education ('equity'), how much elitism?* The latter is frowned upon in a country like Indonesia founded on egalitarian principles, as Sukadji points out. There is also, as Nasoetion emphasises, tremendous pressure on institutions to accept far more students than can be effectively accommodated, to the detriment of academic standards. History and economics have together conspired to produce a system where the top half dozen or so universities are far superior in staff and resources to the more distant (from Jakarta, and Java more generally), regional universities. There is a powerful egalitarian sentiment which supports inter-regional 'equality', in universities and much else. But reality is otherwise, and in the past, as Oey-Gardiner observes, special regulations and programs designed to reduce inter-regional inequalities have often had the
Introduction

opposite effect; acceptance into a leading state university, she observes, is 'like winning a lottery'.

Daroesman (Chapter 8), in a similar vein, deftly reminds us that too rapid a push for equalisation may be counter-productive, if only because the weaker institutes have to draw on stronger universities for the bulk of their external staff post-graduate training. Aside from the inter-personal and inter-regional dimensions of inequality, there is also the delicate issue of access to universities by different ethnic groups. Non-pribumi access to state institutes is quota restricted, but the unsubsidised options of private or foreign education remain relatively unhindered.

A fourth issue is the appropriate public-private mix in the delivery of higher education. Pernia observes that Indonesia adopts an intermediate position in this regard among Asian nations. Sukadji stresses the rapid growth of the private sector, if only because the public sector is financially restrained. Habir stresses the key role of the private sector in business education, although very recently state universities have begun to develop programs in this area. Toisuta (Chapter 7), appropriately, addresses some of the many issues facing private universities. The sector is extremely diverse, comprising some very good institutions but equally a large number of rather mediocre ones, for which the label 'university' is hardly valid. However, they share a number of common features: very little public support; sometimes significant religious funding; a flexibility which derives from their market driven and somewhat more autonomous character; an emphasis on 'low cost' humanities and social science courses and a relatively limited concentration on the more expensive science and medical courses; and a frustration with government licensing and accreditation procedures. As Hardjono (Chapter 12) and several other contributors note, the distinction between 'private' and 'public' institutions is sometimes blurred, since many academic staff from the latter teach in the former, frequently at more remunerative rates.

A number of interrelated issues concerning the economics of higher education are also addressed in these chapters. A fifth issue relates to the fact that most economists have found high rates of return from investments in education at all levels.1 While these

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1 See for example, Byron and Takahashi (1989) and several as yet unpublished papers by Dr Boediono of the Department of Education and Culture, and Professor Walter McMahon from the University of...
rates generally have been the highest for primary education, tertiary-level investments have generated competitive returns, comparable at least to those in infrastructure or industry. The economics of higher education investment is not examined explicitly in these papers, although Pernia touches on some of the issues, finding Indonesia's efficiency record to be fairly good. Arndt (Chapter 11) is the only writer to confront squarely the funding of an expanded higher education budget, advocating several variants of the 'user pays' principle. Most writers, implicitly, assume that there is a sufficient divergence between social and private rates of return on education for a public subsidy to be justified. But its magnitude is not spelt out in detail, in part perhaps because higher education in Indonesia continues to be an intensely political issue.

Sixth, Sukadji, Habir, and several other contributors stress that the growing internationalisation of the Indonesian economy poses a major challenge to all levels of education. Rapidly growing industries need more accountants, engineers and senior managers, to name just a few areas where supply bottlenecks are evident. Evolving regional comparative advantage and specialisations underline the importance of a more decentralised approach: educational institutions in Bali and perhaps Yogyakarta will need to develop special strengths in tourism-related programs; those in Jakarta-Botabek-Bandung, together with Surabaya and perhaps Semarang, will want to concentrate in industrial-commercial disciplines; while in some of the resource rich Outer Island regions natural resource management might be a feature of course offerings. Indonesia has not reached the stage where such specialised patterns are clearly evident, but in such a diverse country it makes sense to encourage this trend, especially in smaller regional institutions unable to develop a full range of faculties adequately.

Meanwhile, there is a general concern that science courses in particular, and vocational education in general, are being downgraded at a time when Indonesia needs them most. The policy emphasis on private institutions as the major source of increased

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2 The World Bank report cited above (World Bank, 1991a) also investigates funding options for vocational training, advocating a user pays approach blended with government money as seed funds to 'kick start' the process of the private sector making a greater contribution in this area.
student enrolment is, unintentionally, perhaps compounding the problem for the reason mentioned above by Toisuta — private universities specialise in inexpensive social science and humanities offerings (not all of which lack vocational content, however). Nasoetion, particularly, is concerned that mathematics and sciences have fallen from favour, while Pernia emphasises that Indonesia displays a weak concentration in these subjects, especially compared with the Asian NIEs.

A seventh theme, and a key issue for Indonesia, is how to attract and retain high quality academics. Academic remuneration is a major — though not the only — part of the problem. Nasoetion addresses the matter colourfully and bluntly, stating that the issue will not be resolved 'as long as a full professor's pay is less than half the starting salary of his or her advisee who became the manager of a hamburger joint'. Oey-Gardiner (and Clark and Oey-Gardiner [1991]) points out that at present there is simply no career path for those who wish to be high-quality lecturers. Daroesman and Hardjono point to the phenomenon of multiple jobs, of 'moonlighting', and to the fact that it actually becomes more widespread at senior — and better paid — positions. Hardjono, Singarimbun, Thee (Chapter 14), and Arndt also develop the case for higher academic salaries.

However, increased academic salaries are a necessary but not sufficient condition for improved teaching and research performance. There is also the need to inculcate an 'academic culture' in Indonesia, which is an eighth issue to emerge from these contributions. Some 20 years ago, the famous American anthropologist Clifford Geertz (1971; as quoted in McCawley, 1974) observed that the activities of Indonesian university staff members are characterised by a:

spasmodic quality — a kind of chronic distraction — [which] arises from the scattering of energies imposed by an irrational salary structure for academics which forces them into multiple occupations, and by the excess of essential tasks over people qualified to perform them.

Similarly, Thee, in a hard-hitting piece, notes that much intellectual life in Indonesia is characterised by a state of 'being busy', attending 'endless seminars' and writing quick reports, which result in 'prominence rather than eminence'. The result, sadly, is
that much of the sustained, in-depth scholarship is carried out by foreigners since, in Singarimbun's words, research is regarded as 'a form of income supplementation'. Thee, Arndt and others advocate higher academic salaries, but stress that this must be accompanied by other reforms, such as promotion by academic merit and through open competition, and the imposition of firm guidelines concerning outside activities and earnings. Singarimbun stresses the importance of research support facilities, especially good libraries. Hardjono worries that university students are not being encouraged to develop their critical faculties sufficiently, and that reading habits are poorly developed.

Ninth, and related to measures to improve academic standards, is devising a system which effectively utilises training and staff upgrading opportunities, especially those offered by foreign donors. Daroesman maintains that much more than money is required. There needs to be a targeting of potential applicants and institutions, and the necessary background preparation (especially language training) should be in place. She also stresses that long lead-times are involved, and that a strategy of positive discrimination may not work. Some of the weaker institutions have been unable to put forward a sufficient number of suitable candidates for advanced overseas training, resulting in unfilled quotas. In these cases, in-country training at the master or doctorate level may be more appropriate, allowing the stronger universities to send their junior staff abroad, in the process building a capacity to further develop the newer regional institutions.3

Finally, there is a range of issues related to the efficient internal organisation of institutes of higher education. Paradoxically, as Oey-Gardiner notes, the system is (still) very centralised, but wide variations in administrative organisations and practices persist. Sukadji pinpoints stronger organisational capacity as a priority area for the government. Daroesman points to widespread weaknesses in internal coordination and planning. Rigidities in administrative systems often result in inefficient utilisation of scarce capital resources, if complementary inputs are not also provided. There remains, also, a striking lack of mobility among academic staff, who in most cases are appointed to

3 An important early study of issues related to aid for Indonesian universities is McCawley (1974). Many of the points raised in this paper remain pertinent in the early 1990s.
institutions as junior teaching assistants and remain with that body for their working life. Structural rigidities, moreover, often hamper the effective utilisation of foreign aid resources.

If much of the analysis in this volume appears harsh, and does not appear to give adequate recognition to the many dedicated individuals working in the system against seemingly insuperable obstacles, it is because the development of the higher education system is critical to Indonesia's economic, social and political progress in the 1990s and beyond. All writers emphasise that the country has made tremendous progress in this area over the last quarter century. But the pressures on the system in coming years will not abate. Indeed they will intensify, as the bulge in primary and secondary school enrolments moves through the system, and as governments, business and the students themselves demand higher quality research and teaching. How institutes of higher education respond to the immense challenges outlined in this volume will in no small measure shape the future path of Indonesian development.
Part I

Recent Economic and Political Developments
The Adjustment Program in the Indonesian Economy since the 1980s*

Anwar Nasution

Introduction

For the Indonesian economy, the years 1987-90 constitute both the best of times and the worst of times. The period witnessed an unprecedented surge in investment, non-oil exports, private consumption and growth performance. This was accompanied by what appeared to be some steady improvement in the eradication of poverty, with the percentage of population living below the official poverty line falling from 40% in 1976 to 20% in 1987 (Mackie and Sjahrir, 1989). But it left a legacy of problems. Since early 1990, Indonesia has confronted serious crises in the forms of high inflation and interest rates, insufficient economic infrastructure, a widening current account deficit, a growing foreign debt problem, and a fragile financial system.

With the benefit of hindsight, it is not difficult to provide a broad interpretation of the Indonesian experience during that period. The early years were a period of great optimism as the perennial external constraint appeared to have been permanently relaxed. Thanks largely to a rapid increase in non-oil exports, following a series of deregulation measures introduced in October 1986, as well as inflows of private capital and the availability of new public borrowing, the current account deficit was reduced to $1.5 billion in 1988 to $1.3 billion in 1989 (Table 2.1). Partly as a consequence of this, the government encouraged state enterprises and the private sector to accelerate off-shore borrowing by providing

* For a fuller discussion of a number of points touched on in this paper see Nasution (1991b).
Table 2.1: Macroeconomic Indicators, 1987-1990

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<tr>
<td>1. Real GDP growth (%)</td>
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<tr>
<td>a. Non-oil</td>
<td>4.9</td>
<td>5.7</td>
<td>7.4</td>
<td>7.1</td>
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<tr>
<td>b. Oil/LNG</td>
<td>5.8</td>
<td>7.4</td>
<td>8.2</td>
<td>7.8</td>
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<tr>
<td></td>
<td>1.6</td>
<td>-0.6</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>2. Inflation (CPI) (%)</td>
<td>8.9</td>
<td>5.5</td>
<td>6.0</td>
<td>9.5</td>
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<tr>
<td>3. Rate of growth of money supply (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Narrow money (M1)</td>
<td>8.6</td>
<td>13.5</td>
<td>39.8</td>
<td>18.4</td>
</tr>
<tr>
<td>b. Broad money (M2)</td>
<td>22.5</td>
<td>23.9</td>
<td>39.8</td>
<td>44.2</td>
</tr>
<tr>
<td>4. Investments (as % of GDP)</td>
<td>29.2</td>
<td>26.3</td>
<td>27.8</td>
<td>28.8</td>
</tr>
<tr>
<td>5. Rate of growth of exports (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Non-oil/LNG</td>
<td>19.5</td>
<td>13.4</td>
<td>17.5</td>
<td>16.4</td>
</tr>
<tr>
<td>b. Oil/LNG</td>
<td>29.7</td>
<td>35.2</td>
<td>20.0</td>
<td>6.1</td>
</tr>
<tr>
<td></td>
<td>10.7</td>
<td>-8.6</td>
<td>13.8</td>
<td>32.7</td>
</tr>
<tr>
<td>6. Rate of growth of imports (%)</td>
<td>5.0</td>
<td>10.4</td>
<td>18.0</td>
<td>32.0</td>
</tr>
<tr>
<td>7. Current Account deficit ($ billion)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(as percentage of GNP)</td>
<td>2.3</td>
<td>1.5</td>
<td>1.3</td>
<td>3.4</td>
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<tr>
<td></td>
<td>4.2</td>
<td>3.2</td>
<td>2.2</td>
<td>3.5</td>
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explicit and implicit protection against foreign exchange risks. As the share of investment rose from 26% of GDP in 1988 to nearly 29% in 1990, the real rate of economic growth reached its zenith at 7.4% in 1989. When the economy became overheated in 1990, the government used high interest rates to cool it down.
Deregulation

As in other indebted countries, macroeconomic policy-makers in Indonesia have, since the early 1980s, been preoccupied with problems of external credit-worthiness. During 1982-85, the government mainly used discretionary measures to repress domestic expenditures in order to improve the current account. As expected, these policies caused severe distortions in prices and incentives with significant losses in growth, not necessarily accompanied by benefits in terms of equity.

With the objective of 'getting prices right', the government changed its strategy in October 1986 and introduced a comprehensive internal adjustment program, covering nearly all aspects on both the supply and demand sides of the economy. The program has aimed at both pro-growth and pro-equity objectives, premised on relatively stable prices, by raising production and domestic savings, by improving resource allocation through the more efficient operation of the market mechanism, and by generating a current account position consistent with the reduced external resource flows.

(a) The Sequencing Issue

Economic liberalisation or deregulation cannot be achieved overnight. In addition, the speed of adjustment or response to the deregulation measures varies in different parts of the economy. In general, product markets respond much slower than financial markets. This raises questions concerning the efficiency and equity of the adjustment program. Because of these issues, the economic literature poses an important question: what is the best order, or sequence, in which to carry out deregulation? Should deregulation in the domestic sector precede deregulation in the external account? In what sequence should capital controls and border protection be removed? This problem is known as the 'sequencing issue' in economic literature (see, for example: Edwards, 1986; McKinnon, 1986; Krueger, 1984 and Lal, 1987).

The sequence of economic liberalisation in Indonesia since the 1980s has been in reverse to the policy recommendations suggested by economic theory. Rather than starting with deregulation in the real sector, the first attempt of the government to restore the market place to the Indonesian economy was to remove the two most repressive controls in financial sector on 1 June 1983. This abolished the long-standing credit ceilings cum selective credit policy, and
reduced control on interest rates. The capital account of the balance of payments was liberalised earlier, in 1966. Since then the foreign exchange system has been free of restrictions on payments and transfers for current external transactions. Concurrently with the unification of the exchange rate in the early 1970s, there has been no 'surrender requirement' for export proceeds, nor tax or subsidy on the purchase or sale of foreign exchange.

One of the explanations of why the reverse sequence of deregulation has not caused major problems has been because of public confidence in the government's will and capacity to deliver the reforms. The credibility issue is important for two reasons: to thwart the political pressures of the affected domestic interest groups and to persuade foreign creditors to help finance the budget and balance of payment deficits. The availability of new resources has also enabled the government to ease the pain of economic adjustment by raising the prices of state-vended products gradually and by diverting more resources into social programs.

(b) Coverage
An important part of the adjustment program has been the combination of fiscal austerity, tight monetary policy and deregulation measures. The latter included major reforms of the fiscal system, financial sector, trade policy, investment licensing, transport regulations and administrative reforms to reduce transactions costs. From the microeconomic point of view, deregulation in Indonesia has had three connotations: lower barriers to market entry; a relaxation of constraints on the activities of the business sector; and limited privatisation, in the sense of transfer of enterprises from public ownership to the private sector.

The latest trade and investment policy reforms were announced on 3 June 1991. In addition, to avoid trade retaliation, Indonesia has agreed to accept more imports of films from the United States. As in the previous measures, the last reforms further reduced non-tariff barriers (NTBs) and replaced them with tariffs and export taxes, rationalised the tariff structure further, and opened several investment activities to domestic and private investment. The June 1991 package reduced the maximum tariff rates on finished goods from 40% to 30% and on intermediate goods to 15%.
(c) The Lingering Distortions
Deregulation, however, has left some (traded and non-traded) sectors of the economy untouched. NTBs and a web of non-transparent regulatory frameworks are still widespread in the non-traded sectors, such as public sector procurements (including state enterprises), land ownership, and concessionary rights to exploit natural resources such as tropical timber. Some commodities, such as raw and semi-processed rattan, sawn timber, garlic, cloves, iron and steel products, automotive assembly and parts, and portland cement, are subject to strict regulations. Domestic and international trade of food is controlled by Bulog (the Logistic Agency, a quasi-government institution), which operates a buffer stock for main staples such as rice, sugar and wheat flour. PT Bogasari, owned by a close confidant of President Suharto, holds monopoly rights to operate flour mills. The mechanism for distributing export quotas for textiles and garments is not transparent. The producer associations in the wood and rattan-based industries have the right to act as cartels. Exclusive rights were granted at the end of 1990 to BPPC (Badan Penyangga dan Pemasaran Cengkeh), a consortium of private traders who have powerful backing, to operate a buffer stock for clove.

Price Movements

A combination of internal and external factors has resulted in accelerated inflation in 1990. Measured by the new consumer price index introduced in April 1990, inflation rose to 9.9% in 1990, compared 6.1% in 1989 and 5.6% in 1988. The GDP deflator rose by 6.7% in 1990 and the wholesale price index by nearly 17% (Table 2.2). The large increase in the consumer price index occurred in the housing group, which rose by 13.1%, followed by miscellaneous items (12.2%), food (7.1%), and clothing (4.9%). The price of rice, the main staple food, grew by 4.3% in 1990.

Among the factors that triggered inflation were domestic demand pressures, capacity constraints, imported inflation, the presence of NTBs, and adjustments in the prices of state-vended products. In May 1990 the government raised the administrative prices of petroleum products by an average of 15%. This triggered increases in transport fares in the subsequent months. Domestic prices
Table 2.2: Indices of Inflation, 1986-90

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<tr>
<td>GDP deflator</td>
<td>0.41</td>
<td>5.9</td>
<td>7.6</td>
<td>0.1</td>
<td>0.7</td>
</tr>
<tr>
<td>(period average)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Consumer price index</td>
<td>9.2</td>
<td>9.3</td>
<td>5.6</td>
<td>6.1</td>
<td>9.9</td>
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<tr>
<td>Food</td>
<td>14.3</td>
<td>12.2</td>
<td>8.1</td>
<td>6.8</td>
<td>7.1</td>
</tr>
<tr>
<td>(of which rice)</td>
<td>(12.0)</td>
<td>(18.3)</td>
<td>(11.9)</td>
<td>(4.2)</td>
<td>(4.3)</td>
</tr>
<tr>
<td>Housing</td>
<td>4.7</td>
<td>6.1</td>
<td>4.3</td>
<td>6.3</td>
<td>13.1</td>
</tr>
<tr>
<td>Clothing</td>
<td>9.8</td>
<td>8.0</td>
<td>3.6</td>
<td>4.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Miscellaneous</td>
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<td>8.3</td>
<td>3.2</td>
<td>4.7</td>
<td>12.2</td>
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<tr>
<td>Wholesale price index</td>
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<td>12.0</td>
<td>4.8</td>
<td>7.8</td>
<td>16.9</td>
</tr>
<tr>
<td>(excluding oil/gas)</td>
<td>(20.2)</td>
<td>(8.4)</td>
<td>(5.7)</td>
<td>(7.2)</td>
<td>(8.4)</td>
</tr>
<tr>
<td>Agriculture</td>
<td>14.0</td>
<td>11.6</td>
<td>9.7</td>
<td>7.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Mining</td>
<td>8.3</td>
<td>5.4</td>
<td>7.3</td>
<td>8.8</td>
<td>11.9</td>
</tr>
<tr>
<td>Imports</td>
<td>24.8</td>
<td>6.6</td>
<td>4.3</td>
<td>9.5</td>
<td>8.7</td>
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<tr>
<td>Exports</td>
<td>11.4</td>
<td>20.8</td>
<td>0.8</td>
<td>8.9</td>
<td>47.8</td>
</tr>
<tr>
<td>(excluding oil/gas)</td>
<td>(41.4)</td>
<td>(8.5)</td>
<td>(3.9)</td>
<td>(3.2)</td>
<td>(3.1)</td>
</tr>
</tbody>
</table>


of fertilisers were raised by 10-15% in October 1990 and rice prices were adjusted upward by 9-10% in January 1991. To curb inflation in 1990, the government tightened liquidity and relaxed constraints on the supply of some traded goods. In October 1990, it banned the export of construction materials, such as portland cement and iron bars, and allowed the importation of a limited number of built-up trucks and buses. Imports of the latter, however, remain subject to quota and are exclusively reserved for the state-owned PT Krakatau Steel and PT Panca Niaga.

To maintain competitiveness of the economy in international markets, the government has set itself the objective of keeping inflation below 10% in 1991 despite the rise in the prices of petroleum products and electricity, and a 15% salary increase for civil servants in July this year.
Growth and Structural Change

For the second consecutive year, real GDP grew in 1990 by more than 7%, with non-oil GDP rising by 7.8% (Table 2.3). The driving force behind continued brisk economic activity in 1990 was the private sector. Real private consumption expenditure rose by nearly 10% in 1990. As the population grew by only 1.8%, per capita real private consumption expenditure rose by more than 7%. The response to deregulation measures has been a rapid growth in domestic and foreign private investment since 1988 to just under 20% in 1990. Domestic investment approvals, which had sagged in the mid-1980s, doubled in 1987 and have continued to rise rapidly. Similarly, after recording a rapid and steady decline since 1983, foreign investment approvals have increased since 1987.

Although not all these approvals have been implemented, the figures indicate a widening productive base of the economy and an increase in investment demand. A combination of factors, such as higher interest rates in both domestic and international financial markets, particularly in Japan, and infrastructure constraints, has tended to reduce implementation of private investment in recent years (Soesastro and Drysdale, 1990).

The bulk of new private investment approvals, outside the oil-related industries, are directed towards export activities, particularly in labour-intensive and resource-based manufacturing industries, where Indonesia has a comparative advantage. Of non-oil foreign investment during 1987-90, 48% was from Asian countries with more than a half of this from Japan. Some of the projects represent a relocation to Indonesia because of industrial restructuring in Japan and the Asian NIEs. Increasing labour costs, higher land prices, heightened concern about the environment and appreciation of their currencies have led these countries to relocate labour-intensive and resource-based industries off-shore and to concentrate on high-tech and knowledge-based activities which produce high value added products.

Growth in government consumption has been relatively modest, while government investment is mainly concentrated on economic infrastructure. The contribution of the external sector to GDP growth
Table 2.3: Structure and Rate of Growth of Gross Domestic Product, 1983-90

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<td>GDP at 1983 Market Prices</td>
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<td>(Rp billion)</td>
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</tr>
<tr>
<td>Of which: Oil and natural gas</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>77,623</td>
<td>94,518</td>
<td>99,936</td>
<td>107,321</td>
<td>114,921</td>
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<td>Of which: Non-oil and gas</td>
<td>17,333</td>
<td>19,390</td>
<td>19,267</td>
<td>20,049</td>
<td>20,866</td>
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<td></td>
<td>60,290</td>
<td>75,128</td>
<td>80,669</td>
<td>87,272</td>
<td>94,055</td>
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<td>Structure of Production (%)</td>
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</tr>
<tr>
<td>Agriculture</td>
<td>22.80</td>
<td>21.40</td>
<td>21.20</td>
<td>20.60</td>
<td>19.90</td>
</tr>
<tr>
<td>Mining &amp; quarrying</td>
<td>20.70</td>
<td>17.30</td>
<td>15.90</td>
<td>15.60</td>
<td>15.40</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>12.70</td>
<td>17.20</td>
<td>18.20</td>
<td>18.50</td>
<td>18.80</td>
</tr>
<tr>
<td>Electricity, gas &amp; water</td>
<td>0.40</td>
<td>0.50</td>
<td>0.05</td>
<td>0.60</td>
<td>0.60</td>
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<tr>
<td>Construction</td>
<td>5.90</td>
<td>5.10</td>
<td>5.30</td>
<td>5.50</td>
<td>5.50</td>
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<td>Transport and communication</td>
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<td>5.20</td>
<td>5.20</td>
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<tr>
<td>Services</td>
<td>32.10</td>
<td>33.30</td>
<td>33.70</td>
<td>34.00</td>
<td>39.70</td>
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<tr>
<td>Structure of Expenditure (%)</td>
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<tr>
<td>Private consumption</td>
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<td>55.20</td>
<td>54.30</td>
<td>52.60</td>
<td>53.90</td>
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<tr>
<td>Government consumption</td>
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<td>9.80</td>
<td>9.90</td>
<td>10.20</td>
<td>10.30</td>
</tr>
<tr>
<td>Gross domestic investment</td>
<td>29.70</td>
<td>29.20</td>
<td>26.30</td>
<td>27.80</td>
<td>28.80</td>
</tr>
<tr>
<td>Net exports</td>
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<td>5.80</td>
<td>9.50</td>
<td>9.40</td>
<td>7.20</td>
</tr>
<tr>
<td>Rate of Growth (%)</td>
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<td>1983-88</td>
<td></td>
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<tr>
<td>GDP</td>
<td>1.3</td>
<td>4.6</td>
<td>3.4</td>
<td>7.8</td>
<td>-</td>
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<tr>
<td>Agriculture</td>
<td>5.2</td>
<td>5.9</td>
<td>4.9</td>
<td>7.4</td>
<td>7.1</td>
</tr>
<tr>
<td>Mining &amp; quarrying</td>
<td>3.6</td>
<td>2.1</td>
<td>4.7</td>
<td>4.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.0</td>
<td>0.4</td>
<td>-2.9</td>
<td>5.3</td>
<td>5.6</td>
</tr>
<tr>
<td>Electricity, gas &amp; water</td>
<td>12.9</td>
<td>10.6</td>
<td>12.0</td>
<td>9.1</td>
<td>8.7</td>
</tr>
<tr>
<td>Construction</td>
<td>11.8</td>
<td>15.1</td>
<td>11.0</td>
<td>12.2</td>
<td>8.0</td>
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<tr>
<td>Services</td>
<td>11.0</td>
<td>4.2</td>
<td>9.5</td>
<td>11.6</td>
<td>8.3</td>
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<tr>
<td>Aggregate Expenditure</td>
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<td></td>
<td></td>
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<tr>
<td>General government consumption</td>
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<td>6.0</td>
<td>7.4</td>
<td>8.9</td>
<td>8.2</td>
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<tr>
<td>Private consumption</td>
<td>4.2</td>
<td>-0.2</td>
<td>7.6</td>
<td>10.5</td>
<td>7.9</td>
</tr>
<tr>
<td>Gross domestic investment</td>
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<td>3.3</td>
<td>3.9</td>
<td>4.2</td>
<td>9.6</td>
</tr>
<tr>
<td>Investment</td>
<td>3.4</td>
<td>5.5</td>
<td>11.5</td>
<td>13.4</td>
<td>19.9</td>
</tr>
<tr>
<td>Export</td>
<td>5.6</td>
<td>14.6</td>
<td>1.1</td>
<td>7.1</td>
<td>-</td>
</tr>
<tr>
<td>Import</td>
<td>-3.4</td>
<td>2.0</td>
<td>-8.7</td>
<td>7.7</td>
<td>-</td>
</tr>
</tbody>
</table>

*In 1989, the CBS released a revised national account series for the period 1983-88. Since the 1978-82 series has not yet been revised, it is not comparable with the 1983-90 series.

*Preliminary figures.

declined in 1990. The rate of growth of exports fell to 7.6% in 1990, from a little more than twice that (14.8%) in the preceding year. On the other hand, the rate of growth of imports nearly doubled in 1990 (at 25.4%) compared to 13.4% in 1989.

Partly owing to government's efforts to diversify the economy and partly due to the steady decline in the real price of oil, the share of the oil and gas sector in GDP declined from 22.3% at the end of the second oil boom in 1983 to 18.2% in 1990. On a sectoral basis, the share of agriculture in GDP continued its downward trend, falling to 20% in 1990. The rate of growth of this sector declined to 3.6% compared to 4.3% in 1989 and 4.7% in 1988. This reflects a levelling off in the rate of growth of rice production owing to a combination of climatic factors that produced a bumper harvest in 1989. The share of mining and quarrying in GDP also showed a downward trend to 15.4% in 1990, with value added rising by less than 3%. The increase in the price of oil following the Gulf crisis of 1990-91, and an increase in production of copper, bauxite and gold, only partly offset the decline in the prices of non-oil mineral products.

Manufacturing production continued to grow rapidly, at nearly 12% in 1990, raising the sector's share in GDP further to nearly 19%. This sector has been the primary target of deregulation since the mid-1980s. The expansion of non-oil/LNG manufacturing was concentrated in export industries, particularly textiles, footwear, and electrical good, as well as in intermediate products and the motor vehicle industries, oriented mainly to the domestic market. Wood-based industry suffered from a recession in the housing and construction sector, both in the domestic market and OECD countries.

Rapid expansion in economic activity created demand for utilities, construction and services. In 1990 these sectors grew by 17%, 12% and 8% respectively. To meet the growing demand for electricity on Java, five new power plants are being constructed by PLN (the state electricity company) with a combined capacity of 3,650 megawatts. These power plants are scheduled to commence operating between 1992 and 1994. The private sector has also responded to government's invitation to invest in infrastructure, provided the prices are right.
The Government Budget

As in other oil exporting countries, government revenue in Indonesia is heavily dependent on taxes on oil and natural gas. The budget outturn for 1990/91 (Table 2.4) was substantially more favourable than expected because the actual average oil price ($23.5 per barrel) was more than 40% higher than the price assumed in the budget ($16.5 per barrel). Tax on oil and gas contributed to more than 29% of total revenue in 1990/91.

The possibility of higher oil prices (than the assumed price at $19/barrel) for the remainder of 1991-92 offers the chance of substantial budgetary and foreign exchange gains. These will compensate for the reduction in concessional special assistance from its Western creditors (the IGGI), particularly from Japan, the World Bank and The Asian Development Bank. In fact, Rp 2 trillion of the oil windfall in 1990/91 fiscal year was paid into a reserve fund for development expenditure. This also helped sterilise the monetary impacts of the oil windfall.

Collections from non-oil/LNG taxes surpassed the budget estimates. Non-oil/LNG revenues are mainly generated from taxes on domestic consumption and on international trade. In spite of the encouraging progress, however, the 13% ratio of non-oil revenues to non-oil GDP in 1990/91 remains low by international standards. In 1989 the ratios of tax to GNP for Thailand and the Philippines, for example, were 18.9% and 17.2% respectively. The low collections of non-oil tax revenue are a sign of low tax compliance, which indicates a need for further improvements in tax administration, the treatment of state enterprises as well as in accounting and legal systems.

On the expenditure side, foreign debt service has been increasing since the second half of the 1980s. Part of this was due to currency realignments, particularly the appreciation of Japanese yen vis-a-vis the US dollar during the 1984-86 period. For the fiscal year 1990/91 debt service payments accounted for 44.6% of routine expenditures and 28.4% of the total budget compared to 29.4% and 14% in 1984/85. About 47% of routine expenditure, or 28.4% of total outlays, in 1991/92 is allocated for foreign debt repayments.

Because of the growing debt service, cutting the level of other public expenditures has been an essential element in the austerity program since the 1980s. The cuts in public expenditures mainly affected subsidies on products of state enterprises and the salary...
### Table 2.4: Government Budget, 1980/81-1991/92 (Rp billion)

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<tbody>
<tr>
<td><strong>1. Domestic Revenue</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>10,227</td>
<td>19,253</td>
<td>23,004</td>
<td>28,740</td>
<td>39,546</td>
<td>40,184</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>(a) Tax on non-oil income</td>
<td>1,210</td>
<td>2,481</td>
<td>4,374</td>
<td>6,078</td>
<td>7,566</td>
<td>8,860</td>
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<tr>
<td>(b) Corporate tax on oil/LNG</td>
<td>7,020</td>
<td>11,144</td>
<td>9,527</td>
<td>11,252</td>
<td>17,712</td>
<td>15,009</td>
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<tr>
<td>(c) Taxes on domestic consumption</td>
<td>733</td>
<td>3,479</td>
<td>6,187</td>
<td>7,589</td>
<td>9,624</td>
<td>10,790</td>
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<tr>
<td>(d) Taxes on international trade</td>
<td>948</td>
<td>858</td>
<td>1,348</td>
<td>1,759</td>
<td>2,580</td>
<td>2,695</td>
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<td><strong>2. Routine Expenditures</strong></td>
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<td></td>
<td>5,800</td>
<td>11,952</td>
<td>20,739</td>
<td>24,331</td>
<td>29,998</td>
<td>30,558</td>
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<td>Of which: debt service payments</td>
<td>785</td>
<td>3,323</td>
<td>10,940</td>
<td>11,930</td>
<td>13,395</td>
<td>14,381</td>
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<td><strong>3. Government saving (1-2)</strong></td>
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<tr>
<td></td>
<td>2,635</td>
<td>7,301</td>
<td>2,285</td>
<td>4,409</td>
<td>9,548</td>
<td>9,626</td>
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<td><strong>4. Development Expenditure</strong></td>
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<td></td>
<td>5,916</td>
<td>10,873</td>
<td>12,251</td>
<td>13,834</td>
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<td>Of which:</td>
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<tr>
<td>(a) Agriculture and irrigation</td>
<td>929</td>
<td>1,138</td>
<td>1,614</td>
<td>2,049</td>
<td>2,692</td>
<td>2,816</td>
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<td>(b) Electric power</td>
<td>431</td>
<td>1,447</td>
<td>1,955</td>
<td>1,397</td>
<td>1,759</td>
<td>2,210</td>
</tr>
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<td>(c) Transport and tourism</td>
<td>781</td>
<td>1,484</td>
<td>2,011</td>
<td>3,008</td>
<td>3,042</td>
<td>3,968</td>
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<tr>
<td>(d) Regional development</td>
<td>482</td>
<td>850</td>
<td>1,137</td>
<td>1,389</td>
<td>1,873</td>
<td>2,409</td>
</tr>
<tr>
<td>(c) Education</td>
<td>575</td>
<td>1,413</td>
<td>1,606</td>
<td>1,507</td>
<td>2,265</td>
<td>2,503</td>
</tr>
<tr>
<td><strong>5. Balance (3-4)</strong></td>
<td>1,489</td>
<td>3,572</td>
<td>9,985</td>
<td>9,426</td>
<td>9,904</td>
<td>10,372</td>
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<tr>
<td><strong>6. Finance by:</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>(a) Program aid</td>
<td>64</td>
<td>69</td>
<td>2,041</td>
<td>1,007</td>
<td>1,397</td>
<td>1,538</td>
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<tr>
<td>(b) Project aid</td>
<td>1,403</td>
<td>3,503</td>
<td>7,950</td>
<td>8,422</td>
<td>8,508</td>
<td>8,834</td>
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<tr>
<td>(c) Change in balances</td>
<td>(5)</td>
<td>(1)</td>
<td>(2)</td>
<td>(4)</td>
<td>(1)</td>
<td>(0)</td>
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</tbody>
</table>

component of the budget. Salaries of civil servants were frozen during 1985-88 and increased by 10% and 5% in January and April 1989 respectively, and by another 10% in January 1990. The 15% raise in salary for civil servants, effective from July 1991, will raise government spending by Rp 1.1 trillion in the 1991/92 budget. Part of the increased expenditure will be compensated for by the reduction in subsidies on refined oil and electricity, the prices of which were raised by an average of 17.7% and 20% respectively on 10 July 1991.

As the tax system remains inflexible, inefficient and regressive, the government uses the expenditure side of the budget to pursue its equity objectives. For this objective the government has diverted more resources to social programs and for the operation of existing government projects which are likely to increase employment opportunities and yield social rates of return, and which are essential for long-term growth. Such sectors include agriculture, economic infrastructure, primary and secondary education, and population and rural health programs.

Monetary Sector

Experience during the 1989-90 period shows that there are two potential danger spots in Indonesia's financial system in 1990s. Monetary policy remains inflexible because the credit system retains two self-destructive features, namely, it is fragmented and procyclical. This and the subsidy on foreign borrowings are compelling Bank Indonesia to adopt a tight monetary policy. The problem became more serious as the authorities resorted to non-market based instruments to attain their objectives. The problem relates to the fragility of the banking system.

(a) Monetary Aggregates

From 1989 until mid-1990, the authorities directed monetary policy to achieving lower interest rates. Bank Indonesia had allowed money and credit to expand substantially since 1989, following the October 1988 financial reforms (Pakto), and they continued to grow rapidly in 1990. Narrow money (M1) grew by 9.7% in 1990, at more or less the same rate as inflation, while broad money (M2) grew by 34% (Table 2.5). Bank credit grew by 57.1%, mainly to finance the
<table>
<thead>
<tr>
<th>Monetary Survey</th>
<th>In billions of rupiah</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Net Foreign Assets</td>
<td>8,419</td>
</tr>
<tr>
<td>2. Domestic Credit</td>
<td>11,069</td>
</tr>
<tr>
<td>a. Claims on central government</td>
<td>-4,938</td>
</tr>
<tr>
<td>b. Claims on official entities</td>
<td>4,682</td>
</tr>
<tr>
<td>c. Claims on private sector</td>
<td>10,934</td>
</tr>
<tr>
<td>d. Claims on other financial inst.</td>
<td>391</td>
</tr>
<tr>
<td>3. Broad Money (M2)</td>
<td>14,669</td>
</tr>
<tr>
<td>a. Narrow money (M1)</td>
<td>7,576</td>
</tr>
<tr>
<td>b. Quasi money</td>
<td>7,093</td>
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<tr>
<td>4. Restricted Deposits</td>
<td>316</td>
</tr>
<tr>
<td>5. Other Items (net)</td>
<td>4,503</td>
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</table>

<table>
<thead>
<tr>
<th>Percentage change over preceding year</th>
</tr>
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<tbody>
<tr>
<td>1. Net Foreign Assets</td>
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<td>2. Domestic Credit</td>
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<tr>
<td>a. Claims on central government</td>
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<tr>
<td>b. Claims on official entities</td>
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<tr>
<td>c. Claims on private sector</td>
</tr>
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<td>d. Claims on other financial inst.</td>
</tr>
<tr>
<td>3. Broad Money (M2)</td>
</tr>
<tr>
<td>a. Narrow money (M1)</td>
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<td>b. Quasi money</td>
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<td>4. Restricted Deposits</td>
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<td>5. Other Items (net)</td>
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Table 2.5 (cont.): Monetary Survey, 1983-90

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<tbody>
<tr>
<td>1. Interest Rates</td>
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<td></td>
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<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>a. Money market rate</td>
<td>13.17</td>
<td>18.63</td>
<td>10.33</td>
<td>13.00</td>
<td>14.52</td>
<td>15.00</td>
<td>12.57</td>
<td>14.35</td>
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<tr>
<td>b. Deposit rate(a)</td>
<td>6.00</td>
<td>16.00</td>
<td>18.00</td>
<td>15.39</td>
<td>16.78</td>
<td>17.72</td>
<td>18.60</td>
<td>18.12</td>
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<tr>
<td>c. Lending rate(b)</td>
<td>12.00</td>
<td>12.00</td>
<td>18.70</td>
<td>21.49</td>
<td>21.67</td>
<td>22.10</td>
<td>21.70</td>
<td>21.2</td>
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<tr>
<td>2. Cambridge 'k' (M1/GDP)</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
<td>0.11</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
<td>-</td>
</tr>
<tr>
<td>3. Inflation Rates</td>
<td>1.00</td>
<td>9.10</td>
<td>4.40</td>
<td>9.10</td>
<td>9.30</td>
<td>5.60</td>
<td>6.10</td>
<td>9.53</td>
</tr>
<tr>
<td>4. Growth Rate of Bank Funds</td>
<td>1.00</td>
<td>15.3</td>
<td>15.4</td>
<td>10.2</td>
<td>8.9</td>
<td>20.3</td>
<td>48.9</td>
<td>16.1</td>
</tr>
<tr>
<td>a. Demand deposits</td>
<td>13.13</td>
<td>28.5</td>
<td>45.3</td>
<td>9.0</td>
<td>50.3</td>
<td>32.5</td>
<td>41.2</td>
<td>52.8</td>
</tr>
<tr>
<td>b. Time deposits</td>
<td>-29.3</td>
<td>-42.1</td>
<td>35.4</td>
<td>25.2</td>
<td>35.6</td>
<td>125.5</td>
<td>8.0</td>
<td>16.0</td>
</tr>
<tr>
<td>c. Saving deposits</td>
<td>21.3</td>
<td>23.8</td>
<td>39.8</td>
<td>48.1</td>
<td>15.9</td>
<td>34.0</td>
<td>142.0</td>
<td>85.3</td>
</tr>
</tbody>
</table>

\(a\) Interest rate on one-year time deposit at state banks.
\(b\) Lending rate on investment credit.

insatiable demand of the private sector in an environment of investment boom and rising consumer expenditure.

The rapid growth in money supply and credit can be explained from a microeconomic point of view. Flush with excess liquidity after deregulation, banks rapidly expanded branch networks and credit and cut interest rates. To survive in a more competitive market, banks also diversified their products and improved their non-price incentives to attract customers. The increase in liquidity was generated by the reduction in the reserve requirement ratio from 15% to 2%, the increased mobilisation of deposits, the increase in exports, and new inflows of off-shore loans. The increased used of demand deposits as a means of transaction and the reduction in the reserve requirement ratio drove up the money multiplier and the velocity of money, as well as the ability of the banking system to create money. The first two factors also explain the slower growth of M1 compared to M2.

Figure 2.1: Interest Rates on Deposits and Credits, 1989-90 (%)

*Weighted average interest on credits to non-priority sectors.

As the economy became overheated in 1990, with the widening current account deficit, the authorities redirected their attention to foreign exchange reserves, which they sought to defend at all costs, allowing interest rates to sky-rocket (Figure 2.1). In April 1990, Bank Indonesia started to withdraw outstanding liquidity credits, eliminated the subsidy on swap premium, commenced selling its certificates (SBIs) directly to institutional investors, stopped buying money market instruments (SBPUs), and reduced access of financial institutions to international financial markets in January 1991.

As the market-based monetary instruments were perceived to be inadequate, the authorities resorted to a non-market policy, by ordering non-bank state-enterprises to convert their bank deposits, mainly at state banks, into certificates issued by the central bank. By 'clobbering' the state enterprises, the 'shock' withdrew Rp 10 trillion of the monetary base in February 1990. The rise in interest rates, however, was also due to the continuing high cost of financial intermediation (Conroy and Drake, 1990) and to rising borrowing costs in international financial markets.

(b) Fragmented and Pro-cyclical Credit Policy
The new government credit policy retains four liquidity credit programs, introduces regulations laying down legal lending limits, and mandates domestic banks to allocate a minimum 20% of their loan portfolios to small-scale firms and cooperatives (Kredit Usaha Kecil, or KUK). Concessionary credit programs were also made available in May 1991 for BPIC to finance its buffer stock of cloves. Foreign banks are required to extend 50% of their lending for export-oriented activities. The legal lending limits regulations are liable to affect growth since the limits impose constraints on access to credit for scarce entrepreneurs.

(c) Fragile Banking Industry
The past two years have witnessed a rising trend of over-dependency of the banking system on off-shore financing, bad debts and banking failures. Traditionally, the commercial banks (particularly the state banks) have had nearly unlimited access to central bank finance and to concessional funds from the government. In reaction to the contraction in central bank credit and conversion of public deposits to central bank certificates (SBIs), commercial banks
Table 2.6: Liquidity Position of Commercial Banks, 1985-90  
(Rp billion)

<table>
<thead>
<tr>
<th>End of period</th>
<th>Rupiah Current Liabilities</th>
<th>Rupiah Liquid Assets</th>
<th>Minimum Reserve Requirements</th>
<th>Rupiah Excess Reserves</th>
<th>SBIs held by Commercial Banks</th>
<th>SBPUs sold in the Market</th>
<th>Rupiah Excess Liquidity</th>
<th>Excess NFA held by Banks</th>
<th>Potentially Available Excess Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985 March</td>
<td>10,188</td>
<td>1,933</td>
<td>1,528</td>
<td>405</td>
<td>243</td>
<td>-</td>
<td>648</td>
<td>2,194</td>
<td>2,842</td>
</tr>
<tr>
<td>June</td>
<td>10,823</td>
<td>1,783</td>
<td>1,623</td>
<td>160</td>
<td>3</td>
<td>92</td>
<td>255</td>
<td>2,230</td>
<td>2,485</td>
</tr>
<tr>
<td>September</td>
<td>11,539</td>
<td>1,909</td>
<td>1,731</td>
<td>178</td>
<td>366</td>
<td>74</td>
<td>618</td>
<td>2,295</td>
<td>2,913</td>
</tr>
<tr>
<td>December</td>
<td>12,489</td>
<td>1,871</td>
<td>1,874</td>
<td>-3</td>
<td>755</td>
<td>61</td>
<td>813</td>
<td>2,273</td>
<td>3,086</td>
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<tr>
<td>1986 March</td>
<td>9,678</td>
<td>1,792</td>
<td>1,452</td>
<td>340</td>
<td>490</td>
<td>3</td>
<td>833</td>
<td>2,143</td>
<td>2,976</td>
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<tr>
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<td>9,764</td>
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<td>1,465</td>
<td>185</td>
<td>849</td>
<td>54</td>
<td>1,088</td>
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<tr>
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<td>10,640</td>
<td>1,514</td>
<td>1,595</td>
<td>-81</td>
<td>1,013</td>
<td>123</td>
<td>1,055</td>
<td>3,446</td>
<td>4,501</td>
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<td>1,678</td>
<td>1,691</td>
<td>-13</td>
<td>302</td>
<td>-</td>
<td>299</td>
<td>3,065</td>
<td>3,354</td>
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<td>1987 March</td>
<td>14,037</td>
<td>2,195</td>
<td>2,106</td>
<td>89</td>
<td>105</td>
<td>26</td>
<td>220</td>
<td>2,613</td>
<td>2,833</td>
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<tr>
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<td>2,249</td>
<td>2,153</td>
<td>96</td>
<td>32</td>
<td>469</td>
<td>597</td>
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<td>2,420</td>
<td>2,391</td>
<td>29</td>
<td>760</td>
<td>-</td>
<td>809</td>
<td>2,729</td>
<td>3,538</td>
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<tr>
<td>December</td>
<td>16,917</td>
<td>2,692</td>
<td>2,538</td>
<td>154</td>
<td>275</td>
<td>-</td>
<td>429</td>
<td>2,391</td>
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<td>1988 March</td>
<td>17,503</td>
<td>3,138</td>
<td>2,626</td>
<td>512</td>
<td>25</td>
<td>-</td>
<td>537</td>
<td>1,235</td>
<td>1,772</td>
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<td>2,829</td>
<td>28</td>
<td>690</td>
<td>50</td>
<td>768</td>
<td>1,068</td>
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<td>3,035</td>
<td>113</td>
<td>590</td>
<td>-</td>
<td>703</td>
<td>922</td>
<td>1,625</td>
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<td>575</td>
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<td>1,254</td>
<td>-</td>
<td>2,437</td>
<td>714</td>
<td>3,151</td>
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<td>1,627</td>
<td>510</td>
<td>1,117</td>
<td>647</td>
<td>13</td>
<td>1,777</td>
<td>488</td>
<td>2,265</td>
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<tr>
<td>February</td>
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<td>1,684</td>
<td>618</td>
<td>1,066</td>
<td>772</td>
<td>32</td>
<td>1,870</td>
<td>1,021</td>
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<td>630</td>
<td>1,366</td>
<td>444</td>
<td>-</td>
<td>1,810</td>
<td>1,091</td>
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<td>659</td>
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<td>613</td>
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<td>683</td>
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<td>2,156</td>
<td>-</td>
<td>3,076</td>
<td>809</td>
<td>3,885</td>
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</table>
Table 2.6 (cont.): Liquidity Position of Commercial Banks, 1985-90
(Rp billion)

<table>
<thead>
<tr>
<th>End of period</th>
<th>Rupiah Current Liabilities</th>
<th>Rupiah Minimum Reserve Requirements</th>
<th>Rupiah Excess Reserves</th>
<th>SBIs held by Commercial Banks</th>
<th>SBPUs sold in the Market</th>
<th>Rupiah Excess Liquidity</th>
<th>Excess NFA held by Banks</th>
<th>Potentially Available Excess Reserves</th>
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<tr>
<td>1989</td>
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<td></td>
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<tr>
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<td>1,670</td>
<td>699</td>
<td>971</td>
<td>2,368</td>
<td>-</td>
<td>3,339</td>
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<td>723</td>
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<td>2,472</td>
<td>-</td>
<td>3,514</td>
<td>990</td>
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<td>769</td>
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<td>2,483</td>
<td>-</td>
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<td>956</td>
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<td>-</td>
<td>3,937</td>
<td>667</td>
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<td>1,897</td>
<td>814</td>
<td>1,083</td>
<td>3,419</td>
<td>-</td>
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<td>843</td>
<td>1,493</td>
<td>2,886</td>
<td>-</td>
<td>4,379</td>
<td>-524</td>
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<tr>
<td>1990</td>
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<td>133</td>
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<td>926</td>
<td>1,868</td>
<td>2,216</td>
<td>253</td>
<td>4,337</td>
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<td>48,588</td>
<td>3,100</td>
<td>972</td>
<td>2,128</td>
<td>1,905</td>
<td>983</td>
<td>5,016</td>
<td>-2,125</td>
</tr>
<tr>
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<td>44,497</td>
<td>1,629</td>
<td>990</td>
<td>639</td>
<td>1,931</td>
<td>-</td>
<td>2,570</td>
<td>-3,445</td>
</tr>
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<td>51,448</td>
<td>2,308</td>
<td>1,029</td>
<td>1,279</td>
<td>2,061</td>
<td>-</td>
<td>3,340</td>
<td>-3,899</td>
</tr>
<tr>
<td>July</td>
<td>53,100</td>
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<td>1,062</td>
<td>1,305</td>
<td>2,061</td>
<td>-</td>
<td>3,371</td>
<td>-6,367</td>
</tr>
<tr>
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<td>2,540</td>
<td>1,137</td>
<td>1,403</td>
<td>2,140</td>
<td>-</td>
<td>3,543</td>
<td>-8,714</td>
</tr>
<tr>
<td>September</td>
<td>59,777</td>
<td>2,185</td>
<td>1,196</td>
<td>989</td>
<td>1,412</td>
<td>-</td>
<td>2,401</td>
<td>-10,467</td>
</tr>
<tr>
<td>October</td>
<td>59,395</td>
<td>2,296</td>
<td>1,188</td>
<td>1,108</td>
<td>1,079</td>
<td>-</td>
<td>2,187</td>
<td>-11,854</td>
</tr>
<tr>
<td>November</td>
<td>61,048</td>
<td>2,249</td>
<td>1,221</td>
<td>1,028</td>
<td>1,094</td>
<td>-</td>
<td>2,122</td>
<td>-11,964</td>
</tr>
<tr>
<td>December</td>
<td>61,621</td>
<td>2,709</td>
<td>1,232</td>
<td>1,477</td>
<td>1,529</td>
<td>-</td>
<td>3,006</td>
<td>-14,059</td>
</tr>
</tbody>
</table>

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*a* Between January 1978 and November 1988, equal to 15% of current liabilities; since December 1988 equal to 2% of current liabilities.

*b* Outstanding SBIs, issuance less repayment.

*c* Outstanding SBPUs, issuance less repayment.

*d* Commercial banks' net foreign assets less their foreign currency liabilities to domestic residents.

Source: Bank Indonesia, Indonesian Financial Statistics, various issues.
have resorted to large scale off-shore borrowings. There is an attraction to borrow from overseas since, at times, Bank Indonesia sets the swap premium at a preferential rate. Implicit guarantees and subsidies were provided for foreign borrowings of a number of state enterprises and the well-connected conglomerates. Table 2.6 shows the commercial banks have been overloaned and have had an increasing negative net foreign assets position since December 1989.

The rising trend of bad debt started with real estate and consumer loans, which contribute little to output and exports. The slow down of non-oil exports and the 'mega projects' of private conglomerates have aggravated problems, while 'bad banking' such as inadequate risk assessment, poor management controls and obsession with market share, have made matters worse. All of these have led to the credit crunch and bank failures as in the cases of PT Bank Umum Majapahit and PT Bank Duta in 1990.

The problems have arisen partly from the failure of the regulators, including the central bank, to maintain adequate surveillance. It takes time to add to the stock of qualified personnel in the country. It has therefore proved difficult to keep up with the new regulations and the expanding number of financial institutions. Officially, the use of foreign borrowings is limited to the financing of non-oil export activities. In practice, however, Bank Indonesia is unable to enforce this ruling. Prior to the 1988 financial deregulation, Indonesia had only 111 banks and 1,728 bank offices. By the end of 1990, there were more than 171 banks and 3,563 offices. In addition, Bank Indonesia is now responsible for supervising 12 NBFIs and more than 8,000 banks in villages scattered all over Indonesia. As Indonesia has no deposit-insurance scheme, the regulators encourage bank take-overs and mergers and use public funds to bail out the well-connected banks. Examples of the latter are the bail out of PT Bank Danamon and PT Bank Summa in 1990.

The Balance of Payments

Despite the rapid growth in non-oil exports and capital inflows, and the oil price windfall, the external balance position of Indonesia deteriorated in 1990 (Table 2.7). The current account deficit in 1990/91 ($3.8 billions) was more than twice as large as in the previous year, as imports continued to surge while the rate of
## Table 2.7: Balance of Payments, 1988/89 to 1992/93

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>19.8</td>
<td>23.6</td>
<td>28.1</td>
<td>30.1</td>
<td>32.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil and LNG</td>
<td>7.6</td>
<td>9.3</td>
<td>12.6</td>
<td>11.1</td>
<td>9.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td>-16.2</td>
<td>-19.5</td>
<td>-26.0</td>
<td>-28.2</td>
<td>-30.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade balance</td>
<td>3.6</td>
<td>4.1</td>
<td>2.1</td>
<td>1.9</td>
<td>2.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net non-factor service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest payments</td>
<td>-1.2</td>
<td>-1.2</td>
<td>-0.7</td>
<td>-0.6</td>
<td>-0.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other factor services</td>
<td>-3.0</td>
<td>-3.1</td>
<td>-3.1</td>
<td>-3.9</td>
<td>-4.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and transfers (net)</td>
<td>-1.3</td>
<td>-1.6</td>
<td>-2.1</td>
<td>-1.7</td>
<td>-1.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account balance</td>
<td>-1.9</td>
<td>-1.9</td>
<td>-1.8</td>
<td>-3.8</td>
<td>-4.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil/LNG current account</td>
<td>3.0</td>
<td>3.9</td>
<td>5.9</td>
<td>4.2</td>
<td>3.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-oil current account</td>
<td>-4.9</td>
<td>-5.7</td>
<td>-9.7</td>
<td>-8.5</td>
<td>-7.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public borrowings (net)</td>
<td>3.2</td>
<td>1.5</td>
<td>0.5</td>
<td>0.6</td>
<td>0.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursements</td>
<td>7.3</td>
<td>6.1</td>
<td>4.9</td>
<td>5.3</td>
<td>5.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal repayments</td>
<td>-4.1</td>
<td>-4.6</td>
<td>-4.4</td>
<td>-4.7</td>
<td>-4.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other capital (net)</td>
<td>-1.6</td>
<td>0.3</td>
<td>7.4</td>
<td>3.7</td>
<td>3.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use of net foreign assets</td>
<td>0.3</td>
<td>0.0</td>
<td>-4.1</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Memo items:**

<table>
<thead>
<tr>
<th>($ billion)</th>
<th>($ in months of imports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.4</td>
<td>3.3</td>
</tr>
<tr>
<td>5.7</td>
<td>2.6</td>
</tr>
<tr>
<td>9.1</td>
<td>3.9</td>
</tr>
<tr>
<td>9.1</td>
<td>3.6</td>
</tr>
<tr>
<td>9.1</td>
<td>3.3</td>
</tr>
</tbody>
</table>

**Total net foreign assets**

<table>
<thead>
<tr>
<th>($ billion)</th>
<th>10.6</th>
<th>10.6</th>
<th>14.7</th>
<th>14.7</th>
<th>14.7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account/GNP (%)</td>
<td>-2.3</td>
<td>-2.0</td>
<td>-3.8</td>
<td>-4.1</td>
<td>-3.6</td>
</tr>
<tr>
<td>Non-interest CA/GNP (%)</td>
<td>2.1</td>
<td>2.2</td>
<td>0.1</td>
<td>0.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Public debt service/exports (%)</td>
<td>34.4</td>
<td>31.6</td>
<td>27.3</td>
<td>31.2</td>
<td>30.9</td>
</tr>
</tbody>
</table>

growth of exports declined. The current account deficit for the fiscal year 1991/92 is projected at $2.4 billion. The deterioration in exports is due to sluggish demand and prices for non-oil exports and to the diversion of traded goods from the external to the domestic market. The strongest increase in imports in 1990 was in capital goods followed by consumer and intermediate goods (Figure 2.2), reflecting the investment boom and the increase in consumer expenditures.

Figure 2.2: Imports by Economic Category, 1975-90
(US$ million)

(a) Financing of the Current Account Deficit
The past two years have also witnessed a significant change in the source of finance for the current account deficit. Private capital inflows and a reduction in net foreign assets of commercial banks in 1990/91 outweigh the decline in net public borrowing and the deficit on the current account. This allowed an increase in the net foreign reserves of Bank Indonesia, to more than $8 billion at the end of 1990, equivalent to more than two months imports in that year. Nearly half of these reserves, however, comprised swaps which are a contingent liability of the central bank.
(b) External Debt and Debt Service Ratio

Public outstanding external debt rose from $13.4 billion at the end of 1980 to $26.8 billion in 1985 and to $44.3 billion at the end of 1990. There are no reliable data on the private sector's external debt because there is no compulsory requirement to report private external borrowings to the authorities. The Bank for International Settlements (BIS) estimated the external debt of the private sector stood at $21 billion in 1990. This puts Indonesia's total external debt at $66 billion or 59% of GDP in 1990.

Despite the growing burden of debt repayments, the government has repeatedly announced that it has, nonetheless, no desire for a repayment moratorium or for rescheduling of its external debt. Rather than signing the IMF standby arrangement or appealing to the Paris Club, Indonesia has adopted a strategy of maximising concessionary loans from its Western creditors (IGGI). The credit, such as the trade policy loans and the 'special assistance' loans, can be quickly disbursed to support both the public budget and the balance of payments; these loans have also improved significantly the overall maturity structure of Indonesia's external debt.

Thanks to the availability of concessionary loans and rapid increases in non-oil exports since 1987, the public debt service ratio (debt service as percentage of gross exports and services) declined from 29% in 1988/89 to 26.6% in 1989/90 and to 23% in 1990/91. Based on limited information, the World Bank estimates that private debt service has been around 5% of gross export and services since 1988. This suggests Indonesia's total debt service ratio was approximately 34% in 1988/89, 31% in 1989/90 and 27% in 1990/91.

The World Bank predicts that the debt service ratio will reach its peak in 1991/92 and show a downward trend thereafter. Such a favourable outcome will materialise only if the Uruguay Round trade negotiations make progress, if the rise in interest rates in international financial markets abates, if domestic economic inefficiencies are corrected, and if the proposed 'mega projects' do in fact contribute to non-oil exports. Otherwise, Indonesia will face a difficult problem as most of the increasing private debt is of short-term maturity and at floating rates.
The Impact of Deregulation on Income Distribution

There is no comprehensive and recent information on income distribution in Indonesia. The reduction in the percentage of the population below the official poverty line and the consistent decline in the gini coefficient do not necessarily mean improved income distribution. Modern consumption theories indicate that income and wealth are typically less equally distributed than spending.

Patchy information suggests that successive deregulation measures have produced mixed results on income distribution during the 1987-91 period. On the one hand, improvements in economic efficiency, mostly in the traded sector, have contributed to an improvement in income distribution. The increase in economic activities in the non-oil sector tends to increase labour demand.

On the other hand, there are many factors that could lead to a deteriorating income distribution. First, real wages may decline due to a combination of high inflation and a wage freeze in a 'labour surplus' economy such as Indonesia's. Second, the real estate boom in the big cities, mainly in Jakarta and Surabaya, in 1987-90, has driven up the price of land and houses beyond the reach of the poor majority. This has forced the poor to move further out to the underdeveloped urban periphery where basic facilities and job opportunities are lacking. The alternative is the cramped life of the slums. Third, the credit crunch makes banks more selective in lending, including for the mandated small-scale enterprises credit (KUK), and places greater consideration on long-term customer relations and on collateral, which both the poor and 'newcomers' rarely possess.

Lastly, there remain two negative impacts on income distribution of the regulatory framework which linger in some sectors of the economy. First, the regulatory framework raises the price of non-traded goods relative to traded ones. This misaligns the foreign exchange rate — the price ratio of those two goods — and thereby affects non-oil exports unfavourably. Second, some regulations directly contribute to the widening gap between rich and poor because there is overwhelming evidence that certain individuals and groups with strong links to the regime have benefited enormously from economic rents created by it. These are the very groups that benefited from the lucrative concessions and monopolies before deregulation (Hill, 1990). The negative effects cannot be rectified merely by calling on private conglomerates to sell
25% of their shares to employees and associated cooperatives, nor by forcing state enterprises to become 'foster parents' to small-scale enterprises.
This chapter examines a series of issues which assumed political significance during the period July 1990-June 1991, and then examines their implication for future political developments.

Presidency

Speculation about the succession to the Indonesian presidency has become one of the longest-running melodramas on the international stage. It is a melodrama in several acts, each set about five years apart. In each episode, members of the audience are invited to consider the question: 'Will he or won't he?' 'Will they or won't they?' And in the most recent episode, even 'Will she or won't she?' In all these episodes, though, I do not think that the plot has advanced much at all, nor has the audience become much the wiser about the flow of that plot. Despite what some in the audience have expected and perhaps desired, the lead actor has never given any real indication that he is about to hang up his costume and exit stage left — or should that be stage right?

Nor is this going to happen in the current episode. Suharto will leave the scene at a time of his own choosing, and not someone else's; and that time will not be 1993. I have no doubt that in 18 months time the MPR will declare that it has re-elected General (Retired)

* I acknowledge, with thanks, the research assistance provided by Ms Jennifer Dunbabin and Ms Ilem Brown.
Suharto unopposed to the position of President of Indonesia, for a further five-year term.\(^1\)

And this fact, I suspect, is widely acknowledged within Indonesia too. There have been some calls for Suharto to step down in 1993, by old guard leaders such as Nasution and Natsir, and by a group of 58 intellectuals, 'Petition of 50' people and others who addressed a petition to the Parliament stating, *inter alia*, that Suharto's five terms in office 'should be considered enough'.\(^2\) But Suharto is obviously not going to be swayed by statements such as these.

If this general conclusion is correct, then it means that the emergence of the post-New Order order has been delayed until late in the decade.

Various names have been bruited around for the post of vice president, including Try Sutrisno, Rudini and Habibie. I claim no inside information, but it does seem to me that it is hard to go past the claims of Try Sutrisno.

The one matter related to the presidency which may become interesting is the question of the number of terms of office that any one president can serve. Several prominent individuals and groups have proposed that there should be a limit of two terms on future presidents. Just how this would be achieved is not clear. In formal terms, a future presidential incumbent faced with such a demand could readily counter with the standard, all-purpose argument that such a limitation is not in the 1945 Constitution, and thus has no weight. Given the difficulties inherent in trying to change the Constitution, in practical terms such a limitation could come about only if the incumbent were prepared to accept it. Forcing a president out of office is unlikely to be a politically feasible move.

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\(^1\) MPR: *Majelis Permusyawaratan Rakyat* or People's Consultative Assembly, the body which formally elects the President. According to one observer, in his Independence Day speech in 1990, for the first time Suharto gave an indication of his preparedness to serve another term, if nominated. Cf *Far Eastern Economic Review* (hereafter *FEER*), 30 August 1990:20-21.

\(^2\) *Sydney Morning Herald* (hereafter *SMH*), 15 August 1990; *FEER*, 30 August 1990:10-11. The petition was not reported in the Indonesian press, and foreign media which did report it were blacked out. Cf Reuters dispatch from Jakarta, 27 August 1990.
On the other hand, one could readily imagine that the group of politico-military leaders close to the next president might well find it desirable to have the incumbent limited to no more than two terms, and thus prevent his acquiring the kind of death-grip on the position that the current president enjoys.

Islam

Over the last year or so, Islam has moved back into the political arena more visibly than for the past decade. In part, this visibility has been reactive, resulting from actions taken by others, notably the President. But on other issues, Islam has taken the initiative.

In the former category, I would count things like the formation of the League of Indonesian Muslim Intellectuals, the government's decision to permit female students in state high schools to wear the jilbab and Suharto's heavily publicised pilgrimage to Mecca earlier this year. In the latter category, I would put the controversy surrounding the banning of the magazine Monitor and the debate over the Gulf War.

The formation of the League of Indonesian Muslim Intellectuals (Ikatan Cendekiawan Muslim se-Indonesia, ICMI), in Malang in November 1990, is interesting for the role played in it by the President, and for the fact that the Minister for Research and Technology, B. J. Habibie, was bulldozed into the position of the League's Chairman. Not surprisingly, this election — unopposed — caused a number of observers to suspect that there was a degree of what was often termed 'political engineering' involved in the formation of the organisation. Professor Deliar Noer, for instance, when asked for his opinion about the organisation, said:

Let's just hope that [its] formation ... has nothing to do with the 1992 general elections.3

A number of prominent Muslim leaders either refused outright to join the organisation, or else expressed considerable reservations about it. Most prominent amongst those who refused to join was the Islamic Scholars Party (Nahdatul Ulama, NU) leader, Abdurrachman Wahid. He argued, amongst other things, that the

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3 Quoted in Tempo, 8 December 1990:32.
establishment of the ICMI represented a sectarianisation of Indonesian society, a theme he had pursued over the Monitor issue, which I will discuss below.

Not surprisingly, perhaps, some ABRI leaders were also reported to be very unhappy at this development, partly perhaps because they still see organised Islam as a potential threat to the nation rather than as an ally, but also of course because it was seen as part of the game Suharto has been playing for some time, namely of playing the Islamic card off against the army.

The Suharto pilgrimage to Mecca earlier this year, accompanied by Mrs Suharto, their children and their respective spouses, attracted considerable, and generally favourable, attention from Muslim circles, though of course there were suggestions from some quarters that the decision was motivated by political as much as spiritual principles.

The Suharto pilgrimage also drew attention to the increasing numbers of Indonesians making the haj. Just over 80,000 pilgrims made the journey this year; in 1985, it was only 40,000. The trend is clearly for increasing numbers of people to make the pilgrimage, and in particular, for increasing numbers of well-educated professional and business people. An Indonesian colleague in a major state university remarked to me earlier this year that in his institution, people were going on the haj who had never previously given any cause for belief that they took their Islamic obligations at all seriously. A number of observers examined the reasons for this trend during the year.

Rendra, for example, himself making the haj for the first time this year, suggested it might be because more Indonesians now have the financial wherewithal to make the journey and because, with improvements in transportation, the pilgrimage takes less time than before. Given the cost of making the pilgrimage — the basic package costs Rp 6 million, or about A$3,900 — this argument obviously cannot be ignored. Interestingly, Rendra went on to say:

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4 Cf FEER, 20 December 1990:10.
But I hope there is also a religious dimension to all of this. That is to say, that this is a sign of the process of maturation of their understanding of Islam. Let me stress again: I hope this is so.\(^7\)

When asked why the stress on 'hope', he said:

If the trend of increasing numbers of senior officials making the pilgrimage continues, but corruption still runs rife and human rights remain shackled, then it is all simply an insult to Islam.\(^8\)

The Gulf War may have had an impact too. The pilgrimage was almost cancelled because of the War, which itself may have caused many Muslim Indonesians to have examined their faith and their commitment to it more deeply than before.\(^9\)

Yet it is also possible, and even probable, that the increasing number of pilgrims is a reflection of a genuinely increasing commitment to the faith by many Indonesian Muslims and by middle-class Muslims in particular. Making the pilgrimage to Mecca is one of the few ways in which one's public commitment to the faith can be demonstrated safely.

Monitor

The controversy surrounding the publication in the magazine Monitor, edited by Arswendo and part of the Gramedia group, of a survey which revealed its readers ranked the Prophet Muhammad 11th on their list of most admired people, showed how active the Muslim community could be when it believed that its core values were being challenged.\(^10\) Monitor's offices were attacked, and

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\(^7\) Editor, 25 May 1991:23.
\(^8\) Editor, 25 May 1991:23.
\(^9\) Another reason for making the pilgrimage this year was referred to, perhaps unwittingly, by Bob Hasan, the leading timber industry figure. He was asked if there was any connection between his decision to make the pilgrimage to Mecca this year and President Suharto's decision to make the journey. Hasan denied there was any connection at all saying: 'I really didn't know that Pak Harto was making the pilgrimage this year' (Editor, 25 May 1991:23).
\(^10\) See 'Siapa yang paling dikagumi', Monitor, 15 October 1990.
Arswendo himself placed under house arrest before being put on trial for insulting Islam, being convicted and sentenced to five years jail.

The Islamic community was, however, not completely at one on this issue. Abdurrachman Wahid, for instance, pointed to the incongruity of Muslim leaders who had previously been arguing for the independence of Islam from government control now calling on the government to revoke the publishing permit of Monitor. He also argued that the Islamic concern over the issue was a reflection of the 'sectarianisation' of Indonesian political life:

Certainly, many Muslims felt deeply put out by what Arswendo did, but what did these angry people do but to ask that Monitor's publishing permit be revoked. Isn't that an example of sectarianism winning out over the sense of being part of the nation as a whole? People are more inclined to discuss the goals of their particular group than the fundamental problems facing the people of this nation.11

The Monitor affair was the centre of great public attention, but it is not clear that it is really of great direct political significance. One might legitimately ask what possessed Arswendo to publish an article to which Islamic reactions must have been stunningly predictable. One might even note that in all the outrage virtually no one questioned the accuracy of the survey results — only that they were published. And the powerful Gramedia publishing group seems to have been rather taken aback by the depth of the Muslim reaction, and to have adopted a rather lower public profile after these events than before them. But it required no great exercise of political power or influence to have the government take the decision to prosecute Arswendo, or for the judges to find him guilty and to sentence him to five years jail. Indeed, one could easily be cynical and observe that the case was very useful to Suharto, in that it presented yet another occasion on which he could demonstrate that he was sympathetic to Islamic feelings — and on an issue where those feelings were being expressed in an essentially non-threatening, non-party political manner.12

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12 On this point, note the comment by writer and commentator Enha Ainun Nadjib, to the effect that the banning of Monitor put Islam in the government's debt. FEER, 25 November 1990:22.
Gulf War

The Iraqi invasion of Kuwait, and the reaction that event drew from the Saudis, the Americans and their allies, culminating in the Gulf War, also attracted great attention from Indonesian Muslims. Both the Iraqis and the Kuwaitis had their Indonesian supporters at the time of the first invasion, although the supporters of Iraq were probably greater in number. The stand taken by the United States and its Western allies, though, clearly pushed many Indonesians who might otherwise have remained neutral in the conflict, to side with Saddam Hussein. Nurcho lis Madjid noted that, with the big-power involvement in the War, it was 'natural for Indonesian Muslims to feel involved too'. Some Indonesians tried to register as volunteers to fight for the Iraqis; anti-American demonstrations were staged outside the United States Embassy in Jakarta; bomb threats were recorded against the United States Embassy and offices of three American banks; the Japanese consul in Medan was allegedly warned that Japanese citizens would be in danger if Tokyo did not stop supporting the United States. This was the first time, at least since the establishment of the New Order, that Indonesian Muslims had publicly demonstrated against the United States.

In all of this, Jakarta had to map out a policy. Shortly after the United Nations set in place sanctions against Iraq, the government announced that it would abide by those sanctions. The Saudi government approached Jakarta at much the same time to request a contribution of Indonesian troops to the allied coalition then taking shape in Saudi Arabia. There could, though, never have been any real likelihood that Jakarta would comply with this request.

Addressing a parliamentary committee Benny Murdani stressed that the government:

... will not tolerate this country being used as an extension of the Gulf conflict, either by Iraq or the allied countries.

15 SMH, 18 August 1990.
16 SMH, 2 February 1991.
This statement was obviously directed as much to Muslim leaders in Indonesia as to the main combatants.

The government's preferred option was for a negotiated solution to the dispute to be found, to which end it offered to assist in mediation efforts. Given that neither side in the conflict ever showed much inclination to engage in such mediation though, whether undertaken by Indonesia or anyone else, this almost inevitably meant that the Indonesian position was a fairly inactive one. For this, it was criticised from a number of quarters. Realistically, however, it is difficult to see what other kind of policy it could have adopted. Openly siding with either protagonist would have carried with it potentially major consequences, either in terms of foreign relations or domestic politics, or both; in any event it would have been completely out of step with Indonesia's historical approach to foreign policy issues.

Dissent

The other major political question which needs addressing is that of what has happened to the much-vaunted keterbukaan, or openness in government, which was heralded so loudly only a couple of years ago. Here I think the evidence is mixed, but I would argue that there has been some continuation of the loosening of the strings, and some widening of the range of issues open for discussion. What I do not yet see is evidence of structural change to permit the installation of new ideas in government, though one could observe that, if recent experience in Eastern Europe is any indication, such changes — if they come — may well appear fairly suddenly rather than be flagged a long time in advance.

In his 1990 Independence Day speech, Suharto continued the keterbukaan theme, arguing that differences of political opinion were not only permissible, in some senses they were also desirable. Admiral Sudomo announced earnestly in August 1990 the formal ending of censorship of the foreign press, and in October 1990 was quoted as saying that the government would no longer revoke the publishing licences of local media. He also declared in 1991 that

17 Tempo, 8 September 1990:22.
18 The reason, he said, was that: 'We feel revoking publishing licences is not educative, does not conform to the principle of the nation that
the mere fact of having expressed views contrary to those of the government would not result in a person being denied a permit to travel overseas. And the Army seminar held at Bandung, 15-19 December 1990, at the Army Command and Staff College (Seskoad), is reported to have discussed authoritarianism in government, and the need for more openness, justice and democracy. General Edi Sudradjat argued that the 'repressive approach' to politics, which had dominated the period since 1966, was 'no longer relevant in the present circumstances'.

Experience naturally suggests caution in taking these statements and developments at face value. Ample evidence can be presented from the past year or so to show the gap between these fine statements and everyday reality; evidence of students drawing long jail terms for possession of banned books, of the banning of books, magazines, poetry-readings, plays and even of a calendar, the latter because it dealt with problems relating to ownership of land. The military continue to conduct offensive operations against anti-government guerillas in East Timor and Aceh. And the current conflict between the clove-purchasing consortium BPPC (in which one of the President's sons has considerable influence) and the major cigarette manufacturers over control of the clove trade suggests at the least that even powerful business enterprises still exercise only limited influence in the economy when the interests of well-connected individuals are at stake.

Nevertheless, of late, several 'sensitive' topics have been discussed openly, and several individuals and institutions critical of, or at the least out-of-step with, the government have been permitted to manoeuvre, to mark out some political space for themselves. The question of who may be prevented from leaving or entering Indonesia, and why, was debated prominently. The 25th anniversary of Gestapu (the 1965 communist coup) saw a good deal of

upholds the rule of law and the effect on [industry] workers would be bad'. AFP citing Media Indonesia, in Canberra Times, 1 October 1990.

19 As quoted by Karto Wijoyo, 'Letter from Jakarta: snapshots of some recent events', Inside Indonesia, March 1991:3-4; see also Tempo, 5 January 1991:23.

20 The calendar was entitled 'Tanah Untuk Rakyat' [Land for the People], a title reminiscent of the title of the book honouring the late Sultan of Yogyakarta, Hamengku Buwono IX: Tahta Untuk Rakyat [Throne for the People].
public discussion of a variety of explanations of what actually happened, and why. On his release from jail last year after five years imprisonment, Dharsono was greeted by several hundred supporters and, by Indonesian standards, extensive albeit short-lived press coverage. Signatories to the 'Petition of 50' are back in the press, and even addressing members of Parliament. And several new organisations emerged pressing issues connected with human rights, two of which are of considerable significance: the Solidarity Trade Union, led by H.J.C. Princen and Saut Aritonang, and the Democracy Forum, led by NU leader Abdurrachman Wahid.

The Solidarity Trade Union movement was established on 14 November 1990. Sudomo immediately claimed that it was illegal, in that it did not have an official permit, and was unregistered; Suharto said that one union — SPSI — was sufficient. Yet Solidarity managed to set up branches and enrol members. In May 1991, the Union claimed a membership of about 35,000, mostly in Jakarta, concentrated in the food, beverage and textile industries, and in the informal sector.21 No formal action appears to have been taken against it. However, in June 1991, Saut was kidnapped and held incommunicado for two days before a scheduled meeting with the ILO representative in Jakarta. After his release, unharmed, naturally no one was prepared to claim responsibility for the kidnapping; and just as naturally just about everyone assumed that members of the intelligence or security services were the perpetrators.

The Democracy Forum (Forum Demokrasi) was established on 3 April 1991 by a group of 45 leading Islamic and Christian scholars, journalists, human rights activists and businesspeople under the leadership of Abdurrachman Wahid. Asked what had prompted the formation of the Forum, Mulya Lubis cited the banning of the Opera Kecoa and poetry-reading by Rendra, the conflict within Ikadin, the lawyers association, the ban on overseas travel imposed on Arief Budiman, and a number of other such issues.22 Abdurrachman Wahid put an additional gloss on the formation of the Forum, arguing that it was in part a reaction to the increasing sectarianism of Indonesian politics and political debate, a development which he illustrated by reference to the Monitor episode, already mentioned.

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22 Tempo, 13 April:19.
The problem with Indonesia, he went on, was that although democratic institutions were in place, the democratic behaviour to go with them still has not been realised:

The mere existence of the DPR does not prove that it represents the people. The mere existence of the MPR does not mean that the people are sovereign ... the existence of democratic institutions does not guarantee democracy itself.23

'Controversy', he said, 'is the essence of democracy. If you ban controversy, you are not a Pancasilaist, but a dictator'.24 It was the objective of the Democracy Forum to provide a vehicle for the expression of such controversy.25

Amongst the other groups formed recently and focusing on the issue of greater democracy for Indonesia are the Forum for the Restoration of Public Sovereignty and the Indonesian League for the Restoration of Democracy.26

Criticisms of the conglomerates, so much a feature of the late 1980s, has continued. However this criticism seems to have taken on a slightly different tone — or more accurately returned to a traditional one — over the past 12 months. This criticism seems now to be expressed in much more openly racial terms than for quite some time — probably since Murdani's call for the dropping of the terms 'pri' and 'non-pri' in 1984.27 When such calls come from people such as Probosutedjo, it might be argued that few will take them very

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25 Other organisations which also appeared at this time, and espousing causes similar to those of the Democracy Forum, included the Forum for the Restoration of People's Sovereignty, established in May 1991 and led by Ali Sadikin and Deliar Noer, and the Indonesian League for the Restoration of Democracy, set up on 8 April 1991 and led by H. Princen.
26 The former was founded in May 1991; prominent members include Ali Sadikin and Deliar Noer. The latter was established on 8 April and is led by H.J.C. Princen.
27 The terms 'pri' and 'non-pri' stand for 'pribumi' and 'non-pribrumi', meaning indigenous and non-indigenous. The latter is a code-word for Chinese.
seriously; he has followed this line before and anyway, on this issue at least, his own background is not unchallengeable. But when other business people without Proboesutedjo's connections start talking openly in racist terms, one has to wonder whether this particular form of dissent is likely to erupt yet again. And there are such business people making such calls. 28 Certainly the issue could prove to be a useful one to a variety of parties in the political manoeuvring to establish the post-Suharto order — perhaps for virtually all those parties. 29

One of the next tests of the political atmosphere will obviously come early in 1992 with the campaign leading up to the general elections. Already the government has indicated a slight tightening of the regulations governing the campaign, particularly in the banning of motorcades, which were an important feature of the last two elections. Two issues in particular seem to be worth watching.

First, presumably Golkar leaders must know that although the organisation will win the election, its chances of credibly reporting an even greater proportion of the vote than the 73% it acquired in 1987 are slim indeed. 30 Indonesia, in this respect at least, is patently not North Korea. This would potentially leave the gate ajar for one of the other two parties at least to claim an increase in support for whatever programs it has advertised.

Second, the really big unknown in this particular equation is how the 17 million newly-enfranchised voters will cast their ballot. 31 In the 1987 elections, the evidence suggests that a fair

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28 See, for instance, the call by the General Chairman of the Himpunan Pengusaha Putera Indonesia (HIPPI), Imam Taufik, for the name of the organisation to revert to Himpunan Pengusaha Pribumi Indonesia, as it had been until the mid-1980s. Interestingly, one of Imam Taufik's criticisms of the Chinese was that 'they never invite pribumi business people into cooperative business ventures, except if the pribumi has power [Eng], such as is the case with the child of an official'. Tempo, 1 June 1991:90.

29 In his 1991 Independence Day speech Suharto addressed this issue directly, calling for an end to racially-based criticisms. See FEER, 29 August 1991:22.

30 Though Gadjah Mada political scientist Dr Afan Gaffar has recently asserted that it is possible that Golkar will score its goal of 75% of the vote. Editor, 8 June 1991:25.

Proportion of the new vote went to the PDI. I really do not know how they will act in 1992 — though it is interesting that two sample polls in Surabaya and Bandung suggest an abstention (Golput) rate of between 15% and 19%.

Implications

The crucial issue looming is clearly the shape of the post-New Order order. However, the shift to that 'Newer Order' is likely to be a few years off yet, assuming that after his re-election in 1993 Suharto remains in good health. However, the transitional phase towards that third presidency, with its attendant political manoeuvrings for space and influence, may well have begun. But thus far it is manoeuvring in which only a few of the potential players have emerged, and in which there are as yet no clear indications that the structure of government, or the relations between government and society, will be substantially changed. It is change around the edges.

The events of the past 12 months suggest two possible focuses of influence on this process: the gradually widening range of political issues which are coming into the arena of permitted topics for discussion, and the increased prominence in public affairs of Islam.

The emergence of groups like the Solidarity Trade Union, in themselves, does not necessarily imply a significant loosening of the bonds of political control exercised by the Suharto government. It is doubtful whether there is any 'Jakarta Spring' looming here. Yet, by the same token, it needs to be noted again that these organisations have thus far not been seriously challenged by the government or the military. They have, to be sure, been harassed; and one may safely surmise that Saut Aritonang's 'mysterious' disappearance was intended to be a warning to him and his colleagues not to push their luck too far. However the extent to which issues such as labour disputes, and disputes over ownership of land, have recently risen, and been made public and drawn reactions from politicians, suggests that it would in fact be rather difficult for any government to close everything down at a later date. One commentator on Suharto's 1990 Independence Day speech asserted that:

32 Tempo, 16 February:14.
Human-rights activists argue that [Suharto's] use of the term 'human rights' has cleared the way for its wider use in debate. MPs say the question of openness is likely to again become the focus of debate in parliament in the coming months as a result.23

And these concerns are likely to be still around when the transition to the Newer Order finally takes place. It is difficult to see how they could be turned back completely.

Indeed, it is not entirely clear why at least some of the groups which will be manoeuvring for control of the Newer Order would necessarily want to see them rolled back. In a world where authoritarian regimes are crumbling, it is difficult to understand why many Indonesian political leaders would want their country to be grouped together, in the long run, with such throw-backs as North Korea in terms of respect for human rights — as indeed the UNDP did earlier this year.34 Assuming, of course, that North Korea lasts out the century as an independent state, something which is by no means a foregone conclusion.

The army leadership's concern to be associated with these issues, as reflected in discussions at the Bandung seminar, may also be indicative. One Indonesian commentator has suggested that this concern:

... was interpreted as a move on the part of the army to strengthen its stocks with civilian politicians and intellectuals as well as raise the profile of parliament (in which it is represented) in the face of an uncertain future relationship with the President.35

I might suggest that it is the relationship with the next President, not the current one, which is important here.

If these factors do come into play, then it is possible that the next President will have rather less personal power and influence than does Suharto.

How Islam fits into this picture is a little less clear. Although Islamic groups and individuals figured more prominently in public debates over the past 12 months than for several years, it is difficult

33 Michael Vatikiotis, FEER, 30 August 1990:10.
34 Cf SMH, 25 May 1991.
35 Karto Wijoyo, op. cit., p. 3.
to envisage them becoming any stronger, either organisationally or within society at large, as a result of these activities. Their actions on the Gulf War might be seen as having passed on a message to the government about the limits to which it could push foreign policy, but it is unlikely that the government learned anything from this episode which it did not already know. The sense of being a part of an international community of Muslims was probably reinforced, and the perception that the United States might be an enemy of Islam could conceivably have consequences later on, though it is rather difficult to see circumstances similar to those which led to the Gulf War appearing again in the foreseeable future.36

There are as yet, though, few signs that the increased interest being shown in Islam by Indonesians, and especially, apparently, by middle-class Indonesians, is being translated into political demands or actions. Obviously the possibility that this might in fact happen cannot be ignored; but it is not yet visible. One does not come to exercise much power, nor even to extend a great amount of influence over those who do, on the basis of foreign policy initiatives or of urging censorship of the press, no matter how deeply the issues are felt. What Islam is doing is (re-)asserting its position in politics, and stressing that it is not a spent force, and that any future political reshuffling will have to take it into account.

36 Though of course the Gulf War itself had hardly been predicted by most observers either.
Part II

The State of Higher Education
Equity, Quality, and Efficiency in Indonesia's Higher Education System

Sukadji Ranuwihardjo

Indonesia's higher education system has expanded rapidly since the 1960s. High rates of population growth (2.3% per annum through the 1970s) and the process of 'educational democra tisation' after independence in 1945 have generated very strong demand for education including, with a delayed effect, tertiary education. Since 1960 there has been at least one state university in each province, and the number now totals 44. Meanwhile, there has been very rapid growth in private institutes of higher learning since the 1970s, which now number some 914, spread throughout the country. These figures, moreover, do not include tertiary education institutions managed by other government agencies, that is, outside the purview of the Ministry of Education and Culture.

In 1989 the student enrolments in tertiary education, both public and private, constituted 8.5% of the population aged 19-24 years, and numbered approximately 1.65 million; by 1994, these figures are estimated to be 11% and 2.5 million respectively, implying that within five years the student body will increase by 50%. Although Indonesia's enrolment rates are still relatively low when compared with some other Asian countries, such as Korea, Taiwan, and the Philippines, the rapid pace of expansion poses formidable challenges for policy-makers and the country alike.

In recent years Indonesia's tertiary education system has been producing about 115,000 graduates at various levels; this figure is expected to reach approximately 120,000 shortly. The product is very mixed at best. The 'equilibrium' between the supply of and demand for graduates has never been attained, owing to the presence of very strong social and cultural factors which prevent the market mechanism and financial incentives from working effectively. It needs to be emphasised that until 1990 about 80% of incoming
students were the first generation in their families undertaking tertiary education. Parents had no perception of what tertiary education involved, and were therefore hardly in a position to advise their children regarding course selection, modes of study and many other important issues. Partly as a consequence, students have tended to choose 'soft' subjects without any regard to future consequences.

Indonesia's recent and rapid industrialisation has placed heavy strains on higher education. The very dynamic character of the job market places demands on educational output, both in quantity and in quality, which cannot be met quickly. There are also growing signs of a supply-demand mismatch, with serious shortages in some fields, such as biotechnology, electronics, metallurgy, and computer science, alongside graduate unemployment in other fields.

**Key Problems**

There are many issues in higher education policy in Indonesia, but they may be grouped broadly into those which are mainly internal to higher educational institutes, and those which are external in nature.

**Internal Problems**

Internal problems include how to improve the efficiency of the institutes' operations, the quality of their processes and their output — with regard to teaching, research, and public services. These institutes also need to review their *modus operandi* unceasingly so as to be more relevant to society's needs, especially in the context of a very dynamic job market.

The government's limited financial resources is an ever-present constraint on policy design. By the mid-1980s Indonesia was spending about 2.2% of GNP on public education and this constituted about 9.3% of the government's total budget. To free universities from the straight-jacket of financial management imposed by government budget and accounting procedures, a new educational law was introduced in 1989 designed to give greater financial autonomy to tertiary educational institutions. This was followed by efforts to foster more decentralised decision making at the institutional level. The new approach aims to facilitate the mobilisation and utilisation of community resources in public
institutions, at the latters' discretion and according to their planning programs. This, of course, will raise problems of accountability, which is still very weak in Indonesian institutions. This new autonomy and decentralisation will have to be accompanied by improved planning and programing on the part of university management.

As is well known, good quality tertiary education has many dimensions. A high calibre of academic staff is one of the basic requirements. This objective occupies the highest priority in government thinking and policy. Training at the post-graduate level for junior staff, both in-country as well as overseas, has been pursued vigorously. The government's limited financial resources has forced it to seek loans through multilateral financial organisations such as the World Bank and the Asian Development Bank, and through bilateral development assistance programs.

**External Problems**

External problems of higher education in Indonesia — that is, external to the educational institutions — are closely linked to larger issues regarding the role of universities in national development. First, there is the question of equity of access. The sentiment of equality in Indonesia, generated from the struggle for independence, does not accept the notion of elitism in education, at any level. In practice, however, equality of opportunity for all is still difficult to achieve owing to the scarcity of resources. Differences in the ability to pay for higher education among various socio-economic groups in Indonesian society still cannot be compensated for by extensive scholarship or student loan schemes.

Second, there are imbalances between regions and between rural and urban areas with regard to student access to tertiary education. This places great pressure on the government in its efforts to provide universal education, especially in view of the elevated position of government in Indonesian society.

Finally, Indonesia is an extremely diverse country in its ethnic and regional composition. Many ethnic and regional groups possess relatively homogeneous social and cultural traditions and they expect the government to cater for these particular interests in the higher education system. Thus the concept of 'universality' in universities is to some extent incompatible with these interests.
The Private Sector

Private institutes of tertiary education have been growing quickly. Private institutions play a very important role in filling the gap between the government's capacity to provide public education and the potential social demand for education. The policy of liberalising tertiary education in the 1980s resulted in tremendous growth of private institutions, over the decade 1981-91 their number rising from 650 to 914. This growth in quantity has not always been accompanied by improvements in quality. To maintain standards and to prevent these institutions from becoming 'diploma mills' it has been necessary to set up a program of accreditation. Not surprisingly, this has created some controversy, especially from those who cannot meet the standards.

A Strategy for Higher Education Development

Since scarce resources are the single major obstacle to future development, options that are both politically palatable and technically feasible are being employed. The challenge is to institute a selective development strategy in which the highest returns for good quality higher education are achieved without placing the whole system in jeopardy. Improving quality across-the-board is very costly and beyond the government's resources in the short run. Moreover, it is probably untenable due to the very great diversity among universities at present. It is certainly the case that all efforts should be geared towards promoting better quality tertiary education. Given the prevailing state of universities in Indonesia today, this endeavour points to the importance of continuing and substantial educational reform.

Prospects for the Future

In response to the very dynamic process of economic development and its consequences for the job market, in the coming years Indonesia's higher education system should provide a much more varied educational output to cater for more diverse employment requirements and opportunities. Professional education in fields such as polytechnics, nursing, banking, and tourism, which all provide
better job prospects, should be emphasised more strongly and there needs to be a move away from the more academic and 'intellectual' training in a large segment of the higher education system. High-quality university education and research should be the task of a selected and smaller number of institutions which possess good quality academic staff and research facilities.

This reorientation will, however, have to go hand-in-hand with a change in attitudes and values on the part of society regarding higher education. Such major reforms will probably be feasible only when Indonesian society regards the financial rewards of education as being more important than the social status conferred upon the more highly educated. There is some evidence that societal attitudes are moving in this direction, but there needs to be much stronger pressure for change generated by the educational institutions themselves as well as by the business community. At the same time, there needs to be greater flexibility of access in various kinds of continuing education, alongside a general recognition of the importance of life-long education.
Indonesian Higher Education: Improving Input to Improve Output Quality

Andi Hakim Nasoetion

The sole justification of teaching, of the school itself, is that the student comes out of it able to do something he could not do before. I say do and not know, because knowledge that does not lead to doing something new or doing something better is not knowledge at all.

Jacques Barzun, 1991, Begin Here, University of Chicago Press

Education was one of the major achievements of the Republic of Indonesia after independence. In 1942, prior to the fall of the Dutch East Indies, the number of higher elementary schools in Sumatra could be counted on the fingers of one hand. In 1948, graduates of the lower secondary school from South Sumatra had to shift to Bogor to enter an upper secondary school. Those from South Kalimantan and Bali usually went to Malang, if not Bogor, while those from Nusa Tenggara and Maluku had to go to Ujung Pandang.

Nowadays, every capital city of a kabupaten (district) has at least one government-supported upper secondary school. The highest density is found in West Sumatra, where every kecamatan (sub-district) township has at least one state upper secondary school. In the case of tertiary education, 26 out of the 27 provinces have at least one state-supported university or institution of higher education. The twenty-seventh province will follow suit in a few years. Private universities flourish in almost every township. The province of East Java has probably the record number of teacher training colleges (IKIPs) now established by the Indonesian Teachers Association (PGRI) in almost every sub-district. While this quantitative development of educational institutions should be

1 These were the equivalent of the present lower secondary school.
lauded, problems have emerged because of this rapid development with respect to quality and appropriateness of the product.

This chapter analyses some of the problems of higher education, and suggests solutions to improve the system. The output of the process of higher education is influenced by many components, not all of which can be covered adequately in this chapter. Therefore, only problems pertinent to improving the output quality of higher education through the improvement of the input quality will be discussed, bearing in mind the inherent difficulty of isolating a single factor from the influences of interacting components. To obtain a proper understanding of why these problems arose, we have to understand the high status attached to education by a society which was for a long time denied access to schooling by colonial policy. Therefore, my discussion of problems and alternative solutions will be preceded by a quick survey of the situation before independence.

Primary Education under Dutch Colonial Rule

Prior to the Japanese occupation of the archipelago, the primary school system in the Dutch East Indies consisted of three streams. The first stream was patterned on the system in the motherland and was primarily intended for Dutch children who some day would have to return to the Netherlands for their further development. These schools were the so-called Europese Lagere School (ELS — European Lower School) which can be classified further into two types. The first European lower school was almost solely reserved for pure-blooded Dutch children. Enrolment by pupils of Indonesian parentage was an exception, and was the privilege of the very few whose parents were of the nobility or who occupied very high positions in the government. The second European lower school was usually patronised by children of Indo-European or mixed parentage and the children of soldiers of the Dutch East Indies armed forces.

The second stream was called the Hollands Inlandse School (HIS — Dutch Native School) and the Hollands Chinese School (HCS — Dutch Chinese School). These elementary schools were respectively intended for natives and Chinese of the 'middle class', and Dutch was the medium of instruction from the third grade. In the first two grades instruction was given in Malay or one of the native languages such as Sundanese, Javanese, and Madurese. As was
the case also with the first stream, this second stream also consisted of seven grades.

The third stream was called the Volkschool (VS — People's School) and consisted normally of five grades. However, in some remote areas the schools had only three grades and were named Dessa School (DS — Village School). To continue their education in the fourth and fifth grades, children had to go to a larger village where a people's school was located. For this reason also the fourth and fifth grades were called Vervolgschool (VVS — Continuing School).

This third stream was really for the masses even if only a few of the masses were enrolled in the schools. The medium of instruction was solely the local native language. The only 'foreign' language taught in the two upper grades was Malay. The curricular activities consisted primarily of reading, writing, practical arithmetic, and some local geography. As an example of how very practical the arithmetic curriculum was, in the teaching of fractions and percentages, pupils were solely occupied with problems of calculating interest to be paid when repaying debts in a government-operated pawnshop! Some graduates of the VSS managed to continue their study in a so-called Schakel School (Bridging School) where it took them five more years to complete the equivalent of a HIS diploma.

The situation in the plantations, especially on the east coast of Sumatra, was even worse. In the plantations of the Senembah Maatschappij, for example, the Department of Education and Culture of the colonial government had no say at all. The plantation had its own education system, consisting of four years of reading, writing, arithmetic, and Javanese language and culture. Nothing else was allowed to be taught, not even Malay, geography, or history. The reason was obviously to gear the children of contract labourers to become second generation contract labourers, so that the plantation had no need to recruit new coolies from Java. The system was really very efficient, because third graders already could help their parents count the number of caterpillars infesting the tobacco crop, while fourth graders were already expert in sorting tobacco leaves according to length.
Secondary Education under Dutch Colonial Rule

Graduates of the ELS could enrol in a Dutch middle school, either in a Hogere Burger School (HBS — Higher Citizen School), which was more or less a Gymnasium, or a Lyceum which was more oriented to the classics, requiring the reading of Latin and Greek. The study lasted five years, and the graduates were eligible to enrol in a university.

The majority of pupils of the second stream terminated their study after receiving a diploma. The favoured occupation was a clerical position in a government office where they could practise the impeccable, long-hand writing used in secretarial correspondence because of the scarcity of typewriters in the office. Some of the graduates who had an innate ability to draw were recruited as drawing artists. Biological illustrations in scientific publications of the Botanical Gardens and the Agricultural Research Station in Bogor, for example, were drawn by artists who were graduates only of the HIS, but who were very well known amongst the international scientific community.

Very few graduates of the second stream could enrol in a Dutch middle school after passing a very stringent examination, particularly in the Dutch language. Others who intended to continue their education could only compete for a place in a Meer Uitgebreid Lager Onderwijs (MULO — More Elaborate Lower Education). This school was of three years duration. However, only a very few graduates of the HIS could enrol directly in the first grade, exempt of entrance examinations. The greater number had to take an entrance examination, and of those who took the examinations only a very few could enrol directly in the first grade. The majority had to matriculate in the preparatory class, extending the study duration in the MULO from three to four years.

In the first grade of the MULO, Euclidean geometry was offered to 14 year old students as a compulsory subject, utilising the pure deductive approach. In this way, at a very early stage, students underwent a selection process. For those who could not withstand the rigorous deductive approach, a so-called A-stream was established in the third grade of the MULO. The B-stream was reserved only for those who could withstand the horrors of algebra and geometry. Even so, the A-stream still included subjects for 'developing the mind', such as classic literature and history.
The subdivision into the A and B stream was further developed in the middle school into the A (Western Classic), A (Eastern Classic), B (Natural Sciences and Mathematics), and the C (Socio-Economic) streams. The B stream obviously featured a stronger dose of mathematics and natural sciences to prepare the students for an academic education in the sciences. The same could be said of the C stream, except that it covered more algebra than geometry, and concentrated more on economic and business subjects. Of the A stream it should be noted that, while it was almost void of mathematical subjects, there were plenty of opportunities available for its students to train their minds through studying the classics, either Western or Eastern style.

Vocational Education under Dutch Colonial Rule

A graduate of the HIS could choose to enrol in a vocational education. The most prestigious vocational school was the Kweekschool (KS), which is a school for teacher education. It consisted of two levels. The first consisted of four years of schooling and could be found in a few locations in the Dutch East Indies. Only the Lembang-Bandung KS had, besides the first level, also a second level of two additional years, which enabled the graduates to teach in a HIS. Those who graduated from the first level usually would teach in a people's school. Teacher education was considered to be very prestigious, because the teaching profession was considered one of the better ways of climbing up the social ladder. Because the profession was highly sought after, the KS was able to establish very rigorous requirements for its candidates. Only the first ranking graduate of a HIS could be admitted to the KS. The result of the system was everywhere obvious: many outstanding thinkers in the civil service and the armed forces of Indonesia have the Lembang KS as their intellectual background.

Vocational schools of two to three years duration were also available for HIS graduates in the field of agriculture, that is the so-called Cultuur School (CS), and in the mechanical arts, in the so-called Ambacht School (AS). Graduates of the CS used to work in the plantations or in the agricultural extension service, while those from the AS were employed in workshops.

At the senior high school level the most prestigious professional school was the Nederlands Indische Artsen School (NIAS) at
Surabaya, which produced 'local' physicians. The level of competence of these physicians of course exceeded the middle level education and was closer to a university education. Many graduates of this institution became very prominent physicians, while the school itself became the embryo of the Faculty of Medicine of Airlangga University. Next to it in popularity was the *Nederlands Indische Veeartsen School* (NIVS) and the *Middelbare Landbouw School* (MLS), both located at Bogor.

The NIVS was a four-year program producing 'local' veterinarians, and the MLS a three-year program producing assistant agricultural extension workers and forest rangers. In the 1920s, both schools had a common three-year preparatory program at the MULO level. Later when many more MULOs were established, the common preparatory program was abandoned and candidates were selected from the best MULO graduates. Many graduates of these schools became prominent citizens, such as the chairman of a major political party, the navy chief of staff, and first vice president of the University of Indonesia. The NIVS became the embryo of the Faculty of Veterinary Medicine of the Bogor Institute of Agriculture. Another outlet for MULO graduates seeking a vocational education was the *Middelbare Technische School* (MTS), which was a three-year program producing assistant civil and mechanical engineers. One graduate who became a very prominent architect was F. Silaban, who designed many landmarks in Indonesia, including the Istiqlal national mosque in Jakarta. One common feature of these vocational schools was the prestige their graduates enjoyed after graduation, backed by an almost limitless opportunity to climb the social ladder.

### Higher Education under Dutch Colonial Rule

Higher education in Indonesia started under Dutch colonial rule in the form of independent colleges without university linkages. These colleges were professional in nature, training students to become physicians, lawyers, and civil engineers. Most of the graduates became colonial civil servants, such as physicians in the Department of Health, judges and attorneys in the Department of Justice, and civil engineers in the Department of Public Works. Many of the engineers connected with this department had the task of developing irrigation systems, not necessarily to benefit rice
farmers, but to increase the yield of sugarcane grown for sugar factories on the most fertile irrigable rice fields of Java.

Higher education in those days was geared towards producing professionals. University education geared to the development of scientists and scholars was not available in the Dutch East Indies. To become an Indologist one had to go to Leyden, while for economics the place to go was Rotterdam. Nevertheless, notwithstanding some constraints, Indonesians pursuing a university education in the Netherlands became entangled with freedom movements, and those pursuing a professional college degree in the former Dutch East Indies also became the founding fathers and mothers of the Republic of Indonesia. In lecturing to their students, the Dutch professors of the Jakarta Colleges of Medicine and Law, together with those who were teaching at the Bandung College of Engineering, did not limit their teaching only to professional matters. True to the spirit of their scientific behaviour, they also instigated intellectual thinking in the minds of their students.

Current Perceptions of Education

The fact that independence movements in Indonesia were the brainchild of college students brought about a perception amongst the common people that the main task of university students is to act as a pressure group in society. As many political figure-heads in the national government after independence were also college graduates, such as medical doctors, civil engineers, and lawyers, a widespread perception evolved that the highest achievement a college graduate could aspire to was to become either a political figure-head or a senior bureaucrat. An interview with participants of a science contest amongst high school students revealed that they chose a top class scientist as their idol not because he was a renowned scientist but because he was a member of the cabinet.

Because higher education is considered in Indonesia to be the passport to a successful political career or to the highest echelons of the civil service, parents encourage their children to pursue a university education, whether or not they are academically gifted, and whether or not they are financially capable of supporting this long-term enterprise. This preference to pursue higher education rather than a vocational education was further — albeit inadvertently — strengthened by a liberal interpretation of Article
31(1) of the 1945 Constitution of the Republic of Indonesia, which states that every citizen has the right to be educated.

The origins of this Article are most likely explained as a result of the educational policy imposed during colonial rule. After independence 'inferior' streams were not tolerated, and hence the Indonesian elementary school (Sekolah Dasar, SD) was modelled on the HIS, gearing the graduates to enrol in the junior high school (Sekolah Menengah Pertama, SMP) which was modelled on the B stream of the MULO. Graduates of the SMP were expected by society to enrol in the senior high school (Sekolah Menengah Atas, SMA), predominantly in the B stream, which until now is considered to be the superior stream.

The vocational stream at the lower and upper secondary level has gradually fallen from favour. Vocational schools at the lower secondary level are being discontinued, while those at the upper secondary level are being transformed into general high schools. This has already occurred with the teacher training schools (Sekolah Pendidikan Guru, SPG), partly also for understandable reasons, because nowhere else in neighbouring countries is teacher training the product of a vocational high school.

In 1990 a national law on the National System of Education was passed by the Dewan Perwakilan Rakyat (DPR), known as the Undang-Undang No. 2/1990 tentang Sistem Pendidikan Nasional (UUSPN). This law was subsequently elucidated in several government regulations or peraturan pemerintah (P.P.), on preschools (P.P. No. 27/1990), elementary schools (P.P. No. 28/1990), secondary schools (P.P. No. 29/1990), and higher education (P.P. No. 30).

The most prominent change in the educational system is perhaps the extension of compulsory education from six to nine years. The junior high school is now considered part of elementary education. However, the academic objective is still the same, that is, to prepare students for secondary education. Secondary education consists of general secondary education, vocational secondary education, religious secondary education, government service secondary education, and special secondary education for physically and mentally handicapped students.

There was no mention about streaming only the most prepared elementary school graduates to the government secondary schools. On the other hand, it was more or less assumed that all graduates of the government secondary schools were eligible to pursue an
academic education in the university. The absence of measures to select qualified elementary and secondary school graduates for further academic study in the university was most likely not a sign of oversight of the need for selection in improving the output of higher education, but rather a direct consequence of a literal interpretation of Article 31(1) of the Constitution.

As a consequence of current perceptions of Indonesian society regarding the desirability of education, too many students who should not have pursued higher education are clogging these institutions. As is well known, the difference between vocational and academic education lies in the way knowledge is treated in the learning process. In vocational education, existing knowledge is taught to students to enable them to apply it in everyday life. In academic education, students are trained and prepared to pursue new knowledge. However, both types of education should train students to do something they could not do before.

Preparation to enter an academic education in the middle school should therefore incorporate the learning of the basic tools for reasoning, such as mathematics and modern languages, and a basic comprehension of the elements of physics, chemistry, and biology. In contrast to vocational education, the most important attitude a student in an academically oriented middle school should possess is imagination and creativity. Therefore, before discussing ways of improving the quality of higher education, some thought has to be given to the current status of the senior high school as the supplier of students to a university.

Streaming in the Senior High School

The existence of some kind of selection by a university in recruiting new students implies that not all high school students are considered fit to pursue an academic education in a university. However, the current streaming of students in middle school is not based on creativity of the mind and imagination. The streaming is conducted with the presumption that all junior high school graduates entering the senior high school are capable of undertaking an academic program in a university. If there are differences in academic ability, those differences are presumed to exist only as a differential ability to digest the soft versus the hard sciences. Therefore streaming of students is done by splitting the high school
curriculum after the first year into four streams: physics (A1), biology (A2), social sciences (A3), and language and arts (A4). These four streams are the academic (A) streams, in contrast with the vocational (B) streams which were never implemented.

In the physics stream there is a stronger emphasis on physics and mathematics and a weaker emphasis on biology in the curriculum, whereas in the biology stream less physics and mathematics is offered. The A3 stream curriculum is almost void of mathematics and natural sciences. This method of differentiating the curriculum inadvertently has become a mechanism to segregate high school students according to competence.

Purianto (1989), in a study of Bogor students at a better public high school and a private high school, found a strong correlation between report grades and aptitude. First graders with better grades in science and mathematics and therefore also with higher test scores in aptitude ended up in the A1 stream, while those with better grades in science only ended up in the A2 stream. All others ended up in the A3 stream. Tracing back their junior high school national leaving examination test scores, he found that those junior high school leavers with a high test score in science and mathematics had a very high probability of being placed in the A1 stream after passing the first year in senior high school. Those who scored high in the sciences had only a high probability of being placed in the A2 stream. Tracing back the components of the test scores in science, he found that the dominating subject in this case was the biology component.

Hung (1989), who repeated the study correlating aptitude and cognitive ability of A1, A2, and A3 students in a private senior high school in Bogor, confirmed Purianto's finding. In addition, he conducted a follow-up study of graduates. He found that A1 graduates had a higher probability of being admitted to better universities and to even dominate the faculty of economics of a distinguished private university. He then concluded that A1 graduates seemed to have a better preparation for academic pursuits in an institution of higher learning.

Utilising the same material, Pakpahan made an effort to understand the reasoning pattern of A1, A2, and A3 students. He undertook discriminant analysis on the grades of subjects of the first year, and found that the discriminating function of A1 and A2 streams was dominated by subjects needing mathematical reasoning, while the A3 stream was dominated by subjects needing verbal
memorisation, such as history and elements of economics. Therefore, he again confirmed that the streaming into physics, biology, and social sciences inadvertently was streaming senior high school students into groups of different academic abilities.

Based on these findings, Batubara (1990) carried out a follow-up study of A1 and A2 graduates of senior high schools from all over the nation, who were admitted to the Bogor Institute of Agriculture. The grades obtained in the common first-year program were utilised as a measure of achievement. She found that the most discriminating subjects in attaining a high grade point average between A1 and A2 graduates were physics, mathematics, and economics on the one side, against biology on the other. A1 graduates were usually performing better in mathematics, physics and economics, while A2 graduates were found to perform better in biology and sociology. A1 graduates who were wrongly classified as A2 graduates by the discriminant function came from rural or suburban high schools, while A2 graduates who were wrongly classified as A1 graduates came from better municipal high schools, indicating again the difference in quality between rural and municipal high schools.

In another related study, Octavianita (1990) examined the reasoning and achievement patterns of students in A1, A2, and A3 streams from three senior high schools with different intake qualities. The better high school had an intake of new students, with a national junior high school leaving examination total score of above 40 for six subjects. The intermediate high school had an intake with a total score in the range of 30 to 40, while the weaker high school had an intake of students with a total score in the range of 20-30. She found that in high schools with highly competitive entry requirements, the students have a higher variation in terms of imaginative and creative skills. The variability decreased in the high school with 'intermediate' selection pressures, while in the high school without any entrance requirements there was no variation at all. The levels of creative and imaginative skills were both uniformly very low, raising the question of whether it was appropriate to establish more general high schools for the sake of accommodating only non-academically inclined students. This relates to the more sensitive issue of whether it is appropriate to establish new institutions of higher learning for the sake of accommodating mediocre students.
With regard to the relation between verbal ability, arithmetic ability, general level of intelligence, and creativity and imagination, Octavianita (1990) found that verbal ability, arithmetic ability, and general level of intelligence had only a small direct effect on analytic-synthetic adeptness. The indirect effects, however, became very substantial in the presence of a high level of creativity and imagination, measured by indicators of thinking ability, that is, indices of abstraction, mechanical ability, and creativity, the tests of which were administered by a qualified psychologist. This finding supports Barzun (1991), who claimed that reading, writing, speaking, and thinking are not four distinct powers, but four modes of one power.

After going through the raw data on report grades, Octavianita also concluded that a high report grade in mathematics was not necessarily indicative of a high mathematical reasoning ability. A portion of A1 students with high grades in mathematics earned the high grade mainly because of a highly arithmetic ability coinciding with a lower level of creativity and imagination. A1 graduates with this profile would be better off pursuing a continuing education requiring very high arithmetic skill rather than mathematical reasoning. On the other hand, in the A3 stream she found that students with high grades in English but without adequate reasoning ability would not necessarily be good candidates for faculties of arts where they have to study the science of languages rather than the skill of using languages. They might succeed better in positions where they could practise their fluency in languages.

Differences in Quality of Senior High Schools

In municipalities, senior high school enrolment decreases from the A1 to the A4 stream. More often the A4 stream is not established at all. In suburban and rural high schools, the A1 stream is usually not available. If it exists, it would have the lowest number of students. The A2 stream would have the maximum enrolment, followed by the A3 stream. Also, the ten highest scorers in the national leaving examinations were predominantly female students, while in the suburban and rural high schools, male students dominated, indicating perhaps that in the municipalities more distractions were open to boys and that in the suburban and rural areas
household chores might compete substantially with the individual study time of girls.

Comparing municipal high schools with suburban and rural high schools, the minimum and maximum national leaving examination scores achieved by students of rural high schools were always lower. The same was true with the scores obtained by junior high school graduates admitted to the senior high schools (Fidhiawan, 1991). Comparing across the 27 provinces, the better schools, judged according to the range of their national leaving examination scores, are concentrated in Jakarta, West Java, East Java, Yogyakarta, and Central Java. Provinces outside Java having better schools are Bali, West Sumatra, Riau, Jambi, North Sumatra, and South Kalimantan (Wullur, 1979; Aman, 1980; Aman et al., 1980; Buana, 1981; Kandahjaya, 1981; Lolombulan, 1990). The better schools are also characterised by relatively large class sizes. Whereas in the developed world educational quality will deteriorate with an increase in class enrolment, in Indonesia a larger class enrolment is a sign that the school is in very high demand by better students (Moegiadi, 1979).

The distribution of better schools across the provinces is also reflected in the school of origin of finalists of national youth science contests conducted by the Directorate General of Primary and Secondary Education, and by the Indonesian Institute of Sciences (LIPI). Lately, results of mathematics contests to select participants for the International Mathematics Olympiad also revealed that the best ten semi-finalists out of which six team-members were going to be selected originated from the same small group of senior high schools.

Differential Student Quality of Universities

High schools of a region could be considered as the 'hinterland' of — and source of new students for — a university in the same locality. Only a few institutions of higher learning in Indonesia could consider the nation as a whole as its hinterland. Therefore, differences in the quality of senior high schools compared across all provinces in Indonesia create a difference also in the academic input level of the universities. Support for this proposition is provided by the experience of the graduate program of the Bogor Institute of Agriculture in recruiting students from various universities in
Indonesian Higher Education

Many of these universities send their best candidates to Bogor and they perform very well in their graduate work. However, starting with the second batch, there was generally a significant decrease of their academic performance, indicating that those universities could only manage to draw a very small number of good candidates into their local programs.

To explore this phenomenon, Budiarto (1989) collected data on the number of applicants and the number admitted to various undergraduate programs in universities located all over Indonesia. In doing this he could estimate the selection pressure working on the admittance process of new students for various types of programs and universities. He imagined a hypothetical variable he called Level of Academic Adeptness (LAA) of high school graduates to pursue an academic education. This variable he hypothesised takes on a value between 0 and 1, 0 representing those who are unfit for academic study and 1 signifying those who are ready to pursue any kind of academic education. After studying the selection pressures for various study programs, he classified the most sought-after study programs into three types, engineering, medicine and economics, and agricultural sciences, law and psychology.

The first type is solicited only by the better students, because nobody would dare to compete for admission to that type of a program unless they were very confident of their ability. Universities of this type, he hypothesised, are solicited only by a population of students whose LAA values are distributed according to a beta distribution with parameters \((a, b) = (7, 2)\). The second type has a distribution which is less skewed to the left with parameters \((a, b) = (4, 2)\) and a mode of .76. The third type has a more or less symmetric distribution with parameters \((a, b) = (4, 4)\) and a mode of 0.50.

Then he classified the institutions of higher learning in Indonesia into type AN which includes the most sought-after public universities on Java, Type AS which includes the most popular private universities on Java, type BN which includes the moderately popular public universities on Java and the most sought-after public universities outside Java, type BS which includes private universities in this category, and type C which includes all other universities. Based on simulations with the proportion of candidates admitted, he concluded that all type AN universities most likely managed to admit the best 5% of high school graduates in the nation, while students admitted to the type AS universities
consisted mostly of the best 20%, and those admitted to type BS universities generally consisted of the best 40%. What concerned him very much was that for quite a number of type C universities and especially for very 'unpopular' programs, for which the LAA distribution would be very skewed to the right with parameter values of say \((a, b) = (4, 2)\) and a mode of 0.26, the students admitted were very mediocre.

**No Motivation to Study Basic Sciences in the University**

Budiarto (1989) also found that most A1 graduates had their priorities set on being admitted to an engineering or an economics program, while most A2 graduates concentrated their efforts on admission into medicine, engineering, or agriculture. Not many A1 and A2 graduates have as their first priority the natural sciences, which could imply that the best high school graduates in Indonesia usually shy away from studying the basic natural sciences and mathematics. This phenomenon was also confirmed by Junaidi (1989) in his study on the way freshmen at the Bogor Institute of Agriculture set up their priorities in choosing their major study program starting with their sophomore year.

Ironically, it was also a fact that none of the members of the Indonesian team to the International Mathematics Olympiad in Canberra, Frankfurt, and Beijing intended to study mathematics as a profession. All except one could be found in engineering programs of the University of Indonesia, the Bandung Institute of Technology, and the Surabaya Institute of Technology. The only one not in engineering studied psychology at Gadjah Mada University, but his first choice was engineering.

It was also inadvertently found that the fourth best performer from East Java and the eighth best performer at the national level did not have the means to pursue a university education. Fortunately, some anonymous donors were willing to cover their tuition, board, and lodging for the first year of university. This provision enabled them to enrol in the mathematics program of the Faculty of Mathematics and Natural Sciences of the Bogor Institute of Agriculture. This observation underlines the importance of providing mathematically and academically talented students from low income backgrounds with funds to pursue a university education in the basic sciences.
Improving Output Quality of Indonesian Universities

For a university to perform properly in an academic sense, it should have a set of academically qualified teachers, actively engaged in the quest for and dissemination of knowledge. The availability of students as the counterpart of teachers in this journey towards the frontiers of knowledge is a prime necessity to transform the university into an institution whose sole purpose is the removal of ignorance. To achieve this aim, only the best analytic and synthetic minds should engage in the pursuit of higher education, in both public and private universities.

Therefore, a mechanism should be developed to stream high school students not according to the soft and hard sciences, but according to their general intellectual skills. Two alternative mechanisms could be studied. The first is to let high school students undergo a two-year common curriculum where they are judged on their reasoning ability. Those who are more inclined to perform mechanistically should be assured of a continuing education where they could learn a profession to earn an honest living. Those with an academic inclination should be given the opportunity to enter the twelfth grade where they could prepare themselves for university education. The second alternative is to do the streaming after the ninth grade, using the school leaving examinations as the selection criterion. The first alternative might be easier to implement but at a later stage the second alternative might be the better mechanism. Whatever alternative is chosen, it has to be borne in mind that greater effort should be made to accommodate those who are more mechanistically inclined in vocational and professional schools to prepare them to become a useful part of the nation's workforce. For many years, much effort has been devoted to developing selection mechanisms to choose the best university students, either by the university itself or by the national administration. However, much less effort has been directed to accommodate in an efficient system of professional education those who did not perform well academically. They were given instead the opportunity to be nurtured as mediocre students at an obscure, mediocre university, whereas they might have excelled if nurtured in an appropriate environment.

Selection of the most eligible students is not the only task to be tackled, because such selection might create discrepancies in educational opportunities owing to the differences in the quality of
the high schools. More effort is required to improve teaching of science, mathematics, and English in high schools all over Indonesia. The answer lies not only in supplying the schools with laboratory equipment, but also with laboratory teachers who can guide students to perform laboratory experiments and analyse the results.

The fact that equipment supplied under a loan project to secondary schools was left untouched in sealed manufacturer-supplied boxes is an indication that many science teachers are not conversant with equipment for class laboratory exercises. Moreover, many biology laboratories in secondary schools seem to display only dead laboratory specimens. In an occasional visit to two senior and two junior high schools in Yogyakarta, which is considered to be one of the best provinces with respect of educational quality, only one laboratory included live specimens in its display, in the form of an aquarium with fish and water plants.

Experimentation in the science laboratory and subsequent proper analysis of the experiments are the main means to integrate observation and thinking toward the development of an inquisitive mind. If it could be arranged that those students who have shown this faculty could be selected for university, then classes could be kept small, consisting largely of an interested audience, challenging the teacher to perform at his or her best. Only then could the university pursue excellence, and its graduates' self-esteem would come from achieving mastery over words and numbers and ideas. Only then, also, could the university become a place where young minds are respected, and where excellence is not equated with elitism, and where both tradition and innovation are judged by the results they achieve. Only then, also, would there be no need in the Indonesian university to take a roll call of students during seminars and symposia to enforce attendance.

Policy Implications for University Development Projects

The government has done much to boost the quality of higher education outside Java. The Western Universities Project, which is supported by the United States, is taking care of universities in Sumatra and West Kalimantan, while development of universities in the eastern part of Indonesia is supported by the joint efforts of Canada and Australia. The main thrust of development is in
improving the qualifications of the teaching staff and the development of laboratories. Currently, there is both in the west and in the east a shift of attention to improving the teaching of the basic sciences and mathematics in the universities through staff and laboratory development.

If this can be achieved, there will surely be an improvement in staff qualifications in universities in the west and in the east. However, without a concurrent improvement in the quality of teaching in secondary schools, mainly of the eastern part of Indonesia, those who will benefit from this university improvement will be those high school graduates on Java who were outsmarted by their more able classmates, but who in turn might be outsmarting the local high school graduates in the eastern part of Indonesia. The result will be a positive shift of activities to the east, albeit accompanied by some misgivings on the part of the locals. Therefore, it needs to be emphasised that an ambitious university development effort in the western and eastern parts of Indonesia should be accompanied by a sustained improvement of the teaching of science and mathematics in the high schools, and a massive development of skill-oriented vocational schools to divert non-academically inclined students from entering the wrong stream.

Pertinent to this conclusion is the problem of streaming students in secondary education. It is suggested here that two selection mechanisms be developed to identify academically-inclined from vocationally-oriented students. The first should be applied in the ninth grade, which is the final grade of junior high school, where less academically inclined students should be given the choice to pursue a vocational education. The second mechanism should be applied at the end of the eleventh grade, after the students have gone through a two-year general curriculum containing a few indicator courses of creative thinking and academic aptitude, such as a foreign language, composition, mathematics, and the sciences. Those who are more inclined to learning and applying existing knowledge should be given a diploma after the eleventh grade, and provided with a relevant advanced vocational education. Those who are more academically inclined should undergo pre-academic training in the twelfth grade.

Concurrent to the problem of streaming high school students, a tough decision has to be made to reprogram type C universities (Budiarto, 1989) into institutions offering a beefed-up version of the first two years of schooling of the undergraduate program. The last
two years should be pursued in the nearest type BN university. All large grants should be prioritised to develop BN universities as a whole, and the improvement of course offerings of the first two years curriculum in the type C universities. These type C universities would be the third mechanism to select academically suitable students. In this way it is hoped that all development efforts would benefit those students who are the best suited to pursue a university education.

Once we can discover the recipe of how to improve the quality of the inputs to higher education in order to raise the quality of its output, a solution will also have to be found to the problem of producing appropriate class teachers in primary schools and subject teachers in secondary schools. There also has to be initiatives to motivate better candidates to pursue a teacher education program and a basic science program in mathematics, physics, chemistry, or biology. The third issue to be addressed is how to keep our best teachers-cum-researchers in the system. The answer must be sought in the realm of remuneration and the work environment. As long as a full professor's pay is less than half the starting salary of his or her advisee who became the manager of a hamburger joint, and as long as the freedom to nurture a creative attitude is not tolerated — which in the sense of Schank and Childers (1988) is equivalent to having the ability to ask and answer the right questions — it will be next to impossible to keep them busy on campus.
Policy-Making in Higher Education
and Implications for Equity*

Mayling Oey-Gardiner

Introduction

This chapter identifies issues in higher education policies\(^1\) emanating from the structure of government in Indonesia. As a unitary state, it is the central government which has the authority to design as well as implement national policies. Within the central government it is the executive branch of government, headed by the President, which has greater authority and power to initiate and pass laws (Undang-Undang or UU) as well as other rules and regulations. While the authority of the legislature is equal to that of the executive branch of the government in initiating laws, it is the executive which has greater effective power to establish rules and regulations, especially those affecting the implementation of laws.

With regard to higher education, it is the Ministry of Education and Culture, and more specifically the Directorate General of Higher Education (DGHE), which holds power and authority over all higher education institutions, both public as well as private.

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\(^1\) The word 'policy' is used very broadly in this chapter, and refers to a variety of rules and regulations, ranging from laws to very local and specific implementation rules. In the case of higher education, the most local and specific implementation policies are issued by individual Kopertis (Koordinator Perguruan Tinggi Swasta or Private Higher Education Institutions Coordinator).
However, existing rules and regulations for the higher education system are often only formally followed by individual institutions. While many adjustments to existing rules and regulations are weakening the system, actual practices have been acknowledged in the recent education bill, enacted in 1989. According to the new law, public institutions of higher education are given autonomy, initially limited to financial autonomy.

The purpose of this chapter is to describe the roles of the executive and legislative branches of government in policy-making processes in general and higher education policies in particular. The focus here is on the public higher education system. While the 1945 Constitution states that education is a public good and thus adherence to equity is the guiding principle of public education policies, implementation of higher education policies may not always accord with the principle of equity, both regionally as well as socially. These regional equity considerations tend to foster low mobility, thereby favouring a system of inbreeding rather than cross-fertilisation. The uneven implementation of numerous detailed rules and regulations is a feature of the public higher education system. While the newly awarded financial autonomy of public institutions of higher education legitimises variations within the system, this may also reinforce existing differences in quality.

The Legal Setting

The far greater role played by the executive branch of the government, rather than the legislature, in setting policies, laws and regulations, stems from three main factors. First, the 1945 Constitution provides a legal basis for greater policy-making authority for the executive rather than the legislative arm of government. Second, the Provisional People's Consultative Assembly (MPRS) Decree No. XX/MPRS/1966, which allows for the existence of a number of implementing authorities, further strengthens the executive body. Third, differential access to resources results in greater policy-making capabilities in the executive. Given existing resources it may be desirable to maintain the current role of the legislature, at least temporarily. Table 6.1 provides a summary picture of the 'hierarchy of rules' providing the framework for government policies.
Table 6.1: The Legal Framework

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<tr>
<td>1.</td>
<td><strong>UUD 1945</strong></td>
<td>1945 Constitution.</td>
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<tr>
<td>2.</td>
<td><strong>TAP MPR</strong></td>
<td>People's Consultative Assembly decrees are implementing regulations of the 1945 Constitution.</td>
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<tr>
<td>3.</td>
<td><strong>UU or PERPU</strong></td>
<td>Laws or Government Regulation Replacement Laws are general and formal regulations to implement the Constitution. Laws are proposed by the executive and approved by Parliament. (Articles 5 (1) and 20 (1) of the Constitution.) Government Regulation Replacement Laws are proposed by the government or executive in an emergency situation, and are of the same level as laws, which regulation must be approved by Parliament in the following assembly. If it is not approved it must be withdrawn (Article 22).</td>
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<td>4.</td>
<td><strong>PP</strong></td>
<td>Government Regulations are general rules to implement UU or PERPU. PP are proposed by the government (President and ministers) and signed by the President (Article 5 (2)).</td>
</tr>
<tr>
<td>5.</td>
<td><strong>KEPPRES</strong></td>
<td>Presidential Decrees are special rules to implement the 1945 Constitution, the People's Consultative Decrees, Laws or Government Regulation Replacement Laws and Government Regulations (Article 4 (1)). The difference between PP or Government Regulations and KEPPRES or Presidential Decrees lies with the authority to issue: President and his ministers for PP and the President himself for KEPPRES.</td>
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<td>6.</td>
<td>Other implementation regulations, such as:</td>
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<td></td>
<td><strong>INPRES</strong></td>
<td>Presidential Instructions are assignments from the President to his ministers regarding implementation of policies derived from higher order rules. Such instructions are given to ministers, and leaders of non-departmental agencies.</td>
</tr>
<tr>
<td></td>
<td><strong>PERMEN</strong></td>
<td>Ministerial Regulations are implementation regulations issued by ministers.</td>
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<td></td>
<td><strong>KEPMEN</strong></td>
<td>Ministerial Decrees to regulate implementation of the higher order rules.</td>
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<tr>
<td></td>
<td><strong>INMEN</strong></td>
<td>Ministerial Instructions are assignments given by ministers to lower level officials regarding implementation of higher order rules. Non-Departmental Institutional Regulations are implementation regulations of higher order rules. Other government institution regulations.</td>
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</table>
The 1945 Constitution

The Indonesian Constitution recognises a distribution (in the sense of sharing) rather than separation of powers between the three branches of government. Power is thus distributed or shared between the executive, together with the legislative and judicial branches of government, which are all responsible to the People's Consultative Assembly (MPR).

The executive branch of government consists of the President and his appointed ministers. Within a presidential rather than a parliamentary system of government, ultimate governance is vested with the President. Legislative authority is shared by the executive and the Parliament. Since laws are general regulations, the executive branch seeks the cooperation of Parliament.

The executive (the President and his ministers) and the legislative (Parliament or DPR) branches of government are supposed, in principle, to have equal status, because of the following articles and paragraphs in the Constitution:

5(1): The President has the power to make laws with the approval of Parliament.

20(1): Every law requires Parliamentary approval.

4(1): The President has the power to govern in accordance with the Constitution.

However, in practice, the executive is more dominant even in regard to legislation. The requirement that every proposed bill (RUU) approved by Parliament be ratified by the President before it comes into effect places the President at a higher level than Parliament.

The position of Parliament is, in fact, weaker still. Article 21, paragraph (1) of the Constitution states that members of parliament 'have the right to' (berhak) propose a bill. The phrase 'have the right to' can be interpreted to mean either (a) 'they may want to' or (b) 'they may not want to', depending on the individuals concerned in Parliament, for they are not required to propose bills.

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2 Specifically, Article 5, paragraph (1) and Article 20, paragraph (1).
3 It also needs to be remembered that Parliament can not overrule the President.
Types of policies
The large variation in policies ultimately places even greater power and authority with the executive. This is reinforced by the fact that, ultimately, policies are all prepared, enacted and implemented by the executive branch and its lower levels. Within the present system of government, Parliament is only involved in law-making which, under current conditions of limited resources, may be more expedient. Since laws are general policy statements, the former are further translated into Government Regulations (PP, Peraturan Pemerintah), which are prepared by the executive and do not have to be discussed in Parliament (but they may be, as was the case with the new education PP Nos. 27 to 30 of 1990). Enactment of a PP is by signature of the President. Below government regulations are Presidential Decrees (Keputusan Presiden), which do not require Parliament's involvement. The authority to issue Presidential Decrees remains solely with the President. In addition, based on the MPRS Decree No. XX/MPRS/1966, there are further implementation rules and regulations, which can be issued by the President, ministers or even lower level bureaucrats.

Although a great deal of power and authority in policy-making is held by the executive, it should not be inferred that the executive has absolute power. Rather, because laws are very general statements of policies, laws have very broad implications. As such, even though the initiative remains with the executive, the public is often involved in the preparation of laws. It is precisely this public involvement, as well as Parliament's right to discuss laws before they are enacted, which makes law-making very time consuming. Frequently the process extends over the life of more than one cabinet. Consequently not all laws are passed. Most policies are lower level initiatives and more likely concerned with implementation of existing laws or government regulations.

Implementation policies can be of the following variety: KEPPRES (Keputusan Presiden or Presidential Decree); INPRES (Instruksi Presiden or Presidential Instruction); PERMEN (Peraturan Menteri or Ministerial Regulation); KEMPEN (Keputusan Menteri or Ministerial Decree); INMEN (Instruksi Menteri or Ministerial Instruction); Peraturan Lembaga Non Departemen or Non-Departmental Institutional Regulations; and other Peraturan Badan Negara or Public Institutions Regulations (see Table 6.1 for definitions).
Access to Resources
Differential access to resources further strengthens the position of the executive. The legislature, for instance, has neither the required human nor financial resources to conduct the necessary research in order to prepare new bills. Consequently parliament has hardly ever used its right to propose a bill (Soehino, 1981:65). Most laws are proposed by executive officers who, in addition to controlling resources, also hold most information.

Thus, new bills are proposed by the executive, and Parliament has the right to discuss and finally approve bills, which are then enacted by the President. It is in this sense that there is a shared legislative power and authority between the executive and legislative branches of government.

In regulating higher education, the role and importance of the executive branch is even more pronounced. Since independence, only six laws involving higher education have been passed, five of which were passed during the Old Order government. In the meantime, implementation policies continued to be issued. These are numerous and continue to increase over time.

By focussing on the public system of higher education, it will be shown below that even though regional considerations are present in policy-making and implementation, the system remains rather inequitable. Inequities persist due to low mobility among both students and staff. Furthermore, the stronger institutions are better equipped to benefit from the recently-awarded financial autonomy thereby, at least initially, further widening the gap in the quality between the stronger and weaker institutions.

The Role of Central Government in Higher Education

There were only 49 public institutions of higher education in Indonesia in 1990.5 This sector is the responsibility of central government. Within the structure of the Department of Education and Culture, it is the Directorate General for Higher Education

5 This compares with 872 private institutions in 1990. By contrast, there were 142,966 SD or primary schools, 18,575 SMTP or lower secondary schools, and 9,266 SMTA or upper secondary schools that were administered by numerous Kanwil (Regional Offices of the Department of Education and Culture) in 1986/87.
which is responsible for government-recognised degree-awarding tertiary education institutions. Tertiary institutions are currently differentiated by sources of funds into public institutions of higher education (PTN, Perguruan Tinggi Negeri) and private institutions of higher education (PTS, Perguruan Tinggi Swasta). There is further differentiation by type of institution into universities, institutes, sekolah tinggi, academies and polytechnics. While sarjana and specialist degrees are usually obtained from universities and institutes, diploma degrees can be obtained from any of the five types of tertiary institutions.

The new education bill No. 2, 1989, took several years and several cabinets before it became law. In fact, it originated in the work of a committee set up in 1978, headed by Professor Dr Slamet Iman Santoso, a highly respected educationalist. The committee was closely associated with the education community and it also took account of the opinions of the general public. The new law and government regulation drew on the committee's report, together with other consultations and changes already underway in the system.

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6 Under the current system, there are basically three types of degrees recognised by the government: Diploma or S0 (D1, D2, D3, and D4, where the subscripts refer to the length of the program in years), Sarjana (S1, S2, and S3, each representing equivalents of undergraduate, masters and doctorate programs) and Specialist (Sp1 and Sp2) professional degrees equivalent to the S2 and S3 for academic degrees.

7 While PTN are the direct responsibility of the DGHE, the far more numerous PTS are administratively handled by one of the directorates of the DGHE, namely the Directorate for Private Institutions of Higher Education which, in turn, administers regional coordinators known as KOPERTIS (Koordinator Perguruan Tinggi Swasta), of which there are currently 12.

8 Not all post-secondary institutions are under the umbrella of the DGHE. Those which cannot or do not wish to comply with existing rules and regulations on higher education avoid the DGHE by registering with other government departments.

9 The final document produced by this committee was entitled Laporan Komisi Pembaharuan Pendidikan Nasional, Departemen Pendidikan dan Kebudayaan, Jakarta, 1980.

10 For instance, according to the new Education Law No. 2 of 1989 and the new Higher Education PP No. 30 of 1990, all PTN are given financial autonomy. This financial autonomy basically legalises earlier extra-
Following enactment of the new law and government regulation, new lower order implementation programs are being prepared. All these programs are being prepared by the central government, and, in the case of higher education, by the DGHE.

In preparing its policies, the DGHE is guided by the principle of equity, meaning that rules should apply to all institutions and that distribution of opportunities and/or financial resources should always incorporate regional perspectives. Notwithstanding this guiding principle, however, differences in past investment programs have resulted in large variations in PTN quality. While such regional considerations may benefit some individuals in the regions, these pressures also tend to perpetuate existing regional and social disparities. We return to this issue shortly.

Centralisation, Regionalism, and Inequity

The Higher Education System: Some Numbers.
There are currently 43 conventional public institutions of higher education (PTN) spread over the archipelago, consisting of 30 universities, three engineering institutes, and 10 IKIP or teacher training colleges. Except for the newest province, East Timor, all other provinces have at least one university and in 10 provinces there is also an IKIP. Even though there is great variation in the quality of these PTN, it is generally accepted that the older, more established institutions are the best. The major PTN are all located on Java — the University of Indonesia in Jakarta, the Bogor Institute of Agriculture, the Bandung Institute of Technology and Gadjah Mada University in Yogyakarta. Many of the universities and IKIP outside Java are still rather weak. They were established when the nation could ill afford such rapid and sudden expansion of the overall PTN system (see Table 6.2).
## Table 6.2: Indonesian Public Universities

<table>
<thead>
<tr>
<th>Year</th>
<th>Name</th>
<th>City</th>
<th>Province</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>Universitas Gadjah Mada (UGM)</td>
<td>Yogyakarta</td>
<td>Yogyakarta</td>
</tr>
<tr>
<td>1950</td>
<td>Universitas Indonesia</td>
<td>Jakarta</td>
<td>Jakarta</td>
</tr>
<tr>
<td>1954</td>
<td>Universitas Airlangga (UNAIR)</td>
<td>Surabaya</td>
<td>East Java</td>
</tr>
<tr>
<td>1954</td>
<td>IKIP Padang</td>
<td>Padang</td>
<td>West Sumatra</td>
</tr>
<tr>
<td>1956</td>
<td>Universitas Andalas</td>
<td>Padang</td>
<td>West Sumatra</td>
</tr>
<tr>
<td>1956</td>
<td>Universitas Hasanuddin (UNHAS)</td>
<td>Ujung Pandang</td>
<td>South Sulawesi</td>
</tr>
<tr>
<td>1957</td>
<td>Universitas Pajajaran (UNPAD)</td>
<td>Bandung</td>
<td>West Java</td>
</tr>
<tr>
<td>1957</td>
<td>Universitas Sumatera Utara (USU)</td>
<td>Medan</td>
<td>North Sumatra</td>
</tr>
<tr>
<td>1959</td>
<td>Institut Teknologi Bandung (ITB)</td>
<td>Bandung</td>
<td>West Java</td>
</tr>
<tr>
<td>1960</td>
<td>Universitas Lambung Mangkurat (UNLAM)</td>
<td>Banjarmasin</td>
<td>Sth Kalimantan</td>
</tr>
<tr>
<td>1960</td>
<td>Universitas Srimijaya (UNSRI)</td>
<td>Palembang</td>
<td>South Sumatra</td>
</tr>
<tr>
<td>1961</td>
<td>Institut Teknologi Selphuu November (ITS)</td>
<td>Surabaya</td>
<td>East Java</td>
</tr>
<tr>
<td>1961</td>
<td>Universitas Diponegoro (UNDIP)</td>
<td>Semarang</td>
<td>Central Java</td>
</tr>
<tr>
<td>1961</td>
<td>Universitas Sam Ratulangi (UNSRAT)</td>
<td>Manado</td>
<td>North Sulawesi</td>
</tr>
<tr>
<td>1962</td>
<td>Universitas Syiah Kuala (UNSYIAH)</td>
<td>Banda Aceh</td>
<td>Aceh</td>
</tr>
<tr>
<td>1962</td>
<td>Universitas Cenderawasih</td>
<td>Jayapura</td>
<td>Irian Jaya</td>
</tr>
<tr>
<td>1962</td>
<td>Universitas Riau</td>
<td>Riau</td>
<td>Riau</td>
</tr>
<tr>
<td>1963</td>
<td>Universitas Mulawarman</td>
<td>Samarinda</td>
<td>East Kalimantan</td>
</tr>
<tr>
<td>1963</td>
<td>Universitas Udayana</td>
<td>Denpasar</td>
<td>Bali</td>
</tr>
<tr>
<td>1963</td>
<td>Universitas Mataram</td>
<td>Mataram</td>
<td>W. Nusa Tenggara</td>
</tr>
<tr>
<td>1963</td>
<td>Universitas Nusa Cendana</td>
<td>Kupang</td>
<td>E. Nusa Tenggara</td>
</tr>
<tr>
<td>1963</td>
<td>IKIP Jakarta</td>
<td>Jakarta</td>
<td>Jakarta</td>
</tr>
<tr>
<td>1963</td>
<td>Universitas Jenderal Sudirman (UNSUD)</td>
<td>Purwokerto</td>
<td>Central Java</td>
</tr>
<tr>
<td>1963</td>
<td>IKIP Yogyakarta</td>
<td>Yogyakarta</td>
<td>Yogyakarta</td>
</tr>
<tr>
<td>1963</td>
<td>Universitas Brawijaya (UNIBRAW)</td>
<td>Malang</td>
<td>East Java</td>
</tr>
<tr>
<td>1963</td>
<td>Universitas Jambi</td>
<td>Jambi</td>
<td>Jambi</td>
</tr>
<tr>
<td>1963</td>
<td>Universitas Tangkung Pura</td>
<td>Pontianak</td>
<td>W. Kalimantan</td>
</tr>
<tr>
<td>1963</td>
<td>Universitas Pattimura (UNPATTI)</td>
<td>Ambon</td>
<td>Maluku</td>
</tr>
<tr>
<td>1964</td>
<td>Universitas Jember (UNJEM)</td>
<td>Jember</td>
<td>East Java</td>
</tr>
<tr>
<td>1965</td>
<td>Institut Pertanian Bogor (IPB)</td>
<td>Bogor</td>
<td>West Java</td>
</tr>
<tr>
<td>1965</td>
<td>IKIP Bandung</td>
<td>Bandung</td>
<td>West Java</td>
</tr>
<tr>
<td>1965</td>
<td>IKIP Malang</td>
<td>Malang</td>
<td>East Java</td>
</tr>
<tr>
<td>1965</td>
<td>Universitas Palangka Raya</td>
<td>Palangkaraya</td>
<td>C. Kalimantan</td>
</tr>
<tr>
<td>1965</td>
<td>IKIP Surabaya</td>
<td>Surabaya</td>
<td>East Java</td>
</tr>
<tr>
<td>1965</td>
<td>IKIP Semarang</td>
<td>Semarang</td>
<td>Central Java</td>
</tr>
<tr>
<td>1965</td>
<td>IKIP Medan</td>
<td>Medan</td>
<td>North Sumatra</td>
</tr>
<tr>
<td>1965</td>
<td>Universitas Lampung</td>
<td>Lampung</td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>IKIP Manado</td>
<td>Manado</td>
<td>North Sulawesi</td>
</tr>
<tr>
<td>1965</td>
<td>IKIP Ujung Pandang</td>
<td>Ujung Pandang</td>
<td>South Sulawesi</td>
</tr>
<tr>
<td>1976</td>
<td>Universitas Sebelas Maret (UNS)</td>
<td>Surakarta</td>
<td>Central Java</td>
</tr>
<tr>
<td>1981</td>
<td>Universitas Tadulako</td>
<td>Tondo</td>
<td>Central Sulawesi</td>
</tr>
<tr>
<td>1981</td>
<td>Universitas Halu Oleo</td>
<td>Kendari</td>
<td>S.E. Sulawesi</td>
</tr>
<tr>
<td>1982</td>
<td>Universitas Bengkulu</td>
<td>Bengkulu</td>
<td>Bengkulu</td>
</tr>
</tbody>
</table>

About 600,000 students attend degree programs in the PTN system throughout the country. Tuition fees are relatively low because of very heavy subsidisation, and study completion time is relatively short because the students are less dependent on outside lecturers and examiners. Tuition fees constitute only a small proportion of total PTN expenditures, since personnel and other investments are funded by the government. Government funds are, however, limited, especially for operation and maintenance. Hence a number of PTN, both its constituent units and individual staff members, have long been involved in additional income generating activities.

Owing to declining government revenues, it has been decided that PTN will not expand during the next few years. Instead, greater attention will be paid to quality. The rapidly rising demand for higher education will have to be met by the private sector. Even at present there are already 20 private institutions of higher education (PTS) for each PTN. The former grew very rapidly, especially during the second half of the 1980s. Some 1.2 million students were attending 872 PTS in 1990. While there are some PTS of reasonable quality, none are of comparable quality to the four major PTN, and most are of poor quality. Unlike PTN, most PTS depend almost solely on student fees for their operating expenditure. Consequently, tuition fees are much higher at PTS than at PTN. In addition, PTS students have to pay additional fees, such as entrance or building fees, state final exam fees, and so on. Not only are

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12 This number includes all students attending S0 and S1 study programs in the 43 PTNs.
13 In 1990, they ranged between Rp 120,000 and Rp 180,000 (US$70-100) per semester.
14 This rapid increase is partly the result of population growth, but more so due to the 'push-up effect' caused by extremely rapid rises in enrolments at lower levels resulting from the government program to increase primary school enrolments, known as the SD Inpres Program, instigated in 1974.
15 PTS numbers have risen from 334 in 1975, to 362 in 1980, to 572 in 1985 and to 872 in 1990.
16 In Jakarta in 1989, tuition fees at the better known PTS were Rp 300,000-600,000 per semester for non-medical programs.
17 In Jakarta in 1989, these fees could be as high as Rp 3-4 million at the more popular PTS.
fees higher at PTS but their study time is generally longer because of the requirement that their students have to take state final examinations; for this they are dependent on staff from the local PTN.

Acceptance into a PTN is therefore like winning a lottery, but the probability of winning a prize is not equal among all applicants and the probability of winning one of the top prizes (that is, acceptance into a popular study program of one of the major PTN) is even less equal. There are currently some 1.2 million graduates from upper secondary school. About 0.5 million sit for the PTN selection examination and about 80,000 lucky candidates are accepted nationwide.¹⁹ This system for selecting new students into PTN can cause inequities on several counts.

Selecting New Students
In spite of great variations in quality, the PTN have a rather local catchment area for their incoming students. The centrally processed selection of new students into the PTN system favours localisation. It is suggested, however, that there are other reasons for this very low mobility among students. One possible reason is the absence of scholarships or student loans for entering students.²⁰ Consequently, even the brighter candidates from distant provinces have fewer chances than Java candidates to attend one of the major PTN, where a greater proportion of the academic staff have had post-graduate training, especially from overseas institutions.

The selection of students based on examination scores is regionally and socially inequitable. Not only are the better institutions of higher education located on Java but so are the better secondary schools. Moreover, other educational facilities, such as

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¹⁸ PTS students have to pass state final exams in 11 to 13 courses to have their degrees recognised by the government. According to regulations, Jakarta PTS students should be charged only Rp 7,500 per subject each time they take an exam. However, in practice they have to pay more.

¹⁹ Additionally, some 20,000 are accepted through the so-called PMDK, or talent scouting, round and others are accepted into SO programs through a selection process conducted by the respective institutions.

²⁰ Moreover, most available scholarships and student loans are given to upper-level students and the amounts are rather small (Rp 30,000-50,000), constituting only about one-half to one-third of average monthly student expenditure (Clark, Suryahadi and Manaf, 1990).
private institutions which provide extra-curricula drill sessions in preparation for the PTN entrance examination (termed UMPTN), are also located disproportionately on Java, and particularly in the bigger cities. As a result, it is far more difficult for candidates from outside Java, or even from rural areas of Java, to compete with city-dwellers on Java for placement in the best PTN. Consequently, the better PTN also draw better students.

Since drilling sessions are mainly offered by the private sector, it is the better-off who can afford to pay, thereby increasing the probability of acceptance into a PTN. As is the case with several other services, it is the poor or, in the case of higher education, the relatively poor or 'middle class', who have less access to public services or who are more dependent on the private sector. The very poor have been selected out at the earlier stages of the education career, when they were in secondary school.\textsuperscript{21} The very rich have many options, including the purchase of education abroad. The next group has a greater probability of acceptance into the PTN system,\textsuperscript{22} but they also have the option of a better PTS. It is, however, the class below, the 'middle class', for whom public and highly subsidised higher education is often not an option. For this group, higher education can be acquired only from the private sector, at a higher price and often lower quality.

\textbf{The Vicious Cycle: Personnel}

Low levels of regional mobility are found not only among students but also among academic staff. Since the permanent staff of PTN are civil servants, they are subject to civil service personnel policies, of hiring, firing and remuneration. Since in the past the government was the major employer of higher education graduates, the universities have been described as the 'anterooms' to the civil service (Keyfitz and Oey-Gardiner, 1989), which includes academia. New appointments can be made only at the bottom of the

\begin{footnotesize}
\footnote{Continuation rates at the beginning of the current five-year development plan (1989/90) were 72\% for primary and lower secondary, 81\% from lower to upper secondary, and 52\% from upper secondary to post secondary (Repelita V).}
\footnote{A survey conducted in 1988 and 1989 shows under-representation among the lower income strata (Suryahadi and Manaf, 1990).}
\end{footnotesize}
hierarchy, starting at rank IIIa for those holding a S3 degree. After a relatively short probationary period of one year, during which time a new appointee remains a 'candidate' civil servant, tenure is received. Higher level ranks are filled only from below through promotions, which, until recently were mainly a function of seniority. Mobility, even between PTN, is discouraged by the system because one needs both a release as well as an acceptance from both institutions.

The current system promotes inbreeding. It is in the interest of some of the existing dosen (lecturers) to get some of their own students to become assistants, especially as teaching assistants. This system is also beneficial for the middle and senior academic staff, who, because of their low salaries, become increasingly involved in outside earning activities. This pattern applies to both major and smaller PTN: the higher the rank of the dosen the more jobs they hold (Clark and Oey-Gardiner, 1988). Teaching or lecturing is thus often conducted by their assistants. For the students or assistants this is usually the first step on the ladder towards an academic appointment, which they can keep until retirement.

This symbiotic relation between assistants and their dosen establishes continuity within an existing system where rejuvenation comes from within the system and competition from outsiders is avoided. While it is a comfortable state of affairs for those who fear competition, especially in some of the PTN outside Java, such a situation in the long run reinforces weaknesses of already weak institutions.

In the meantime, the better dosen as well as students are likely to be more mobile and to be drawn to the better universities on Java and to central government appointments in Jakarta. As a result, the staff at major universities are more 'national', while regional universities tend to be rather provincial. The combination of almost total staff immobility among the majority, and the mobility of the few better staff and students of regional PTN outside Java, is another contributing factor to the persistence of quality differences between the major PTN on Java and the weaker PTN outside Java.

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23 The civil service structure for academics starts at golongan (rank) IIIa as entry point with a S1 or sarjana degree, when one holds a position of Asisten Ahli Madya. The next position is that of Asisten Ahli rank IIb, then Lektor Muda rank IIIc and Lektor Madya rank IIId. Thereafter
Distribution of Additional Resources

The distribution of limited additional financial resources driven by the principle of regional equity, combined with a rigidly controlled personnel system, further reinforces inequities.

As the central government has to be concerned with regional equity, additional limited resources to strengthen existing programs or to establish new programs have to be distributed between a number of institutions on Java and outside Java. Consequently, each recipient receives relatively small amounts. In the meantime, one or all of the major institutions are often beneficiaries of additional resources for special programs or projects. It is especially because of their strength that the major universities are better able and equipped to utilise such additional resources more effectively. The stronger institutions are stronger because they have larger pools of better qualified staff to implement new programs or to strengthen existing programs.

These major institutions are also better able to draw additional resources from other government agencies or the private sector. If additional human resources are required outside the civil service permanent staff, then it is also the stronger institutions which are more capable of purchasing the time of such individuals,\textsuperscript{24} since the 'better' or more qualified individuals tend to gravitate towards the bigger cities of Java. Thus, it is essentially the stronger institutions which benefit from additional resources distributed by the central government.

In the meantime, rigid personnel policies work against specialisation, as a means of reducing the quality gap between the weaker regional universities and the major universities on Java, through heavy investments in one regional university in one specialised field. The highly centralised and rigid personnel policies work against the possibility of effectively utilising large amounts of resources in weaker universities. The very small number of staff with post graduate education in these regional universities, combined with the inability of the system to hire the required qualified personnel at higher ranks (say as Lektor Kepala or even Professor) and pay such individuals market rates, means that their

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\textsuperscript{24} Also, they are not constrained to offering them civil service status, but can pay market rates.
absorptive capabilities are also limited. Thus, improving the quality of the regional and weaker institutions through specialisation is not yet an option.

Living with Policies

Notwithstanding often rather detailed rules and regulations which have the purpose of standardisation, there is often great variation in the operation of PTN. While formal compliance may be more characteristic of 'weaker' individuals and institutions, 'stronger' individuals and institutions have more options.

How to Follow Rules

It is not always possible — and probably not desirable — that individuals and institutions follow all existing rules and regulations. There are numerous means by which individuals or institutions respond to and cope with often extraordinarily detailed rules.

First, as long as there are no negative financial consequences, rules can be ignored. For instance, changes introduced through a centrally-designed curriculum often cannot be implemented by 'weaker' institutions and staff, and are therefore ignored. This can take the form of complete disregard or, if necessary, changing course titles but not course content.

Second, if a particular rule may have some effect on an individual or an institution, then at least formal compliance is necessary. Thus, for instance, it is required that permanent academic staff are given teaching assignments. Yet, as mentioned earlier, many of the academic staff hold other jobs, and the more senior they are the more likely it is that they will hold other jobs (Clark and Oey-Gardiner, 1988). This condition is often handled administratively by assigning more than one lecturer to a class — termed 'team teaching' — with the expectation that at least one of the lecturers will show up. Another pattern is where very senior professors are assigned as coordinators of courses, especially mandatory courses, taken by a large number of students. As coordinators they can spend little actual time on teaching, as they may only introduce the subject and present the final lecture.
Stronger individuals as well as institutions have more bargaining power in deciding whether or not to follow rules. Weaker individuals and institutions, on the other hand, are more likely to follow rules and regulations, at least formally. Moreover, having few other options, weaker individuals and institutions may benefit from abiding by set policies. Personnel policies can often not be enforced for high ranking academics, who happen also to be senior bureaucrats. The weaker staff can benefit from abiding by and fulfilling personnel rules and regulations, which tend to emphasise quantity, thereby expediting their own promotion. Another example concerns the implementation of Government Regulation No. 5 of 1980 on the structure of university organisation. This regulation was meant to reorganise and standardise the structure of all PTN, to be focussed on the rector and his office, thus leading towards a unitary structure across the system. However, this reorganisation has not yet been implemented at one major university because of the strength and prestige of some of its constituent institutions. Other universities have responded more positively to this policy, thereby increasing their probability of gaining access to additional public funds.

**Overregulation with Variation**

There is great variation between institutions not only in quality but also in terms of administration. In some institutions administration is centralised at the rector's office, while in other institutions the faculties administer their own affairs. Some institutions have computerised their information, while others handle it manually. Distribution, administration and utilisation of funds, even those received from the central government for the same program or project which incorporates detailed and defined expenditure items, often differs between institutions.\(^{25}\) Student admission varies from the level of the overall institution (for example, the Bogor Institute of Agriculture), to the level of the faculty (medicine, economics at the University of Indonesia) to a department of a faculty (for example,\(^{25}\)

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\(^{25}\) One example is the engineering acceleration project, implemented at six institutions to speed up the production of engineering graduates in chemical, electrical, electronic and mechanical engineering. In one institution the money is used to buy back the time of the teaching staff in those four fields. At another institution, the money is used to top up salaries of other staff as well.
sociology at FISIP or Fakultas Ilmu Sosial dan Ilmu Politik), and even study programs (such as 'agronomy' which is part of the department of 'soil sciences' of the agricultural faculty of the Hasanuddin University). Grading, too, differs between, for instance, the Bandung Institute of Technology, which uses a 5-point scale, and most other institutions which have adopted a 4-point scale. Random variation characterises grading by individual doyen. Further variation can also be found in assignments for the junior teaching staff. In some cases the junior teaching staff, ranks IIIa and IIIb with only S1 degrees, are assigned as teaching assistants, while in other cases a newly appointed staff in rank IIIa can already become doyen.

Many more variations can be found. The purpose of pointing out a few of the differences is not simply to emphasise these differences but rather to show that within a system which is often said to be over-regulated, there is a great deal of variation as a means of coping with numerous and rigid rules and regulations. Individuals and institutions alike all find their own strategies of adapting to the system.

Legitimising Variation

Existing variation in a highly centralised and regulated system is often attributed to the inability of the bureaucracy to implement rules. However, there is considerable flexibility in the system, reflecting differences among educational institutions in their history and their strengths and weaknesses. Consequently regulations, such as the new education law and higher education government regulation, can and will be, implemented in a flexible manner.

Under the autonomy provision of the new education law and higher education government regulation, the P'TN are not just allowed, but even required, to seek additional sources of revenue to cover rising operation and maintenance costs. While the central government has continued to provide investments in both physical and human resources through the development budget, no provision

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26 In the past, the P'TN derived their government funds from three sources: the routine budget (around 90% of which is for salaries); the development budget (which is not limited to physical investments but often also includes funds for special projects); and SPP/DPP (tuition fees), which are paid by the students as SPP to a government account and are returned to the respective P'TN as DPP).
is made for rising operation and maintenance costs. Consequently, there are cases where physical facilities are deteriorating while the institutions are not able to buy the time of the academic staff in which the government has invested in expensive post-graduate training.

As already noted, both individuals and institutions generally have significant outside earnings: individuals by holding one or more jobs, while some institutions, especially the stronger ones, sell services such as training, research and consultancy on the open market. The law requires that these institutions forward to the central government all their earnings. However, the major institutions have been able to retain these revenues, and use them for their facilities and staff. Indeed, without these extra-legal sources of funds, earlier investments by the central government would have been dissipated — even at the best PTN — because of extremely limited amounts made available for operation and maintenance.

Although precise data are not available, there is certainly a great variation between institutions in the management of their extra-legal activities and revenues. It is expected that these will now be legitimised given these institutions' newly acquired autonomy.

It is likely that this new autonomy will further widen disparities between the stronger and weaker institutions, at least for the foreseeable future. The government will not be able to raise substantially the operation and maintenance budgets for the overall system. Instead, these costs will be borne by the institutions. The stronger institutions will benefit since they have a longer history of outside activities and earnings, and they are located on Java, the source of most of the demand for these academic services. Weaker institutions, especially those with little experience in raising additional funds and those located far from major centres of economic activity, will have great difficulty adapting to the new system. Moreover, even if large selective investments in these regional universities were undertaken, existing personnel and implementation policies would still pose major problems.

Conclusion

Indonesia's highly centralised and regulated system of higher education purports to uphold the principle of equity, but it is,
regrettably, inequitable in terms of its regional and social impact. The central government is justifiably preoccupied with regional equity. However, similarity and standardisation is emphasised rather than differences, thereby limiting the option for specialisation and excellence.

In the meantime, there are recognised differences among the PTN. The older the PTN the greater the cumulative public investments, and thus the 'stronger' it is. It is the stronger institutions which can better identify and utilise opportunities. They have had a longer history of overseas post-graduate training for staff. Building on that superior staff, these institutions have been able to build up extra-legal financial reserves, thereby further strengthening them. These earlier extra-legal earnings are legalised by Education Law No. 2 of 1989 and the Higher Education PP No. 30 of 1990, which extend financial autonomy to all PTN. The new policies will further strengthen such institutions, unless other measures are taken, especially with regard to personnel policies and selective government intervention aimed at bolstering the weaker universities.
Private Higher Education in Indonesia

Willi Toisuta

Introduction

There are many different types of higher education institutions in Indonesia. According to Government Regulation No. 30/1990 on Higher Education, these are classified into: (a) degree granting institutions which include universities, institutes, and colleges of higher education (sekolah tinggi); and (b) non-degree or professional training institutions such as polytechnics and academies. Another distinct type which is also mentioned is the special training institutions at tertiary level for specific government ministries like the defence academies of the Police, Army, Navy and Air Force; or the Academy of Home Affairs Administration (Akademi Pemerintahan Dalam Negeri). These latter institutions will not be discussed in this paper.

Degree granting institutions are, of course, concerned with the provision of academic education and the development of science and technology through research. All degree granting institutions provide a four-year terminal undergraduate program leading to the first degree of 'sarjana' (S1 degree). Only 10 government and 2 private institutions of higher education have been granted permission to offer a master's degree or S2 program. Of these, only a few selected ones, all government institutions, have permission to offer a doctoral or S3 program.

Depending on the design of the program, students of the non-degree institutions can choose to undertake a one-year training course for a D1 (diploma 1), or two years for D2, or three years for D3. The most common form of this sort of training is the three-year training leading to the Diploma 3 (D3). Only the polytechnics have currently a four year or D4 professional training program. While these diploma-granting institutions are restricted to providing
diploma courses only, the degree granting institutions, after assessment of their capabilities, may be permitted to offer professional or diploma courses, in addition to their degree courses.

Each type of institution has a particular characteristic. Universities have different faculties (schools or departments) covering a large variety of scientific disciplines. Institutes concentrate on several related scientific disciplines. In technology, for instance, there is the Bandung Institute of Technology (ITB), and the teacher training colleges (IKIP). More specific are the Colleges of Higher Education (Sekolah Tinggi). These are allowed to specialise in only one specific scientific discipline, as in the case of economics or perhaps even a specific branch of economics like banking or management and co-operatives. Similarly, there are colleges of higher education for the performing arts, the textile industry, the tourist industry, and so on.

Similar categories can be found in the non-degree institutions, where the academies concentrate on one related field of professional training, for example, secretarial training and related programs. The polytechnics provide training for a variety of professional programs in technology, commerce or the arts.

**Student Intake, Expectations and the 'Equity Dilemma'**

Increasing the absorption capacity of higher education, as an important policy for equity amongst the 19-24 year old age bracket, has been a major policy thrust in recent years. The target for enrolment in 1991/92 will be 2,177,800 students. Out of the total enrolment, private higher education will cater for 1,281,000 students leaving 896,800 students in all types of government higher educational institutions (Sukadji, 1990:12). This total will consist of 233,000 students in diploma programs, including polytechnics, and 1,604,000 students in the S1 or the 'sarjana' programs. Another 143,300 students are expected to enrol in government pre-service training schools. As a result, the participation rate of the 19-24 years age bracket in higher education will be about 10.2%. For the current five-year development plan (1989/90 to 1993/94) the projected participation rates are 9.6% for 1990/91, 10.2% in 1991/92, 10.7% for 1992/93, and 11% in 1993/94 (Republik Indonesia, 1990:656). Implicitly this means that private higher education will continue to receive a greater proportion of the national enrolment.
According to the Directorate General of Higher Education (DGHE 1990:15), in May 1990 there were 872 private higher education institutions in Indonesia, namely 274 academies, 2 polytechnics, 332 schools of higher education, 51 institutes, and 213 universities. Despite the fact that there are more professional schools (academies and so on) than any other category, they catered for only 20% of the total enrolment in 1990, while 80% were enrolled in degree-granting institutions. Of the total enrolment, 24% were enrolled in the sciences and technology and about 76% in the non-science faculties. This reflects the common trend of private higher education to invest in the less expensive programs of social science (especially law, education and the humanities) rather than in programs requiring expensive laboratories and faculty members who can ask for high salaries because they are in great demand.

All private higher educational institutions are subject to a national accreditation system. Accreditation is a long and complex process. Normally one faculty (school) within a university will consist of several departments (jurusan) and each department will have one, two or more study programs (program studi). Accreditation will be granted to the smallest unit of the faculty, that is to the study program. It is, therefore, common to find that a university has several accreditation statuses, which again may differ within each faculty.

There are four levels of accreditation status given by the government. The lowest is the 'licence to operate' (ijin operasional). Usually this is designed to enable a new institution to prepare for the fulfillment of certain minimum standards. After one year the institution can apply for an evaluation by the regional coordinator of private higher educational institutions, which is a government office staffed by civil servants. On the basis of qualitative and institutional considerations (especially buildings, equipment, library and so on) it may be awarded the next higher status known as 'registered'.

Through the same complex process of evaluation an institution can obtain the status of 'acknowledged'. Finally when it really shows clear academic achievement and capacity for future independent development, financially as well as academically, that institution is granted the prestigious status of 'equalised', an acknowledgement of equivalence with government institutions. A plan is being developed in the near future to have only one national
accreditation system for both government and private higher education institutions.

The status of private higher education institutions in 1990 was as follows: 8% of all study-programs offered were 'equalised'; 11% 'acknowledged'; and 81% 'registered'.

Accreditation particularly affects the form of final examinations for students. Only an institution with an equalised status is eligible to plan and carry out its own examinations. All other institutions have to apply for a government examination. This creates many kinds of constraints, especially in the sheer number of subject matters which must be examined in the state examinations. There is also a high cost involved in paying for administration, as well as examiners' fees.

Other estimates, prepared by the Directorate General of Higher Education (1990, appendix 8), enable us to make some important comparisons between government and private higher education institutions. Table 7.1 provides some summary comparative data on the two systems.

First, private institutions are relatively small in size. This can be seen from the fact that in May 1990 there were a total of 872 higher education institutions with 942,300 students compared with

<table>
<thead>
<tr>
<th>Table 7.1: S1 Programs in Higher Education</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td><strong>Government</strong></td>
</tr>
<tr>
<td>1. Students</td>
</tr>
<tr>
<td>2. Graduates</td>
</tr>
<tr>
<td>3. Lecturers</td>
</tr>
</tbody>
</table>
approximately 50 government owned institutions with 529,700 students. By 1992 it is predicted that private institutions will be as big as government institutions. While the government has decided to put a stop to the establishment of new universities in the 1990s private institutions have increased so that in 1991 there are slightly more than 1,000 of them.

Second, the general productivity ratio (the ratio of graduates to the total number of students) can be seen from Table 7.1. For government institutions the predicted rate is 12.6% and 13.7% for 1990/91 and 1991/92, while for private institutions the rates are 6.2% and 7.1% for the same years. However, government institutions improved by only about 1.1% and private institutions by only 0.9% which indeed does not indicate substantial improvement. On the other hand, in professional courses, the productivity rate of private institutions for 1990/91 and 1991/92 is predicted to be around 23%, compared with 17% (approximately) for the same years for government institutions (Ditjen Dikti, 1990: appendix 10 and 11).

Figures, however, never tell the complete story and this is true in the case of higher education. Due to the fact that the majority of private higher educational institutions specialise in the less expensive non-science fields, graduates may find themselves in a very competitive situation in obtaining jobs. A study a few years ago, by Notodihardjo, concluded that most students, who were still in training, hope to become permanently employed in fields related to their study, and most prefer employment within the government sector. Those expecting to become entrepreneurs and self-employed are usually of Chinese origin and their numbers are relatively small. On the other hand, graduates who are interested in working in industry face a different constraint since they are generally perceived by industry as not having the specific training required by employers. Most employers, according to Notodihardjo, are of the opinion that the best way to improve the relevance of higher education, particularly to the needs of industry, is through the development of extra training programs. This may very well be negotiated as is currently being done by both private and government higher educational institutions. However, such additional requirements are outside the existing mandate given to universities and may become an additional burden on the already overloaded curriculum for teaching, research and community outreach. Universities were under heavy attack in past years for this very
problem. Are universities producing 'ready-to-use' (siap pakai) or 'trainable' manpower? Although many Indonesian academics have been branding those debating this issue as narrow-minded and irrelevant, they cannot deny that what is really at stake is the relevance of their academic work. Students, on the other hand, have always emphasised pragmatic reasons for study in higher education because their main goal is a better socio-economic future. The enrolment figures for 1991/92 show a sharp increase in courses such as economics, management, computing and technology, which are all regarded as very promising for future careers.

One can assume that the higher productivity rate in government institutions is due to the availability of an adequate number of qualified teaching staff. Table 7.1 shows that, at least in terms of the numbers of lecturers, government institutions have significantly higher staff/student ratios than private ones. Financial investment by the government has also been increasing annually and will continue this trend for the remainder of the current five-year development plan. This should also mean an improvement in the qualifications of staff.

In comparison, private institutions are improving very slowly for a number of reasons. First, the financial capacity of private institutions is very limited. Government assistance is not only small but also irregular, which makes staff development planning very difficult to implement, as many private institutions rely heavily on government grants or place their hopes on such assistance. Second, private institutions are largely dependent on staff seconded from government institutions. From a baseline study several years ago (DGHE, 1985:45), it was clear that the dependence on part-time lecturers from government universities was very high. Only 28% of lecturers at private higher educational institutions at the time were full time staff and, of these, about 65% fell into the category of junior staff, with the majority holding only the S1 degree. This means that the majority of institutions concentrate only on teaching with little emphasis placed on research. No doubt, this is less expensive than investing in tenured staff. The costs, however, increase rapidly when it comes to administering final examinations. As stated earlier, except for a small number of accredited

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1 There are now stricter regulations issued by the rectors of government universities to reduce 'moonlighting' by their academic staff. This may greatly reduce their incomes, however.
institutions, the majority have to rely on government-appointed examiners. From one point of view, this ensures some degree of quality control, even though teaching is carried out by young staff members. It must be remembered that, without these small colleges, the participation rate in higher education in Indonesia would fall dramatically.

It is, however, incorrect to say that poor quality is a characteristic of all private universities. There are some excellent institutions which rank better than many government universities. However, being interested in quality, these institutions restrict themselves to small numbers of students, thus making the per student cost higher. And, if this policy is not carefully implemented in a creative way, such institutions can easily become very elitist, catering only to a certain sector of society that can afford to pay for a relatively expensive university education.

Society at large has been jumping to conclusions and accusing good private institutions of higher education not only of being too expensive but also of using education for commercial purposes. Again, while there may be some truth in such allegations, to use student fees as the main indicator for comparison with 'inexpensive' government universities is grossly misleading. In particular, critics do not take into account the heavy subsidies given to government universities. They also overlook the fact that government higher educational institutions apply strict entrance examination standards, so it is only the selected 'few' who gain entry. This creates a new equity dilemma because those from rural backgrounds or from disadvantaged urban groups are generally unable to achieve the high standards of entrance examinations for government higher educational institutions. As a result, the latter are catering for the children of the urban elite, the families of bureaucrats and technocrats. If this is the case, then government universities are being heavily subsidised to pay for 'the haves'.

At least one private university has taken this 'equity dilemma' seriously and established an admission policy which takes this problem into account. For many years, it has been known that there is a marked variation in the quality of teaching in Indonesian high schools which, of course, supply students for intake into higher education institutions. There are differences between large cities, small towns and villages; between 'favourite' schools and other schools; and between Java and the outer islands.
Because of these differences, two special policies were introduced at Satya Wacana Christian University to help students who are educationally disadvantaged and unable to achieve the high grades obtained by the educationally advantaged in entrance examinations. The first is to offer a tailor-made, one-year matriculation course to enable them to reach the minimum standard for entry. The second measure is to provide special remedial courses in English, physics, chemistry and mathematics for those who only just reach the minimum passing grades in these subjects. Another special program, which aims to 'catch' candidates with good potential, is through talent scouting, that is, by examining their high school reports and visiting schools to allow direct recruitment.

Relevance and Quality

The major issues in higher education are relevance and quality. Although this applies to both government and private institutions, this section focuses on private higher education and, where applicable, its relationship to government higher education.

As Indonesia pushes ahead with its industrialisation programs, more highly skilled people will be required. It is important, therefore, to produce more scientists, engineers, and technicians for both industry and commerce.

Efforts to develop education in science and technology should not, however, mean overlooking the value of education in the humanities and social sciences. These will have to compete for a proper share of the financial resources available in different parts of society. This need to compete may have a positive effect, especially if these courses can be provided with high academic standards which enrich the life and strengthen the moral values of the Pancasila society of Indonesia. In fact, such directions will be most welcome as they will meet the need to counterbalance pragmatic concepts regarding the relevance of education, where the needs of society dictate decisions about the curriculum. Instead of degrading university education to sheer vocational training, a high

Credit must be given to Professor Andi Hakim Nason etion and his team at the Bogor Institute of Agriculture for initiating this policy. Many government universities have adopted this policy, although their efforts may have been motivated by a decrease in student enrolment.
standard, value-oriented education at tertiary level is necessary to influence in a normative way the forces of change in society.

The problem is how to develop capabilities as well as flexibility in private higher education institutions, and to redirect their scarce resources towards the most needed areas of education in the basic sciences and technology. As the majority of these institutions currently concentrate on the social sciences and education, there will be a need to set priorities regarding the aims and functions of private institutions. The crux of the problem lies in the quality of the teaching staff available to private higher education institutions. There is a need for a massive scheme to increase their academic capabilities through further education leading to higher degrees. In a very recent study in the provinces of Yogyakarta and Central Java (Yayasan Tridarma, 1991:43-44), which aimed to describe the competence of private university lecturers in the management of the teaching-learning process, it was demonstrated that the level of teaching competence was less satisfactory than expected. Lecturers who possessed a teaching certificate for higher education proved to be more competent teachers than those without teaching certificates. Ancillary analysis of that study also concluded that there was a significant correlation between teaching competence and student achievement. This was, therefore, in accordance with the theory that students' achievement is a direct measure of a teacher's competence. The study recommended that an earlier requirement that university lecturers obtain a teaching certificate be reintroduced, and that lecturers of higher education institutions be provided with opportunities to participate in a variety of activities designed to improve their teaching competence.

The issues of relevance and quality call for a number of interrelated actions:

(a) A re-evaluation and updating of study programs to give significant stress on the development of the basic sciences, technology, economics, business and commerce. This should include new policies to enable professional colleges to increase their capabilities in training for industry.

(b) Giving priority to high standard courses in the humanities, arts and social sciences.
(c) Increasing the opportunities for the teaching staff of private higher education institutions to undertake higher degrees in their specialised fields and also to obtain professional experience at home or abroad which will improve their teaching competence for tertiary-level education.

(d) Encouraging the involvement of staff in research programs and their participation in a variety of different scientific activities to improve self-confidence and academic standing.

(e) Providing academic support services to enhance the relevance of training to the world of work.

Finally, in moving towards the future of an integrated management policy for both government and private higher education institutions as required under the latest national education law, it will be necessary to determine the gap between accredited and non-accredited institutions and to build from there on programs for future development. Academic norms and standards should be established as guides and directives for institutional development within the framework of the future Indonesian higher education system.
Staff Development in Indonesian State Universities

Ruth Daroesman

Many of the readers of this volume will be familiar with the growth patterns of higher education in Indonesia: how, at the beginning of independence, there were virtually no university teachers of Indonesian nationality; how, during the 1950s and 1960s universities were established in each province, depending for teachers on 'flying professors' (dosen terbang) from the two or three more established institutions in Java, on practising professionals, a few expatriates and a range of often poorly qualified but dedicated individuals who had some experience or specialisation to offer.

Then, in the mid-1950s, aid programs, largely from the United States, brought in expatriate staff and provided overseas fellowships in several of the older, more established universities such as the University of Indonesia, Gadjah Mada, the Bogor Institute of Agriculture and Airlangga. Pressure for university entry continued to grow at high rates through the 1970s and 1980s as primary and secondary school enrolments expanded, and can be expected to increase at an even more rapid rate during the 1990s.

Tertiary education in Indonesia is offered in a wide variety of institutions, under the aegis not only of the Department of Education and Culture, but also numerous other ministries:

- state universities, awarding undergraduate and graduate degree programs; non-degree programs and specialist programs;
- institutes of technology, awarding undergraduate and postgraduate degree programs in specialist subjects, mainly engineering and agriculture;
- polytechnics, usually located within universities, offering non-degree or diploma courses for technicians;
- teacher training institutes, offering undergraduate and postgraduate programs for teachers of secondary schools;
• institutes of fine arts; and
• the Open University, which provides undergraduate courses by means of distance programs.

All these are operated by the Department of Education and Culture, in the Directorate General of Higher Education. In addition, there are:

• institutes of Islamic higher education, operated by the Department of Religious Affairs, providing undergraduate degrees in religious subjects; and
• akademi, operated by various government departments, which award undergraduate degrees in the department's specialisations.

This chapter will deal only with the 30 state universities, which account for about half a million students, some 12,000 postgraduate students, and nearly 40,000 permanent teaching staff. Private institutions of higher education account for about one and a half million additional students; so far only two private institutions offer postgraduate degrees.

Over the 46 years since independence, tertiary education has grown from virtually nothing to an enrolment of well over one and a half million. The range of development, facilities, and quality levels is so great that it is useful for this discussion of state universities to distinguish among three or four types: the oldest, most prestigious, best staffed and resourced institutions which draw their enrolments from all over the nation we may call the major metropolitan universities; a group of three universities which have received particular Australian assistance over the past 20 years is referred to by its acronym, HUB; the remainder, which draw their enrolments primarily from the region or province in which they are located, we call the regional. Table 8.1 shows the development of these three categories of university, while Table 8.2 contrasts the position of one of the major metropolitan universities with one of the regional universities to illustrate the degree of variation found. Postgraduate programs are offered in the major metropolitan universities and in a few of the regional; most of the aid programs of the 1950s and 1960s were located in the major metropolitan universities. The staff trained overseas at that time gave these institutions a head start in university development which has kept them at the forefront of university education.
<table>
<thead>
<tr>
<th>University</th>
<th>Percentage of Total Staff</th>
<th>Enrolments (‘000)</th>
<th>Volumes in Library</th>
<th>Year of Establishment</th>
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<tbody>
<tr>
<td>Holding S2/3 Degrees</td>
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<tr>
<td>Airlangga</td>
<td>54</td>
<td>12.2</td>
<td>76</td>
<td>1954</td>
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<td>29</td>
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<td>15</td>
<td>1982</td>
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<td>14</td>
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<td>11.1</td>
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<td>Riau</td>
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<td>7.3</td>
<td>18</td>
<td>1982</td>
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<td>56</td>
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<td>Tanjungpura</td>
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<td>Open University</td>
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<td>Nusa Cendana</td>
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<td>Jambi</td>
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<td>6.1</td>
<td>8</td>
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<tr>
<td>Halu Oleo</td>
<td>5</td>
<td>5.6</td>
<td>7</td>
<td>1981</td>
</tr>
</tbody>
</table>

Note: S1, S2, S3 refer to bachelor, masters and PhD degrees, respectively.
Table 8.2: Indonesian Universities in 1990: Two Profiles

<table>
<thead>
<tr>
<th></th>
<th>Major Metropolitan</th>
<th>Recent Regional</th>
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<tr>
<td>Year of establishment</td>
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<td>1976</td>
</tr>
<tr>
<td>Number of faculties</td>
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<td>8</td>
</tr>
<tr>
<td>S1 Enrolment, 1990</td>
<td>27,384</td>
<td>16,400</td>
</tr>
<tr>
<td>Total permanent teaching staff</td>
<td>1,990</td>
<td>1,202</td>
</tr>
<tr>
<td>Post-graduate programs</td>
<td>S2, S3</td>
<td>nil</td>
</tr>
<tr>
<td>Student entry qualification</td>
<td>800-850</td>
<td>600-650</td>
</tr>
<tr>
<td>Percent of staff with M/PhD qualifications</td>
<td>39%</td>
<td>13%</td>
</tr>
<tr>
<td>Percent of staff with overseas M/PhD</td>
<td>26%</td>
<td>9%</td>
</tr>
<tr>
<td>Range among faculties</td>
<td>21-65%</td>
<td>9-43%</td>
</tr>
<tr>
<td>Total number of PhD staff</td>
<td>303</td>
<td>17</td>
</tr>
<tr>
<td>(of which domestic degrees)</td>
<td>82</td>
<td>12</td>
</tr>
<tr>
<td>(of which overseas degrees)</td>
<td>221</td>
<td>5</td>
</tr>
<tr>
<td>M/PhD degrees awarded before 1980</td>
<td>31</td>
<td>nil</td>
</tr>
<tr>
<td>Research grants obtained 1990</td>
<td>21</td>
<td>6</td>
</tr>
<tr>
<td>Volumes in library</td>
<td>204,000</td>
<td>26,000</td>
</tr>
<tr>
<td>Females as % of staff with S2/S3 degrees</td>
<td>9%</td>
<td>16%</td>
</tr>
<tr>
<td>Numbers of female staff with overseas qualifications</td>
<td>46</td>
<td>1</td>
</tr>
<tr>
<td>Proportion of current staff now on study leave (domestic and foreign)</td>
<td>23%</td>
<td>24%</td>
</tr>
<tr>
<td>Ratio of S2/S3 staff to students</td>
<td>44:1</td>
<td>205:1</td>
</tr>
</tbody>
</table>
Recruitment

There has only ever been one door to recruitment of university teaching staff. Promising students are identified in the last year or so of their undergraduate program and are invited by the department or faculty to become teaching assistants; if their work is satisfactory, they are then taken on as calon pegawai, or probationers, for a further period of two to three years, after which they are eligible to become permanent civil servant teachers (tenaga tetap). Very rarely are staff taken on in mid-career, and only rectors (who must be appointed by the President) are appointed from outside. Once in the system, there is a notable lack of mobility. A tracer study of Indonesian university staff undertaken in 1991 found that over 90% of university staff had been employed directly upon graduation by the university where they had been trained and had never worked elsewhere.1

In recent years, however, some effort has been made to counteract the excessively ingrown nature of university staffing by open advertisement. As well, newer younger universities have often recruited from the larger more prestigious ones when their own graduates are insufficient. It may be many years, however, before the impact of such programs will be felt.

When a new department or study program is opened which does not have a ready-made graduate pool from which to recruit, the common procedure has been to retrain staff from other faculties. Up to a few years ago, there were only about six or eight universities which had faculties of basic science. When other universities wanted to develop such faculties/departments, they generally called upon staff with related training from, say, agriculture, medicine, or engineering faculties, and put them in charge of the chemistry, biology, or physics departments.

We may ask whether such a system is likely to attract the best students to university teaching. It is likely that the system of teaching assistantships may be a considerable incentive as it holds out the opportunity of eventual permanent employment, particularly when it also offers the probability of scholarships for higher qualifications and even overseas training. Very little is yet

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1 For more details, see AIDAB/IDP, (1991), A Tracer Study of Australian Government Sponsored Post-graduate Students from Indonesia, Canberra forthcoming.
known about recruitment of university graduates to the private sector, but the tracer study revealed that only half a dozen out of the 251 persons interviewed in the sample had ever tried for, or desired, a different career, while it was frequently mentioned that one of the attractions of university teaching was the likelihood of being funded to undertake higher studies.

**Upgrading Programs**

Given the single path of recruitment, virtually all new entrants to university teaching require upgrading. Staff may become eligible for postgraduate fellowships funded from government or donor sources after two or three years experience and after they become permanent civil servants. The age at taking up fellowships is usually between 25-35 at present, though it has been higher in the past when it was considered that it would be impolitic to provide higher level training for junior staff before senior staff had been trained. This view is now less favoured, and younger staff are being given priority, at least for overseas training, while more senior staff may be encouraged to undertake in-country higher degrees.

Domestic programs of postgraduate studies did not begin in state universities until the mid-1970s; by 1990, there were nine state universities and three teacher training institutes offering postgraduate programs. In-country postgraduate programs are now numerically much more important than overseas fellowships by a factor of over 2 to 1. The domestic postgraduate programs are utilised largely by the regional universities, while the major metropolitan universities continue to depend on overseas fellowships to a much greater degree. Enrolment in in-country advance degree programs is almost exclusively from teaching staff in regional state universities on scholarships provided either domestically or through foreign loans and grants (chiefly World Bank). The domestic postgraduate programs are found mainly in the older, more prestigious institutions which in the 1950s and 1960s were the main recipients for overseas fellowships. The early prominence gained by these universities has given them a pre-eminent place in higher education ever since.

Most universities today, with the possible exception of the most isolated institutions in the eastern islands, will have staff trained overseas under as many as 20 to 30 different donor schemes, or from 10
to 20 different countries. Each of these will have its own entrance requirements, cut-off times for applications, language requirements, and so on, putting a considerable burden on deans and administrative staff. Information on the availability of overseas fellowships often reaches the candidate only a few days to a few weeks before applications must be handed in; this often results in a shortage of candidates.

Adequate planning within the university for staff development has always been hampered by a number of factors: the lack of competent staff to do the planning, and a lack of clarity over where the responsibility lies; the uncertainty over donor provision which is generally communicated on a year by year basis; the complexity of the application process; and, as noted above, the extremely short notification time. Selection procedures for overseas fellowships vary from country to country. Australia, which has conducted selection interviews since 1982, has one of the better records. However, selection is still almost entirely on the basis of suitable individuals, since the selection team is in no position to assess institutional needs — whether, for example, there are already sufficient staff in that particular subject, or whether the nominating institution has postgraduate programs or research facilities to support doctoral fellowships on return. Some of the larger fellowship schemes, such as those of the World Bank, have no effective selection schemes, relying on participant motivation only. Even where Bank loan funds are dedicated to certain institutions and subjects, it has been impossible to recruit suitable numbers (often for lack of English). Where such fellowship programs are project-determined, there is also the 'Procrustean bed' factor: it is usually 18 months to two years before the fellowship component of the project gets under way, and projects seldom last more than five or six years. Thus, candidates in mid-stream of their degree courses overseas often have to be 'stretched out' among other projects with different goals; or they are inconveniently cut off in mid-program. Furthermore, where loan implementation in certain selected universities often deprives other universities of domestic funds (which must be diverted to counterparting the loan funds) some fellowships have been diverted as a kind of *quid pro quo* to the excluded universities. Although many fellowship schemes specify the numbers of masters and PhD degrees to be offered, problems such as these make nonsense of the targets, since successful participants
want to upgrade, and their home institutions almost invariable support such upgrading.2

Because of these time constraints and uncertainties, universities urge their staff to apply for any fellowships going, and to accept the first offer. The greater the proportion of staff with postgraduate degrees, the greater the likelihood of the university being allowed to develop additional study programs or postgraduate programs of its own; and the greater the likelihood of the individual to reach the upper levels of university ranks.

As a result of this ad hocery, however, the distribution of highly qualified staff within and among faculties, and among universities, has resulted in both over-provision and under-provision, in large numbers in a single specialisation and none in others, in high performance in some universities and low in others, with little or no policy underlying these distributions.

Current Composition of the Teaching Force

Tables 8.3 and 8.4 below show the imbalances in the distribution of staff with masters and PhD degrees (both domestic and overseas), according to 1990 statistics from the Directorate General of Higher Education. Table 8.3 shows the ratio of students to staff with either masters or PhD degrees. The magnitude of the problem is evident both from the fact that even in the major metropolitan universities only about 50% of total staff have advanced degrees; and from the fact that in many of the outer island regional universities only 5-10% of the permanent teaching staff have advanced degrees.

Table 8.4, using the same information, shows student-staff ratios by selected subject areas for all universities. The ratio of students to staff with S1 or bachelor's degrees is 16:1 overall. Students have fairly easy access to staff at this level. It must be remembered that, on average, 75% of university teaching staff still have only this level of qualification. Equally, it must be remembered that this is a very considerable advance on the 1985 position, when only about

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2 Australia is currently attempting to limit the possibility of upgrading from masters to PhD, or from graduate diploma to masters, largely on administrative grounds; this may prove very difficult to accomplish, and perhaps even be counter-productive.
Table 8.3: Ratio of Students to Staff with Higher Degrees*, 1990

<table>
<thead>
<tr>
<th>Major Metropolitan</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Indonesia</td>
<td>18</td>
</tr>
<tr>
<td>Bandung Institute of Technology</td>
<td>18</td>
</tr>
<tr>
<td>Gadjah Mada</td>
<td>35</td>
</tr>
<tr>
<td>Bogor Institute of Agriculture</td>
<td>29</td>
</tr>
<tr>
<td>Padjadjaran</td>
<td>30</td>
</tr>
<tr>
<td>Airlangga</td>
<td>18</td>
</tr>
<tr>
<td>HUB Universities</td>
<td></td>
</tr>
<tr>
<td>Hasanuddin</td>
<td>47</td>
</tr>
<tr>
<td>Udayana</td>
<td>53</td>
</tr>
<tr>
<td>Brawijaya</td>
<td>45</td>
</tr>
<tr>
<td>Regional: Sumatera</td>
<td></td>
</tr>
<tr>
<td>Sumatera Utara</td>
<td>71</td>
</tr>
<tr>
<td>Syiah Kuala</td>
<td>103</td>
</tr>
<tr>
<td>Riau</td>
<td>98</td>
</tr>
<tr>
<td>Andalas</td>
<td>41</td>
</tr>
<tr>
<td>Jambi</td>
<td>209</td>
</tr>
<tr>
<td>Bengkulu</td>
<td>22</td>
</tr>
<tr>
<td>Sriwijaya</td>
<td>53</td>
</tr>
<tr>
<td>Lampung</td>
<td>125</td>
</tr>
<tr>
<td>Regional: Java</td>
<td></td>
</tr>
<tr>
<td>Diponegoro</td>
<td>56</td>
</tr>
<tr>
<td>10 November Institute of Technology</td>
<td>70</td>
</tr>
<tr>
<td>Jember</td>
<td>108</td>
</tr>
<tr>
<td>Sebelas Maret</td>
<td>90</td>
</tr>
<tr>
<td>Jenderal Soedirman</td>
<td>99</td>
</tr>
<tr>
<td>Regional: Outer Islands</td>
<td></td>
</tr>
<tr>
<td>Mulawarman</td>
<td>70</td>
</tr>
<tr>
<td>Lambung Mangkurat</td>
<td>125</td>
</tr>
<tr>
<td>Tanjungpura</td>
<td>144</td>
</tr>
<tr>
<td>Palangkaraya</td>
<td>218</td>
</tr>
<tr>
<td>Mataram</td>
<td>116</td>
</tr>
<tr>
<td>Nusa Cendana</td>
<td>115</td>
</tr>
<tr>
<td>Cenderawasih</td>
<td>96</td>
</tr>
<tr>
<td>Sam Ratulangi</td>
<td>76</td>
</tr>
<tr>
<td>Pattimura</td>
<td>109</td>
</tr>
<tr>
<td>Tandulako</td>
<td>225</td>
</tr>
<tr>
<td>Halu Oleo</td>
<td>465</td>
</tr>
</tbody>
</table>

*That is, masters or PhD degrees.
Table 8.4: Staff/Student Ratios in Selected Subjects, 1990

<table>
<thead>
<tr>
<th>Subject</th>
<th>Number of Faculties</th>
<th>Enrolment</th>
<th>Number of Students per Staff by Qualification</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>S1</td>
</tr>
<tr>
<td>Economics</td>
<td>28</td>
<td>38,485</td>
<td>17</td>
</tr>
<tr>
<td>Social-Political</td>
<td>20</td>
<td>25,528</td>
<td>17</td>
</tr>
<tr>
<td>Science</td>
<td>13</td>
<td>15,524</td>
<td>9</td>
</tr>
<tr>
<td>Agriculture</td>
<td>25</td>
<td>27,092</td>
<td>11</td>
</tr>
<tr>
<td>Letters</td>
<td>11</td>
<td>15,754</td>
<td>13</td>
</tr>
<tr>
<td>Engineering</td>
<td>14</td>
<td>25,845</td>
<td>15</td>
</tr>
</tbody>
</table>

10% had advanced degrees, especially considering that staffing has grown at an average of about 3,000 a year (all entering at the basic level).

The proportion of staff with postgraduate degrees cannot be equated with quality of instruction with any exactitude because of the pressures on the highly qualified to divide their time among many functions and places.

The Multiple Job Factor

It is well known that most university lecturers (and indeed a high proportion of civil servants in general) hold more than one job; this is not a recent phenomenon, but was noted as early as the 1950s, when the term 'job inflation' was coined by Professor Hawkins (Hawkins, 1966). The gap between official salaries and the cost of living is generally blamed for this, and many reports have suggested that nothing can be done until academic salaries are increased — not an easy solution, since they are linked to civil service salaries, and
possibly not even a good solution unless such increases can be linked to productivity. If income were the only factor, then one would find the highest rate of multiple jobs among the lowest levels of income, which is not the case.

It is, rather, the most highly paid, the most highly qualified who are under greatest pressure to accept outside work. Clark and Oey-Gardiner (1991) report that 'the typical staff member at UI, IPB and ITB devote 30 per cent of their time to their primary university duties; the estimate for UGM is 40 per cent'. The 1991 tracer study referred to above estimates that, with only minor exceptions, all staff trained in Australia had some outside job. This occurs for a number of reasons: because of historical conditions; because of a lack of effective discipline within the faculties (several staff noted that 'nobody cares if you are here for two hours or for ten hours a day'); from genuine need (many of those with more than one job undertake it after a full day's work in their own departments); because of the inequitable distribution of the highly qualified; and from the practice of using teaching assistants, or 'team teaching', so that the lecturer need only appear occasionally. It also appears, however, because of the status attached to the higher degree, so that reception committees for honoured guests, for example, are made up only of staff with PhDs. Mostly, however, it is caused by the still serious shortage of specialists and consequent demand by local, provincial and national governments, from industry, from projects of all descriptions, for their advice and services. The solution to this problem is therefore, not simply salary increases, but major increases in the numbers of persons with scarce skills.

Multiple jobbing occurs in many forms; it generally takes the form of additional teaching, although project employment, consultancies, business, and contract research are also common. (It is further confirmation of the demand that almost all second — or third, fourth or fifth — jobs were closely related to the academic specialisation of the staff member and can thus be seen as a logical rationing of scarce skills.) We noted above that this discussion deals

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3 This was noted a decade ago, where scarce skills — science, language and technical teachers at senior secondary level — were in great demand as part-time teachers, while primary teachers, far more poorly paid, found little demand for their services outside their main jobs (Daroesman, Widodo and Damanik, 1979).
only with staff of public universities under the aegis of the Department of Education. A great deal of the multiple job phenomenon is additional teaching in private universities on the same subject, where one is paid per hour worked, but generally at a higher rate than in the home department/faculty. Curiously, a substantial part of 'outside' teaching is this kind of hourly paid work in other departments of the same faculty, or in other faculties of the same university, where the staff member then becomes 'temporary' staff (*tenaga tidak tetap*). Probably almost every well qualified teaching staff will be simultaneously *tenaga tetap* in the home department, and *tenaga tidak tetap* in another within the same institution. This is one of the reasons why any studies of academic incomes becomes exceedingly complex.

Departments, faculties and universities also search for projects and contracts, which are a source of extra income for their staff. A lecturer who has such contracts and can help bring in such projects not only for himself or herself, but also for the university, may be given great latitude in the use of time. Finally, of course, unlike other countries, there is little resignation from the university or from the civil service, and little transfer among institutions for the very reason that these extra jobs can be taken on without leaving the basic job and its salary and security.

There have been innumerable suggestions about how to return to a 'one person, one job' position. Apart from the fact that the current situation is so ingrained, it also provides a degree of flexibility which many institutions would be reluctant to give up.

### Some Outstanding Problems

There is little doubt about the continued rapid rates of growth in the next few decades. The question of how to upgrade staff qualifications is perhaps the most pressing. While breaking out of a mould which has now existed for nearly two generations confronts enormous problems of resistance, the time is clearly coming when choices will have to be made about pre-training and over retraining. Most overseas universities now will accept only those with an S2 degree for masters courses (although the S2 is regarded within Indonesia as a masters degree). This means not only 'double dipping' but an even greater period of expensive training during which time the staff member's services are unavailable. So far there has been a
reluctance on the part of the government to train staff before they have put in some years of service. It is an expensive approach, both in terms of funds (especially where staff are already married) and in terms of time.

Effective planning for staff development, and thus a better distributional balance among institutions, among faculties, and among subjects, is desperately needed if donor — and government — funds are to be used efficiently. Planning within universities may be the first step, but it will be useless without the commitment of donors to longer-range programs of fellowships grants, and to better distribution of information among prospective candidates.

While the government, understandably, does not discriminate officially between overseas and domestic degrees, it does need to consider how the strengths of each can best be applied, and to identify which cases can best be served by each type of training, rather than, as now, leaving these decisions up to the candidate. We know that overseas degrees are extremely valuable to the individual in terms of additional work, but little is known of how useful it is to the home institution. Some of the recent university sector projects, World Bank and Asian Development Bank in particular, could contribute much to this gap in our knowledge, but there is as yet little evidence that they will do so.

An immediate effort to equalise the distribution of highly qualified staff among the more advanced and the least advanced institutions may not be in the best long-term interests of the nation. Equity need not always be pursued directly; this goal may be more attainable by what appears at first sight to be a less equitable approach. That is, a concentration on the stronger, more advanced institutions to the point where they can take over the task of in-country, quality postgraduate programs may achieve the goal of equity (in terms of availability of quality education among all Indonesian tertiary institutions — or indeed among all levels of Indonesian education) far more rapidly and effectively than dispersing scarce overseas scholarships evenly but with little or no chance of long-term impact.

How can donor countries, in particular Australia, allocate their fellowships to have the greatest impact on this distributional problem? It is clear that no matter how much money is available, no single donor can make the necessary impact in the short term. A combined policy discussion looking at long-term development of Indonesian tertiary education between Directorate General of
Higher Education and Indonesian university officials and the more important donors, bilateral and multilateral, could outline paths for the future and find ways to implement such policies in the shorter-term.
The Development of Business Education in Indonesia

Ahmad D. Habir

Introduction

Recent economic growth in Indonesia has also triggered a growth in the number of management schools that offer programs leading to a Master in Business Administration (MBA). From eight schools in 1987, the number has grown to 20 by 1991 (Sinar Pembaruan, 25 April 1991), with more in prospect. The rapid expansion in Indonesian business schools is part of a world-wide phenomenon. Despite increasing scepticism in the United States — the birthplace of business schools — about the relevance of business schools (Fortune, 29 July 1991), 'boom' conditions exist in Europe and Asia. Business schools are flourishing in Europe, spurred by the prospect of full commercial union, and in the newly emerging market economies of Eastern Europe (International Herald Tribune, 30 May 1991:1, 13).

In Indonesia their recent growth has motivated the government to regulate this sub-sector. In July 1991, Professor Sukadji Ranuwihardjo, the Director General of Higher Education, announced that his Department was implementing Government Decree (Peraturan Pemerintah) 30/1990 to which the management schools would have to adhere (Kompas, 16 July 1991). There is a danger, however, that such initiatives could have undesirable side-effects. For example, they could limit the freedom these schools require in developing their capacity to respond flexibly to the needs of the business sector. Rigid criteria for accreditation purposes, though laudable in intent, could also result in low quality management teaching with little relevance to business.
Developments Through to the Mid-1980s

Like many other newly independent countries, Indonesia initially experienced acute skills shortages in all fields. In the early 1950s, universities such as the University of Indonesia and Gadjah Mada University established economic departments which offered among their courses business administration (ekonomi perusahaan). However, mired in an environment dominated by foreign (mostly Dutch) companies staffed by expatriates and family-owned Chinese companies, management education tended to be theory-oriented with little relation to practical business needs.

When the government nationalised Dutch enterprises over the West Irian dispute in 1958, the daunting prospect of managing over 400 companies provided the impetus for a 'practical' management education. In response, the University of Indonesia established a Management Development Course (Latihan Pembangunan Ketatalaksanaan — LPK) in 1960, in cooperation with the Ford Foundation and the University of California, Berkeley (FE UI, 1991:40.). However, the program could not be developed nationally given the anti-Western stance of the Sukarno government and the deteriorating economic conditions of the early 1960s. Such conditions frustrated the development of rational management practices, let alone the expansion of quality management education. The program, however, evolved in 1963 into the Management Institute, University of Indonesia (Lembaga Management, UI), an autonomous Institute in the University which continues to provide management training and consultancy (FE UI, 1991:49).

Economic stabilisation and the return of foreign investors marked the beginning of a sustained demand for professional managers and a renewed interest in management education. As one observer wrote during that period:

An interesting development in Indonesian education is the expansion of management education from which some observers expect a great deal for the rehabilitation of the Indonesian economy. In a report prepared in July 1967 by H.S. Fahlstrom, an expert of UNIDO (United Nations Industrial Development Organisation), it is estimated that some 4,500 received training in management subjects. About 300 had obtained advanced training abroad, some 2,750 had attempted high level management courses within the country, and 1,450 had chosen
this topic as part of their graduate studies. The impact of this trend is as yet hardly noticeable in Indonesia. (Brand, 1968:64.)

An extensive World Bank report on Indonesian management education (World Bank, 1984) which took about three years to complete, provided a picture of why such a trend was still 'hardly noticeable' up to the mid-1980s. According to the Bank study, management education in Indonesia was characterised by low productivity, poor quality and limited relevance. A contributing factor, as elsewhere in the higher education system, was the tendency of teachers to neglect teaching in favour of outside work to supplement low salaries. Faculties with little or no business experience taught a theory-dominated curriculum. Classes were heavily lecture-oriented, using imported and often outdated teaching and reading materials. In the absence of interaction with the business community, there was no encouragement or incentive to develop local teaching materials. The structure of the Indonesian economy also acted as a deterrent to management development. Up to the mid-1980s, the heavily regulated economy encouraged and rewarded skills to deal successfully with the bureaucracy, rather than management skills to enhance efficiency in companies.

To improve the situation, the Bank report recommended, among other things, that the government should establish semi-autonomous management institutes which would set standards of excellence, develop relevant teaching materials and introduce innovative concepts (for further details, see Habir, 1984). Given that the report had cited the centralised bureaucratic nature of the government as one of the constraints to the development of a viable management education infrastructure, it seemed contradictory to recommend the government should introduce 'centres of excellence'. Nevertheless, it reflected the common view of that period, that the private sector was still extremely weak. As it happened, however, the private sector took the lead in establishing management institutes, which in turn created a demand for graduate management education of a quality and sophistication hitherto unavailable in the national educational system.
The First MBA Schools: A Private Sector Initiative

The appearance of MBA schools in the 1980s marked a sometimes controversial period of educational development in Indonesia. In the short history of MBAs in Indonesia, two phases can be identified. The first, in the early to mid-1980s, was the establishment of programs that attempted to respond to the need for managers trained in a more practical-oriented fashion. However, the economic slowdown as a result of declining oil prices also created a growing awareness that better management was a key to survival in difficult times. Established out of a mixture of motives — idealism, profit, and a perceived need for more managers — new schools began in uncertain economic times. For a time, the introduction of a new educational product meant that 'supply chased demand', and the schools initially struggled to attract students. These first MBA programs were offered by Institut Manajemen Prasetya Mulya (IMPM) in 1982, Institut Pengembangan Manajemen Indonesia (IPMI) in 1984, and Institut Pendidikan dan Pembinaan Manajemen (IPPM) in 1985. All three can be said to have established good reputations in the eyes of the public.1

IMPM, the first institute to offer an MBA program, originally planned to conduct its courses in English, but that was abandoned after the first module. Prasetya Mulya's modular program was designed to overcome the reluctance of companies to send participants for long periods, by offering the flexibility of modules which could be taken at designated times each year. However, despite that flexibility and perhaps reflecting the novelty of the MBA concept in Indonesia, IMPM's first program attracted only 20 students, in comparison to the 35 they had hoped to attract. But with the support of 70 top Chinese Indonesian entrepreneurs, such as Liem Sioe Liong, William Soeryadjaya, The Ning King and Sofyan Wanandi, who make up the Prasetya Mulya Foundation, the Institute had the advantage of a sizeable pool of both funds and program participants.

Kwik Gian Kie, a prominent economist, businessman and politician, was active during the early years of Prasetya Mulya's development as the Chairman of the Board of Directors (Ketua Dewan Direktur). Initially somewhat European-oriented — Kwik is a University of Rotterdam School of Economics graduate — the

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1 See the Editorial in Kompas, 14 December 1989.
Institute has evolved into a more eclectic organisation. Kwik Gian Kie left the Institute in 1986 to begin his own business school, *Institut Bisnis Indonesia* (IBI), which concentrates on a four-year Bachelor of Business Administration (BBA) degree. IMPM is currently headed by Djisman Simanjuntak, an economist seconded from the Centre for Strategic and International Studies, a prominent Indonesian think-tank, itself a stronghold of the Wanandi family.

IPPM began as *Lembaga Pendidikan dan Pembinaan Manajemen* (Institute of Management Development and Education) in 1967, initially offering a two-year graduate level business administration course, but then moved into short management courses, seminars, consultancy, publishing and language courses when the long program did not prove viable. It was founded by A.M. Kardarrnan, a Jesuit priest and Dean of the Faculty of Economics at the Santa Dharma Teacher Training College in Yogyakarta, and included on its first board T.B. Simatupang, former Chief of Staff of the Armed Forces and at that time Chairman of the Indonesian Council of Churches. IPPM has received aid from the Netherlands, Germany and the United States. As noted, LPPM had to discontinue its original two-year graduate business program in 1972 because of the high costs involved in sustaining a long-term program in the face of limited demand. It then turned to the more profitable short-term courses that enabled it to build up the resources for longer programs. In 1977 it began a 10-month management-trainee program for fresh university graduates, which proved successful. By 1985, it had begun an MBA degree program, changing its name from *Lembaga* to *Institut* to comply with government regulations requiring degree-granting, higher education institutions other than universities to be called an institute. A pioneer in Indonesian management education, IPPM prides itself on developing an institution imbued with a strong Indonesian national identity.\(^2\)

**IPMI — The Proto-typical MBA School?**

Arguably, IPMI (*Institut Pengembangan Manajemen Indonesia*, the Indonesian Institute for Management Development) contributed most to the acceptance of MBA education in Indonesia. By deliberately

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\(^2\) See the 1990 brochure of the Institute of Management Education and Development.
modelling itself on the Harvard Business School, it could hardly have chosen a more radical and 'foreign' educational pattern in the Indonesian context. Yet in successfully transplanting that Harvard model, with some modifications, IPMI paved the way for public acceptance of MBA programs in general.

IPMI was established in 1983 by Siswanto Sudomo, a Gadjah Mada academic turned businessman, with the then Junior Minister of Cooperatives, Bustanil Arifin. A program was shaped with active support from Professor Harry L. Hansen of the Harvard Business School, who was to become the first Chairman of IPMI's International Advisory Committee. In September 1984, IPMI admitted its first class, of 28 students. There was some scepticism over its prospects, given that its philosophy was almost diametrically opposed to the management education approach employed in the national education system. For one thing, the language of instruction was English. For another, IPMI departed from tradition by providing salaries (at that time) comparable to those of higher management in the private sector. This enabled a full-time faculty, who had themselves obtained MBAs from abroad, to be drawn from the business world.

Modelling the curriculum after the Harvard Business School entailed a reliance on active student participation, with an emphasis on case discussion as opposed to lectures. Potential applicants were required to possess a university degree and a minimum of two years working experience. They also had to achieve acceptable scores on the Graduate Management Admission Test (GMAT), which is taken by all applicants to graduate business schools where English is the official medium of instruction, and on the TOEFL test which measures English proficiency and is normally required for those studying in the United States (Habir, 1983). Despite the scepticism, IPMI succeeded in providing an effective and increasingly visible MBA education that improved its graduates' prospects in the job market. By August 1991, IPMI had graduated 319 students. An increasing number of these graduates hold senior

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3 In itself this is not especially unusual given that so many other schools around the world do the same. These include INSEAD, France; IMEDE, Switzerland; IESE, Spain; AIM, Philippines; and IIM, India.
management positions in state enterprises and private companies, while a sprinkling are entrepreneurs.4

The growth of these institutions has created centrifugal strains as each copes with growing demands of the market and simultaneously strives to strengthen its organisational capacity. In the process some of the senior founding members of the institutes have departed. As already mentioned, Kwik Gian Kie left Praseya Mulya to start his own Institut Bisnis Indonesia. In 1991, Siswanto Sudomo left IPMI to become President Director of PT Kwalita Exporindo International, part of the Hasyim Djojohadikusumo Group, while retaining his seat on IPMI's governing foundation. Winoto Doeriat left IPPM to become the president of PT Inti Indorayon Utama, a company in the Raja Garuda Mas Group, a conglomerate headed by Sukanto Tanoto. Winoto Doeri at, with a number of IPPM colleagues who left with him, established another management institute, Institut Manajemen Mitra Indonesia (Indonesian Management Partners Institute). Speculation was rife on the causes of the departures from IPMI and IPPM, and their effects on the institutes. Overall, however, there seems to have been little adverse effect on the established institutes.5

A High Profile Helps to Create a Market

The increasing high profile of the MBA schools, as manifested in their bold advertising (pioneered by IPMI and much emulated since), was just part of an increasingly visible private business sector as deregulation began slowly to take hold. IPMI attained more legitimacy owing to its role in public debates on deregulation. It became customary for commencement speeches at IPMI graduations to be given by current or former ministers. Most took advantage of the opportunity to speak on issues relating to the deregulation debate. Indeed, the debate could be said to have begun in IPMI's first graduation ceremony on 22 August 1985, when Professor Sumitro

4 The other business schools have reported similar upward mobility for their graduates. See Bisnis Indonesia, 5 April 1991 and Suara Pembaruan, 25 April 1991.

5 For press comments on this issue, see for example Kompas, 25 February 1991; Editor, 11 May 1991, p.102; Bisnis Indonesia, 5 April 1991; Bisnis Indonesia, 20 November 1990.
Djojohadikusumo issued the first attack against the high-cost Indonesian economy. As he narrated:

Much of my work is still done 'in the heat of battle' rather than in cool reflection; the speech to the MBA graduates is an example of this. I was on a crusade with the President, and everyone else, on the issue of our high cost economy — no one wanted to say these things so I thought it might as well be me (Djojohadikusumo 1986:32).

Because prominent business and government figures were involving themselves in management education, the media took more notice of the schools. Sumitro himself was the Chairman of the IPMI's Board of Counsellors. Other prominent public figures on the Board included Tanri Abeng, then heading Multi Bintang, the Heinekin brewing joint venture, and Aburizal Bakrie of the huge Bakrie group. The two other schools also had their tokoh, their prominent figures. As already mentioned, one of the founders of IPPM was the late Lt General Dr T.B. Simatupang, who became the first chairman of the Institute's Foundation. The current Chairman is Drs Frans Seda, a prominent businessman who has held a number of ministerial portfolios in the New Order. At Prasetya Mulya, the Secretary of the Advisory Council of the Trustee Board is Jusuf Wanandi of the Centre for Strategic and International Studies, while his brother, Sofjan Wanandi, who heads the Gemala Group, is on the Executive Board. As already mentioned, supporters of the Institute include many leading Chinese Indonesian entrepreneurs.

The Government Response

Soon after the establishment of IPMI, there were murmurings about the propriety of business schools operating outside the national education system and using English as the medium of instruction. There were sufficient misgivings expressed that, in 1985, a delegation from IPMI's Foundation members led by Bustanil Arifin made a courtesy call on the then Education Minister, the late Nugroho Notrosusanto. The Minister advised the delegation that IPMI should retain its unique characteristics, that is, the Harvard case method and English instruction, by remaining outside the system (personal communication, Siswanto Sudomo, 7 October 1991).
In any event, rather than impose sanctions, the government moved to establish its own business schools. In 1986, the Director General of Higher Education, Sukadji Ranuwihardjo decreed the University of Indonesia and Gadjah Mada University to be the pioneers in establishing a Professional Stream Masters Program (Program S2 Jalur Profesi) in business that would be an integral part of the state university system. In contrast to graduates of the private MBA programs, S2 graduates of the state business schools could go on to S3 (PhD) programs. Their degrees would also be recognised in the government bureaucracy.

In August 1986, a team was formed by the Dean of the Economics Faculty at the University of Indonesia, Dr Wagiono Ismangil, to develop the syllabus of the new school. Progress was slow as the team members were involved in so many other activities. In March 1987 the Dean assigned the then Head of Lembaga Manajemen, Drs Nasruddin Sumintapura (now Junior Finance Minister) to accelerate the process. After much discussion, it was decided that the program would be called Program Magister (Masters) Management. With support from the Dean, the Program Development Board, consisting of Professors J.B. Sumarlin, Widjojo Nitisastro, and Ali Wardhana and some members of the Council of Academic Advisors (including Dr Djunaedi Hadisumarto and Drs Nasruddin Sumintapura), removed funding obstacles and the program opened in September 1988. In October 1989 it graduated 24 students, and a further 19 in January 1990. The program concentrates on international business and accounting (FE UI, 1991:66).

As anticipated, a feature of the state business schools has been their ability to attract company sponsorship by trading on their national prestige. Business groups saw the benefits of attaching their own name, both figuratively and literally, to the two state universities and, through them, to their networks in the government bureaucracy. Gadjah Mada's program, also started in 1988, has solicited contributions from the corporate sector for its development fund totalling about Rp 1.5 billion. Contributors include Bakrie &

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Financial contributions to the School can be gauged by the names given to various facilities such as the 'Library Lippo Room', 'Canteen Danamon Room', 'Computer Lab Fujitsu', lecture rooms 'Gudang Garam Room', 'Sampoerna Room', 'BCA Room', 'Astra Room', 'Bakrie Room', 'Indocement Room', 'Surabaya Post Room', and even garbage place Hagabank (see Prospek, 27 July 1991:94).
Table 9.1: Management Education Institutes in Indonesia, 1991

<table>
<thead>
<tr>
<th>Institution</th>
<th>Number of Students</th>
<th>Course Fees(^a) (Rp '000 or US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. University of Indonesia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S2, Magister Manajemen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• International Management</td>
<td>169</td>
<td>Rp 15,600 (morning)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rp 18,000 (evening)</td>
</tr>
<tr>
<td>• Management Accounting</td>
<td></td>
<td>Rp 16,575 (morning)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rp 19,125 (evening)</td>
</tr>
<tr>
<td>2. IPPM</td>
<td>102</td>
<td>Rp 15,000</td>
</tr>
<tr>
<td>3. IPMI</td>
<td>50</td>
<td>Rp 15,000</td>
</tr>
<tr>
<td>4. IMPM</td>
<td>88</td>
<td>Rp 13,750 (modular)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rp 11,500 (trimester)</td>
</tr>
<tr>
<td>5. OTC Institut Pendidikan Bisnis &amp; Manajemen</td>
<td>220</td>
<td>Rp 12,000</td>
</tr>
<tr>
<td>6. G.S. Fame Institute of Business</td>
<td>120</td>
<td>$5,150</td>
</tr>
<tr>
<td>7. Institute of Business &amp; Management Jayakarta</td>
<td>200</td>
<td>Rp 12,500</td>
</tr>
<tr>
<td>8. Institut Management Newport Indonesia</td>
<td>250</td>
<td>Rp 500 per course</td>
</tr>
</tbody>
</table>

\(^a\)Refers to total fees for duration of the course.

Brothers, Indah Kiat, Indocement, Bank Indonesia International, Summa, Danamon, GKBI and others. Their program specialises in agribusiness, and banking and finance. Government accreditation makes the program attractive for prospective students, despite fees (Rp 12.5 million, recently increased to Rp 15 million) that are comparable to those of other programs. In the first year, 120 students registered, of which 40 were accepted; in 1989, 270 registered and 70 were accepted; while in 1990 the figures were 360 and 70 respectively (Prospek, 27 July 1991:96).

Table 9.1 provides a partial picture of management education institutes based on a survey by a prominent Jakarta newspaper. There is considerable variation in the size and fee levels of these institutes, though course costs are far in excess of those levied for most non-management courses in private or state universities.

Second Phase and the Accreditation Issue

Deregulation and economic growth in the late 1980s and early 1990s have encouraged a second wave of MBA schools. Some are following the path already set by the established schools, while others seem to be attracted solely by commercial opportunities. One school in Yogyakarta, for example, claims to offer an MBA but holds classes only once a week (Prospek, 27 July 1991:88). Others are reported to allow high school graduates to enter their MBA program (Bisnis Indonesia, 5 April 1991).

Concern at low and uneven quality has raised again the question of government accreditation to protect consumers of MBA programs. In July 1991, the Director General of Higher Education announced that steps were being taken to control MBA schools through decrees of the Education Minister based on Law No. 30/1990. He further stated that a team had been formed to draft the regulations (Prospek, 27 July 1991:88). Whatever the content of the regulations, the Director General gave assurances that his Department was aware of the growing need for professional management development. Therefore, he indicated, private management institutes would be allowed to operate with the proviso that the degrees they would offer would not be acceptable in the government (Suara Pembaruan, 25 April 1991).

The institutes themselves seemed not overly concerned about government accreditation. Acceptance by the public and consumers,
as measured by increasing enrolments and demand of companies for graduates, were seen as more important (*Suara Pembaruan*, 25 April 1991; *Suara Karya*, 8 December 1990). Furthermore, the issue of accreditation to allow for entry into doctoral programs is not particularly important as the principal aim of an MBA degree is to prepare its graduates to be professional managers rather than academic teachers and researchers (*Suara Pembaruan*, 7 September 1991).

**New Entrants**

In any case, not all new schools are 'diploma mills'. Following the path of the University of Indonesia and Gadjah Mada, the prestigious Institut Teknologi Bandung (ITB) began such a program in October 1990, displaying ingenuity by naming it *Magister Bisnis dan Administrasi (MBA) Teknologi*, or MBA in Technology. Countering accusations that ITB was straying from its educational mission by copying other schools in establishing an MBA program, the ITB Rector, Professor Ir. W. Arismunandar, said ITB was responding to the need to create a business outlook among engineers so they could cope better with the fast changing pace of industry (*Kompas*, 24 October 1990). Another leading state institute, Institut Pertanian Bogor (IPB), has also established a *Magister Manajemen* program, focusing on agribusiness, and in conjunction with the Wageningen Agricultural University from the Netherlands.

In addition a school in Bandung has been established by the telecommunication state enterprise, PT Telekomunikasi Indonesia (formerly Perumtel) in July 1990. The President of PT Telekomunikasi Indonesia is Ir. Cacuk Sudarijanto, a respected manager with a private sector background who is known for his active interest in management development. He is also the President of the Indonesian Management Association, Permanin. This Bandung program is run in cooperation with the Asian Institute of Management (AIM), Manila. The medium of instruction is English since initially faculty will be provided by AIM. The school will cater to the general public as well as to its state enterprise sponsor.

The newest entrant is the MBA-IMMI, a program in cooperation with PT Pupuk Sriwidjaja (Pusri), a large fertiliser state enterprise. IMMI is the management school started by faculty who left IPPM. Advertising for the program began in September 1991. The school will be based in Palembang, South Sumatra, the headquarters of Pusri.
In-Company Management Development

Companies developing their own management education capabilities will compete increasingly with management institutes. While MBA graduates have good job prospects, companies are not uncritical consumers. MBA graduates still have a reputation for being expensive and prone to leave. Companies, therefore, are not necessarily impressed by the degree, but consider their own needs and the ability of any candidate to fill those needs. Companies are also becoming more discriminating in choosing training programs. A USAID survey in 1985 found that companies use a wide range of available training methods and opportunities (Cox, 1985). Increasingly, companies are investing in their own in-house capacity to develop their managers. For example, PT Astra International has a sophisticated in-company management development program in place, guided by its Astra Education and Training Centre (AETC). Bank Danamon established the Danamon Training Centre in November 1989. With new facilities built at a cost of Rp 44 billion on a three-hectare campus, it hopes to encourage other banks to send their employees to the centre. Other companies have established management education institutions that also cater for other companies and the public. For example, Sampoerna, a large diversified kretek cigarette company, established the Sampoerna Executive Resources Centre (SERC). The centre provides human resource training and consultancy, computer services, translations, seminars, publications and business information. Institut Summa Excellentia is another management education institution, established by the Summa Group, a conglomerate headed by Edward Soeryadjaya. It also has plans to be a centre for education, research and publication. The first phase of its development will concentrate on practical professional management training for the Summa Group and its subsidiaries. In the future it hopes to develop professional management programs in sectors previously neglected by management schools, such as cooperatives (Warta Ekonomi, 5 August 1991:59-64).

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7 Suara Pembaruan, 25 April 1991. See also a trenchant letter to the Editor in Kompas, 6 January 1991, 'MBA Tidak Berarti Manajer Kompeten' ['An MBA Does Not Mean the Manager is Competent'] by Dr Tjan Soen Eng.
Conclusion

Management education in Indonesia during the New Order has gone through the gamut of phases experienced by other developing countries. Commonly, foreign companies within the country become interested in training their local managers. The government also becomes aware of managerial requirements for development and establishes institutions and programs in development administration and management education. In this context, advice and aid is sought from international agencies and management institutions. Management education institutes are established and staff sent abroad for training. In the meantime, companies become interested in developing their own training establishments and programs. They remain consumers of external programs, first on a trial-and-error basis, then later more critically. The system develops in response to debate, doubts and questions relating to relevance, utility, costs, flexibility, coverage and content, faculty competence, methodology and teaching material, conceptual models, ideological implications, and accreditation. The latter issue has received much attention lately in Indonesia in the wake of the rapid expansion in MBA programs. In theory, an effective accreditation system can be useful in differentiating quality education programs from those which are of low quality and with a narrow commercial focus. Such a system would presumably put pressure on institutes to maintain and increase quality, which in turn protects the value of an MBA degree in the public's perception. However, the challenge in accreditation is to devise a system which can ensure that creativity, quality and relevance are retained and developed in a fast-changing environment. There is little evidence to suggest that an accreditation system, for all its virtues, will necessarily achieve this goal.\(^8\) It is also questionable whether an education ministry possessing little familiarity with the business world can create a suitable system of accreditation. Indeed the statements of education officials seem to be directed more towards ensuring compliance and uniformity, tied to the national educational system. History suggests that a rigid

\(^8\) Porter and McKibbin (1988:315), who conducted a three-year study commissioned by the American Assembly of Collegiate Schools of Business (AACSB), the United States business school accreditation body, highlighted this issue recently.
adherence to such a system could lead to declining quality in the long run.

Currently, Indonesia's management education sector features a diversity which, on the whole, speaks well for the creativity and energy of those concerned. The sector's expansion has been marked by a judicious mix of competition and cooperation. There is no reason, therefore, why an acceptable accreditation system could not be created by the schools themselves, perhaps with the government. In fact, a model of this sort already exists in the form of the Association of Southeast Asian Graduate Schools of Management (ADSGM). IPMI, IPPM, UI and Gadjah Mada are the Indonesian members of the Association, which has been established with the cooperation of the Canadian Federation of Deans of Management and Administrative Studies (CFDMAS), with assistance from the Canadian International Development Agency (CIDA). At present the Association does not have an accreditation function. However, these functions take time to evolve. For example, the United States accreditation body, AACSB, was originally formed in 1916 to provide a forum for the systematic exchange of information among its 16 original members. Only in 1961 did standards for membership evolve into standards for accreditation (Porter and McKibbin, 1988:196-7).

In the final analysis, a focus on accreditation shifts attention away from the more vital issue of supporting a management education sector which can identify and contribute creatively to the solution of pressing national issues. The main task of these institutes will continue to be that of assisting management, both private and public, to be more effective and efficient. But they have a public role, too, in raising issues which impinge on corporate and general economic performance, such as the uncertain state of the legal system, the maldistribution of wealth, and the environment.9 Recent well-publicised cases, such as the Bank Duta 'corruption' trial, labour strikes at the Gadjah Tunggal factory, and the 1988 environment case of PT Inti Indorayon Raya, illustrate clearly that these and many other issues will arise in the future. For an increasingly far-sighted and sophisticated managerial class, these issues are not academic, as they require a constructive response from business.

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9 Hadi Soesastro (1991) suggests that the growing separation of ownership and management can provide opportunities for managers to make a contribution on these issues.
Introduction

Educational development in Asia over the past two to three decades has been quite remarkable. By 1985, the adult literacy rate was around 65%, above the mean of roughly 59% for developing countries, but still markedly lower than the average of about 80% for Latin America (UNESCO, 1988). Asian adults had on the average some 5.3 years of schooling, compared with 4.8 years for developing countries as a whole, but the male-female differential remained substantial — 5.9 years for males versus 4.7 for females. School participation among Asian children and youth during the mid-1980s (at 92% in primary, 43% in secondary, and 11% in tertiary education) was also better than the average for developing countries, but still below the mean for Latin America.

Within the vast and diverse region of Asia, individual countries experienced significant educational strides, including those starting from a low base (for example, Bangladesh and Nepal). In Southeast Asia, where the initial educational base was higher, improvements were noteworthy, especially for Indonesia, Malaysia and Singapore. Between 1970 and 1985, adult literacy rose from 54 to 74% in Indonesia, 60 to 74% in Malaysia, and 69 to 86% in Singapore. In the Philippines and Thailand literacy rates were, respectively, 86 and 91% in 1985. Mean years of schooling among adults in these five Southeast Asian countries ranged from 4.2 in Thailand to 6.9 in the Philippines. These countries had achieved virtually universal entry into primary education in 1985 (Table 10.1). Gross enrolment ratios at the secondary level in 1985 ranged from 30% in Thailand to 71% in Singapore, with Indonesia having made the most dramatic
Table 10.1: Gross Enrolment Ratios by Level of Education in Asia, 1970-85 (percentages)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>80</td>
<td>118</td>
<td>16</td>
<td>42</td>
<td>2.4</td>
<td>6.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>87</td>
<td>99</td>
<td>34</td>
<td>53</td>
<td>2.8</td>
<td>6.0          (8.6)</td>
</tr>
<tr>
<td>Philippines</td>
<td>108</td>
<td>106</td>
<td>46</td>
<td>65</td>
<td>18.4</td>
<td>38.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>105</td>
<td>115</td>
<td>46</td>
<td>71</td>
<td>9.0</td>
<td>11.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>83</td>
<td>97</td>
<td>17</td>
<td>30</td>
<td>3.4</td>
<td>19.6</td>
</tr>
<tr>
<td>Koreaa</td>
<td>103</td>
<td>96</td>
<td>42</td>
<td>75</td>
<td>10.3</td>
<td>31.6</td>
</tr>
<tr>
<td>China</td>
<td>89</td>
<td>118</td>
<td>24</td>
<td>39</td>
<td>0.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>54</td>
<td>60</td>
<td>-</td>
<td>18</td>
<td>-</td>
<td>5.2</td>
</tr>
<tr>
<td>India</td>
<td>73</td>
<td>92</td>
<td>26</td>
<td>41</td>
<td>8.6</td>
<td>9.0</td>
</tr>
<tr>
<td>Nepalb</td>
<td>22</td>
<td>82</td>
<td>10</td>
<td>25</td>
<td>2.3</td>
<td>4.6</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>99</td>
<td>103</td>
<td>47</td>
<td>63</td>
<td>1.3</td>
<td>4.6          (5.1)</td>
</tr>
<tr>
<td>Burma</td>
<td>83</td>
<td>107</td>
<td>21</td>
<td>23</td>
<td>2.1</td>
<td>5.4</td>
</tr>
<tr>
<td>Laos</td>
<td>53</td>
<td>94</td>
<td>3</td>
<td>19</td>
<td>-</td>
<td>1.5</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>52</td>
<td>70</td>
<td>8</td>
<td>13</td>
<td>2.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Averagec</td>
<td>76</td>
<td>94</td>
<td>26</td>
<td>42</td>
<td>4.9</td>
<td>10.1</td>
</tr>
</tbody>
</table>

a The data for secondary education in 1985 are lower than that reported in UNESCO (1987) since they are the average over both subcycles of secondary education. The UNESCO data refer only to the first subcycle.

b The statistic for primary education for 1985 may be an overestimate due to inaccuracies in official estimates of the relevant school-age population.

c Excludes Bangladesh and Laos since data for these countries are incomplete.

d Figures in parentheses refer to estimated enrolment ratios if students abroad are included; they are shown only for Malaysia and Sri Lanka, countries with sizable student populations abroad.

progress from 16% in 1970 to 42% in 1985 (see also Pernia and Wilson, 1989). At the higher education level, substantial improvements were recorded as well, so that by 1985 the enrolment ratios in Southeast Asia, except Indonesia, were above the average for the Asian region.

This chapter discusses some aspects of the costs and financing of higher education as they relate to issues of efficiency and equity. I take a comparative view by examining higher education against the other levels of schooling and across Asian countries, particularly those in Southeast Asia, with a focus on Indonesia. The chapter first reviews educational costs and finance, then looks at how they affect the efficiency and equity of education systems. This is followed by a brief look at the main fields of specialisation in higher education. The concluding section gives a short summary of comparative educational developments in the region and discusses some of the critical policy issues in Indonesia.

Educational Costs and Finance

The variation in educational progress across Asian countries can no doubt be explained by disparities in levels of economic development and rates of economic growth among these countries. But it is attributable in part to differences in policy measures adopted which influence the costs and financing of education (Tan and Mingat, 1991).

On the average, Asian national governments spend roughly 3.0% of GNP on the education sector as a whole. Indonesia allots about 3.7% to education, next only to Malaysia's 6.0%, while the Philippines shows the lowest public expenditure share at 1.8%. In terms of fiscal effort, Indonesia's education budget accounts for some 15% of total government expenditures, approximating those of the other Southeast Asian countries, except that in the Philippines which is lower (11.5%).

More instructive than the overall share of national income and of the public budget expended by governments on education is the pattern of spending allocation across schooling levels. Such allocation reflects the priorities of a government in the education sector. Among Asian countries, the average allocation of public spending is about 48% for the primary level, 31% for the secondary level, and 19% for higher education. Indonesia appears rather
unique in this respect in that it allocates as much as 62% of its education budget to primary schooling, compared to only 9% for higher education. Thus, on the basis of social rates of return, which are highest for primary education, followed by secondary and then higher education, Indonesia's priorities seem to conform well with the norm. The other extreme is Nepal, which spends only 41% of its education budget on primary schooling and a comparatively substantial 35% on higher education.

The intra-sectoral allocation patterns in the Philippines and Thailand approximate that of Indonesia, while Malaysia's pattern resembles more that of Nepal, with greater relative emphasis on higher education. The smaller allotment of government spending on higher education in Indonesia and the Philippines is made possible by greater private-sector participation at this level (particularly in the latter country), and in Thailand by the wide availability of low-cost distance education (open universities). In South Korea, there is both a large private-sector financing of higher education and an appreciable availability of distance education.

Another factor accounting for differences in the intra-sectoral resource allocation is the variation in the unit costs of public education. In Asian countries, the unit operating cost of public higher education is invariably several times higher than that of secondary and primary schooling (Table 10.2). This situation is especially dramatised by the figures for Bangladesh, India and Papua New Guinea. In Indonesia, the unit cost of public higher education is about 91% of per capita income, compared with only 13% for primary and 23% for secondary schooling. In Malaysia the unit cost of public higher education is much higher, at 190% of income per capita, while in Thailand and the Philippines it is only 40 and 50% of their respective per capita incomes.

The rather low unit cost for Thailand can be attributed in large measure to the relatively abundant supply of inexpensive education from open universities, where unit cost is merely 8% of that in regular public institutions (Table 10.2). In Indonesia the comparable unit cost of distance education is significantly higher, at 35%, while in Korea it is 10%. The more recent establishment of, and consequently lower participation rate in, open universities partly explain the higher unit cost for Indonesia. Apart from the different cost structures of regular and open institutions of higher education, unit costs generally vary depending on such factors as class size,
## Table 10.2: Unit Operating Costs of Public Education in Asia, ca. 1985

<table>
<thead>
<tr>
<th>Country</th>
<th>Primary</th>
<th>Secondary</th>
<th>Higher b</th>
<th>As percentage of per capita GNP</th>
<th>Unit costs of distance educ., ratio to those of regular institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>12.6</td>
<td>23.3</td>
<td>91.1</td>
<td>105.7</td>
<td>0.35</td>
</tr>
<tr>
<td>Malaysia</td>
<td>14.1</td>
<td>21.3</td>
<td>190.3</td>
<td>190.3</td>
<td>-</td>
</tr>
<tr>
<td>Philippines</td>
<td>5.8</td>
<td>8.6</td>
<td>50.0</td>
<td>50.0</td>
<td>-</td>
</tr>
<tr>
<td>Thailand</td>
<td>15.5</td>
<td>15.3</td>
<td>39.9</td>
<td>177.9</td>
<td>0.08</td>
</tr>
<tr>
<td>Korea</td>
<td>16.5</td>
<td>23.4</td>
<td>70.6</td>
<td>104.5</td>
<td>0.10</td>
</tr>
<tr>
<td>China</td>
<td>6.7</td>
<td>22.6</td>
<td>199.2</td>
<td>329.8</td>
<td>-</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>6.4</td>
<td>30.0</td>
<td>284.6c</td>
<td>284.6</td>
<td>-</td>
</tr>
<tr>
<td>India</td>
<td>6.0</td>
<td>17.3</td>
<td>231.1</td>
<td>231.1</td>
<td>-</td>
</tr>
<tr>
<td>Nepal</td>
<td>9.0</td>
<td>13.5</td>
<td>249.0</td>
<td>249.0</td>
<td>-</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>6.1</td>
<td>9.3</td>
<td>83.3</td>
<td>111.2</td>
<td>0.20</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>29.0</td>
<td>65.0</td>
<td>1050.0</td>
<td>1050.0</td>
<td>-</td>
</tr>
<tr>
<td>Average a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Without PNG</td>
<td>9.9</td>
<td>18.5</td>
<td>148.9</td>
<td>183.4</td>
<td>0.18</td>
</tr>
<tr>
<td>With PNG</td>
<td>11.6</td>
<td>22.7</td>
<td>230.8</td>
<td>262.2</td>
<td></td>
</tr>
</tbody>
</table>

---

**Notes:**

- a The unit cost of education in Papua New Guinea (PNG) is exceptionally high, thus raising the average for Asia considerably.
- b In countries with distance systems, the unit cost of higher education is the average for public regular and distance education, weighted by their respective enrolment shares.
- c Figure refers to unit costs in universities.

**Source:** Tan and Mingat (1991: 31, 33).
pre- and in-service training of teachers as well as their salaries and workloads, use of pedagogical methods and materials, the nature and extent of student and teacher evaluation and supervision, and the screening process of students from one level to the next (Tan and Mingat, 1991).

Table 10.3: Higher Education Student/Faculty Ratios in Asia, 1985

<table>
<thead>
<tr>
<th>Country</th>
<th>Regular Institutions</th>
<th>Open/Distance Education</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public</td>
<td>Private</td>
</tr>
<tr>
<td>Indonesia</td>
<td>14.0</td>
<td>46.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>11.4</td>
<td>-</td>
</tr>
<tr>
<td>Philippines</td>
<td>16.0</td>
<td>48.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>8.3</td>
<td>17.6</td>
</tr>
<tr>
<td>Korea</td>
<td>42.2</td>
<td>41.1</td>
</tr>
<tr>
<td>China</td>
<td>5.2</td>
<td>-</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>15.9</td>
<td>-</td>
</tr>
<tr>
<td>Bhutan</td>
<td>10.9</td>
<td>-</td>
</tr>
<tr>
<td>India</td>
<td>15.7</td>
<td>-</td>
</tr>
<tr>
<td>Nepal</td>
<td>13.2</td>
<td>-</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>10.7</td>
<td>-</td>
</tr>
<tr>
<td>Burma</td>
<td>30.3a</td>
<td>-</td>
</tr>
<tr>
<td>Laos</td>
<td>10.1</td>
<td>-</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>7.7</td>
<td>-</td>
</tr>
<tr>
<td>Average</td>
<td>13.9</td>
<td>-</td>
</tr>
</tbody>
</table>

a Includes pupils in correspondence courses; hence, excluded in calculation of regional average.

b Refers only to Andhra Pradesh Open University.

As to student-faculty ratios in higher education, the average in public institutions is 14 for Indonesia, which corresponds roughly to the mean for Asian countries (Table 10.3). In the Philippines, the student-faculty ratio is 16, while in Malaysia it is slightly above 11 and in Thailand it is about 8. In Korea it is much higher, at 42, even higher than Burma's 30, which is the highest in South Asia. Student-faculty ratios in private institutions are much higher: in Indonesia and the Philippines, three or more times larger, while in Thailand they are a little more than double those in public institutions. Concentration on non-science course offerings largely explains the larger class sizes in private-sector universities. In distance education student-faculty ratios are, naturally, several times higher: 690 in Indonesia and 619 in Thailand.

The extent of private-sector participation in the provision of higher education can be gleaned from the distribution of enrolments among types of institutions (Table 10.4). In Asia, the Philippines has the largest share (83%) of tertiary-level enrolments in private institutions, followed by Korea (65%) and Indonesia (58%). On the other hand, public institutions dominate in Malaysia with a 61% share of enrolments, although close to a third of students are in overseas universities. The large share of private-institution enrolments in Bangladesh and India is misleading in this context because most private institutions actually receive sizeable public subsidies. The prominence of the private sector in Indonesia is somewhat overstated as roughly 30% of the staff in private institutions are reported as 'moonlighting' from government institutions. Private colleges and universities in the Philippines receive hardly any support from the government and are largely self-financing concerns.

Distance learning appears to be most developed in Thailand, where almost four-fifths of higher-education students are engaged in open universities, and only about one out of seven students is in a regular public institution. By comparison, Sri Lanka, China and Burma have from 30 to 45% of their higher-education students enrolled in distance education. In Korea only one out of eight is engaged in distance learning, while in Indonesia the comparable figure is slightly less than one in ten. In the other countries, open universities are either still non-existent or account for relatively insignificant shares of tertiary-level enrolments.
Table 10.4: Distribution of Higher Education Enrolments in Asia by Type of Institution, ca. 1985

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Enrolled ('000)</th>
<th>Percentage of total enrolled in Local institutions</th>
<th>Percentage of total enrolled in Overseas institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Public</td>
<td>Distance</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1295.6</td>
<td>32.5</td>
<td>8.8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>131.2</td>
<td>60.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>1549.6</td>
<td>16.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>724.0</td>
<td>14.5</td>
<td>77.9</td>
</tr>
<tr>
<td>Korea</td>
<td>1478.2</td>
<td>21.4</td>
<td>12.0</td>
</tr>
<tr>
<td>China</td>
<td>3470.6</td>
<td>68.6</td>
<td>30.2</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>811.4</td>
<td>40.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Bhutan</td>
<td>1.1</td>
<td>95.8</td>
<td>0.0</td>
</tr>
<tr>
<td>India</td>
<td>3314.5</td>
<td>37.4</td>
<td>4.8</td>
</tr>
<tr>
<td>Nepal</td>
<td>74.3</td>
<td>73.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>34.5</td>
<td>62.0</td>
<td>28.5</td>
</tr>
<tr>
<td>Burma</td>
<td>185.1</td>
<td>54.4</td>
<td>45.4</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>11.4</td>
<td>82.6</td>
<td>8.8</td>
</tr>
</tbody>
</table>

<sup>a</sup> Data include enrolments in privately-managed institutions.


The degree of private financing in higher education varies a great deal in Asia and even in Southeast Asia (Table 10.5). In Indonesia student fees in public institutions represent about 19% of unit operating costs, compared with 15% in the Philippines, 6% in Malaysia, and 5% in Thailand. In Korea, cost recovery is exceptionally high at 46%. In Thailand cost recovery in open universities is much higher than in regular universities — 28 versus 5%. As to the financing of private higher education, student fees in Indonesia account for 70% of costs, with the balance covered by public subsidies. By contrast, private education in Malaysia
### Table 10.5: Fees for Public and Private Education in Asia as Percentages of Unit Operating Costs, ca. 1985

<table>
<thead>
<tr>
<th>Country</th>
<th>Primary</th>
<th>Secondary</th>
<th>Higher education</th>
<th>Index of overall private financing&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regular</td>
<td>Open</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>7.1</td>
<td>27.4</td>
<td>18.9</td>
<td>-</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.7</td>
<td>4.0</td>
<td>5.8</td>
<td>-</td>
</tr>
<tr>
<td>Philippines</td>
<td>0</td>
<td>9.3</td>
<td>15.3</td>
<td>-</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.1</td>
<td>18.3</td>
<td>5.0</td>
<td>27.5</td>
</tr>
<tr>
<td>Korea</td>
<td>0</td>
<td>34.2</td>
<td>45.9</td>
<td>32.0</td>
</tr>
<tr>
<td>China</td>
<td>4.8</td>
<td>3.2</td>
<td>0.3</td>
<td>-</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>7.4</td>
<td>4.0</td>
<td>0.1</td>
<td>-</td>
</tr>
<tr>
<td>India</td>
<td>0</td>
<td>11.6</td>
<td>4.5</td>
<td>59.0&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Nepal</td>
<td>0</td>
<td>40.7</td>
<td>10.4</td>
<td>-</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>3.1</td>
<td>3.1</td>
<td>3.4</td>
<td>57.7</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>8.7</td>
<td>39.8</td>
<td>0.0</td>
<td>-</td>
</tr>
<tr>
<td>Average</td>
<td>3.2</td>
<td>17.8</td>
<td>10.0</td>
<td>-</td>
</tr>
</tbody>
</table>

<sup>a</sup> Refers only to Andhra Pradesh Open University.

<sup>b</sup> Reflects the rate of cost recovery across institution types, weighted by their share of total enrolments. Figure in parentheses for Malaysia denotes the rate of private financing if privately-financed overseas education were included.


and in Korea obtain a more limited extent of subsidisation, and in the Philippines and Thailand there are practically no government subsidies at all.

As regards the overall extent of private financing in higher education (both public and private), the Philippines shows the highest figure at 86%, followed by Korea at 77% and Indonesia at close to 50%. In Thailand, private financing accounts for only 27% of overall higher education costs, while in Malaysia the comparable
figure is even lower at 15% (although it rises to 35% if overseas education is included).

Thus, in Southeast Asian countries, and even more so in South Asia, there remains ample scope for increasing private participation in financing higher education. This could be done by charging appropriate fees for public education and by facilitating the expansion of self-financing private institutions (Jimenez, 1987). Such a move would not only address the issue of excess demand, which remains substantial in most countries, but would also allow for a reallocation of public resources to lower levels of education, as well as to more critical fields in higher education in accordance with efficiency and equity criteria. Further, part of these additional public funds so released could be used to subsidise (for example, through scholarships) very poor but qualified and promising students to pursue higher education.

Aspects of Efficiency and Equity

The financing and costs of education have a critical bearing on issues of efficiency and equity. In Asia, as in other developing regions, the allocation of public resources across levels of schooling is commonly characterised as being acutely biased in favor of higher education (Psacharopoulos and Woodhall, 1985; World Bank, 1986). This situation is considered inefficient because it runs counter to investment criteria based on social rates of return. In Asia, social rates of return are estimated to be on the average 27% for the primary level, 15% for secondary, and 13% for the higher education level (Psacharopoulos, 1985). Individual countries more or less follow this gradation. In Indonesia, for example, social rates of return are 18% for primary, 15% for secondary, and 10% for higher education. However, as mentioned above, in comparison with other Asian countries, Indonesia's intra-sectoral allocation of public resources already appears to be among the most efficient, and is similar to that of the Philippines and Thailand.

The bias towards higher education in Asian countries is also regarded as inequitable owing to the structure of enrolments, and the costs and public subsidisation among levels of schooling. Essentially, higher education, which caters to relatively few students largely from affluent families, is much more highly subsidised than is basic education, where there is much greater enrolment and in which low-
income students are heavily represented. Thus, to the extent that
the intra-sectoral structure of enrolments, costs and government
subsidies vary among countries, there are also different degrees of
social inequality in national education systems.

Annual public subsidies per student are uniformly the largest for
higher education but the variance across countries is substantial
(Table 10.6). They are multiples of respective per capita incomes in
Papua New Guinea, Bangladesh, India, Nepal, China and
Malaysia. By contrast, higher education subsidies are rather low in
Korea, the Philippines and Thailand. Similarly, in Indonesia
public subsidisation is comparatively low — 30% of per capita
income — but still appreciably higher than the corresponding
subsidies for primary (11%) and secondary schooling (16%).

Cumulative public subsidies obtained by graduates having
passed through the three levels of schooling can be estimated by
applying the annual subsidies per student to projected graduates by
level (Tan and Mingat, 1991:92-95). For a particular country, the
distribution of cumulative public subsidies would depend on the
subsidy rate at each schooling level as well as on the structure of
educational attainments. Thus, for Bangladesh and India about 60%
of accumulated subsidies go to higher education graduates compared
with only 11% for primary-school leavers (Table 10.6). The opposite
seems to be the case for Indonesia, where higher education graduates
receive only 12% of subsidies, while primary-school leavers obtain
33% and secondary-level leavers 50% of total cumulative subsidies.
The corresponding figures for Thailand are 47% for higher
education, 40% for primary, and 13% for secondary level; and for the
Philippines these shares are, respectively, 54, 21 and 25%.

Both efficiency and equity can be enhanced by private financing
through user fees for higher education in public institutions, as well
as greater private sector participation in the supply of education. In
the case of efficiency, private financing in higher education reduces
unit costs in public institutions, owing to greater cost consciousness
and more effective selection and screening of students, leading to
higher completion rates (World Bank, 1986; Jimenez, 1987).
Moreover, higher cost-effectiveness in public institutions and the
mobilisation of private funds facilitate the desired intra-sectoral
reallocation of public resources, thereby improving the access of poor
students to educational opportunities.
Table 10.6: Average Annual Public Subsidies per Pupil and Share of Cumulative Subsidies by Level in Asia, ca. 1985

<table>
<thead>
<tr>
<th></th>
<th>Annual Subsidies by level of education</th>
<th>Percent Share of Cumulative Subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No Schooling</td>
<td>Primary</td>
</tr>
<tr>
<td>Indonesia</td>
<td>10.8</td>
<td>16.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>13.6</td>
<td>20.5</td>
</tr>
<tr>
<td>Philippines</td>
<td>5.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Thailand</td>
<td>11.6</td>
<td>13.3</td>
</tr>
<tr>
<td>Korea</td>
<td>16.6</td>
<td>8.3</td>
</tr>
<tr>
<td>China</td>
<td>6.3</td>
<td>21.9</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>5.3</td>
<td>28.0</td>
</tr>
<tr>
<td>India</td>
<td>5.2</td>
<td>15.0</td>
</tr>
<tr>
<td>Nepal</td>
<td>8.5</td>
<td>7.2</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>5.8</td>
<td>8.8</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>26.4</td>
<td>39.0</td>
</tr>
<tr>
<td>Average</td>
<td>10.5</td>
<td>16.6</td>
</tr>
</tbody>
</table>

* Expressed as percentages of per capita GNP. The data refer to the average over the public and private sectors at each level. They reflect overall operating costs per pupil minus the amount financed through fees, and are adjusted for the share of private education and the extent of government subsidization of private education.


An important aspect of equity concerns the gender issue. Part of the educational development Asian countries have achieved over the past two or three decades relates to the increasing participation of females in all levels of schooling. In Southeast Asia, the biggest strides in this regard appear to be at the secondary level. In Indonesia the female share in secondary-level enrolments rose from 34% in 1970 to 43% in 1985; similarly, at the higher-education level the female share increased from 25 to 32%. In Thailand the rise in the female share of higher-education enrolments was from 42 to 46% during the same period, while in the Philippines this share
diminished slightly to 54 from 56%. In 1985, both Korea and China had lower rates of female participation (30%) in higher education than any of the Southeast Asian countries. These rates were lower still in South Asia with the exception of Sri Lanka (at 40%).

In general, despite the close positive link between female participation in educational opportunities and the level of economic development, there is some latitude (for example, on the cultural side) for policy to influence this aspect of equity. Additionally, just as improving cohort survival rates in primary schooling is an effective way to raise the participation of females (or less privileged groups in general) in secondary education (Tan and Mingat, 1991), enhancing survival rates at the secondary level would have a similar corollary effect at the higher-education level.

**Fields of Specialisation**

In most Asian countries, the humanities and social sciences appear to be quite popular as fields of specialisation in higher education. These two fields together account for 60 to 75% of total enrolments in Bangladesh, India, Nepal, Indonesia, Malaysia, and Korea (Tan and Mingat, 1991). On the other hand, science and technology claims the largest share (32-47%) of enrolments (for a single field) in China, Korea, the Philippines, Sri Lanka, and Papua New Guinea, although there was an apparent general decline in this share between 1980 and 1985. Medicine accounts for a relatively small fraction (less than 7%) of enrolments, except in China and Papua New Guinea.

In Indonesia, the popularity of social sciences (including education) appears to be particularly strong (see Toisuta, chapter 7 in this volume). The share of total enrolments in this field alone further increased, from 43 to 48%, over the period 1980-85, while the share in the humanities dropped from 30 to 27%. Science and technology and medicine experienced a decline as well. In Malaysia, social science also has the biggest share (31%) of higher-education students, followed by science and technology and the humanities. In the Philippines, science and technology accounts for the bulk (41%) of enrolments, followed by social science and the humanities; in Korea, a similar preference ordering seems to be the case.
The popularity of social science and humanities, as implied by the data, may be largely supply-driven, rather than a reflection of spontaneous choice of students or their families. This is because it is more costly to offer courses in science and medicine, given the infrastructure, equipment and faculty requirements for these fields. In Indonesia, the proportion of students at the secondary level taking physical and biological science courses is higher than that of students taking social science and humanities. It appears, therefore, that many of those with secondary-level science backgrounds are induced into the social science and humanities fields at the higher-education level in part because of supply constraints.

The data on field preferences, in any case, may reflect the social or private rates of profitability in the past, given the usual time lags in adjustment. It is likely that enrolment structures by field of specialisation have changed and continue to change in Asian countries in response to new demands and emerging opportunities. This is to be expected especially in such dynamic economies as Indonesia, Malaysia, Thailand, and Korea. Educational policy should operate to facilitate or encourage, rather than obstruct, such field preference shifts through appropriate pricing and through increases in the supply of education via greater private financing. In this manner, education's contribution to economic growth and equity can be continually enhanced.

In the meantime, shortages of high-level skills and expertise will have to be alleviated through inter-country human capital flows. This has been happening to some extent in the region, with Indonesia, for instance, benefitting from the oversupply of highly trained professionals and technicians in the Philippines. This seems to have been a convenient adjustment mechanism for both countries, and may continue to be the case at least in the short run.

Concluding Remarks

Despite dramatic educational strides in Asia over the past two or three decades, educational development in the region lags behind that in Latin America. Within Asia, the variance in educational progress remains wide and this is, no doubt, intimately associated with differences in socio-economic performance among countries in the region (Hicks, 1980; Pernia, 1990; Tan and Mingat, 1991). But even after allowing for cross-country variation in economic
development levels, marked disparities in educational achievements persist, implying that there is considerable latitude for public policy to influence the educational performance of countries.

Southeast Asia's educational progress has been remarkable, not only in terms of aggregate performance but also as regards the more specific aspects of efficiency and equity. Within this sub-region, the variation in developments across countries has been noticeable, too, ranging broadly from significant improvements in Indonesia, which started from a relatively low base, to modest changes in the Philippines, which had a headstart. On the whole, education systems in Southeast Asia are now more structurally sound and better balanced, compared with the situation two to three decades back and relative to current systems in South Asia.

Improvements in Indonesia's education sector are particularly noteworthy. Judging from the intra-sectoral allocation of public resources, unit costs of education including public higher education, and the extent of private financing of higher education, Indonesia's education system appears to be among the most efficient in Asia. At the same time, considering the pattern of public subsidies across levels of schooling (and impliedly among socio-economic groups), Indonesia's education system seems to be comparatively equitable as well. Moreover, female participation in all schooling levels has risen appreciably, such that at the higher-education level the female share of enrolments is currently higher than those in South Asia (except Sri Lanka), China, and Korea. As regards fields of specialisation, in Indonesia there seems to be excessive emphasis on social science and a relative neglect of science and technology and medicine.

The foregoing are broad comparative assessments which tend to disguise the more country specific problems, however. An important problem, for example, concerns Indonesia's low retention or completion rate at the primary level (the lowest in Southeast Asia) which leads to regressive social selection upstream in the system. If this problem is addressed and remedied, internal efficiency and equity in the education system would be further enhanced. Another critical issue has to do with quality although this is by no means unique to Indonesia. Improvements in quality are needed at all levels of education, including distance education. An important way of improving quality especially in higher education would be to adopt high standards of admission and instruction (see also
Nasoetion, chapter 5 in this volume). The problem of disadvantaged, low-income students can be taken care of by providing them with remedial courses prior to and, if necessary, even after admission.

Likewise, quality can be raised by improving facilities, such as libraries and laboratories, besides hiring and retaining better qualified teachers. Improved quality would enhance retention and completion rates and help solve the problem of unemployed graduates. Further, given the past emphasis on social science and the humanities, educational policy could perhaps begin to steer attention towards the sciences, technology and engineering in light of the Indonesian economy's dynamic structural change and growth.

On the issue of quantity, there seems to be no real need for expansion at the primary level, given the country's demographic transition. However, at the secondary level, considerable expansion is needed to provide for compulsory education at this level. At the higher-education level, at least some moderate expansion of coverage is called for. This could be done through increased private financing, considering that as much as 80% of operating costs in public institutions, and 30% of costs in private institutions, are still covered by government subsidies. Additionally, low-cost distance learning deserves more consideration, given that in Indonesia open universities account for only about 9% of total higher-education enrolments compared with as much as 78% in Thailand. To improve quality, open universities should be encouraged to draw on materials and techniques produced by the best universities abroad (Patel, 1991).

Finally, regional cooperation in higher education (including graduate education) is something that may be worth promoting more seriously in the context of ASEAN. There are some indications of cross-country student and faculty flows but these are still limited and mostly one-way. Each ASEAN member country could perhaps specialise and become a centre of excellence in one or two fields. Interchange of students and faculty staff could be stimulated by full or partial scholarships and fellowships. Besides the immediate and short-run educational gains, the gathering of young men and women from neighbouring countries may well engender a more sound and durable base for mutual respect and cooperation on a wide front.
Part III

Aspects of Higher Education: Personal Reflections
Higher Education: The Problem of Quality

H.W. Arndt

Introduction

For two decades I had the opportunity, in connection with the Indonesia Project, to visit many Indonesian universities every year, for lectures and cooperative research. Over the years I enjoyed and benefited from contact with Indonesian academic colleagues and noted significant improvements in teaching and research. But I remain deeply concerned about the lagging quality of higher education in Indonesia. The following notes sum up my concerns.

Diagnosis

While Indonesia has been remarkably successful in the 40 years since independence in creating a nation-wide system of primary education and has made progress towards an adequate, if still uneven, structure of secondary schooling, the quality of its system of higher or tertiary education still leaves much to be desired. There is perhaps no greater obstacle to the attainment by Indonesia of modern nationhood than the failure of Indonesian universities to perform adequately the functions of high-level education, professional training and promotion of scholarship.

The problem partly reflects the difficulties of meeting with limited resources the ever growing demand for tertiary qualifications, too many students at too many universities, quantity at the price of quality. This has inevitably led to appointment of inadequately trained academic staff and to salary levels which have made supplementary earnings (moonlighting, contract research) a constant temptation if not a necessity. But these
difficulties have been accentuated by institutional and cultural factors.

The institutional structure of the Indonesian state university system suffers from two contrasting defects. On the one hand, universities are subject to highly centralised control from Jakarta which severely limits their freedom to determine their own priorities in budget allocations, to innovate and experiment, and to raise outside funds. On the other hand, in their internal government, the practice of filling executive positions (rectors, deans, chairmen) by election rather than appointment tends to constrain decision-making. What is needed is greater university autonomy through deregulation by Jakarta, but perhaps also appointment rather than election of university officers with greater decision-making powers.

At bottom, however, the problem is a cultural one: an as yet insufficiently developed appreciation among the great majority of staff and students of intellectual rigour, the spirit of free inquiry, the excitement of advancement of knowledge, and the obligation on each individual to pursue truth as he or she sees it. In default of such an academic culture, promotion is by seniority rather than excellence in teaching and research: students and junior staff defer to their seniors; and reading, by most students and most staff, is confined to lecture notes. (The latter problem is aggravated by inadequate access to books and journals by students at many universities.)

The development of an academic culture is in all countries a slow process. But it can be assisted to develop by a system of promotion on merit (thus offering incentives to undertake unpaid academic research) and more adequate salaries for academic staff; by selection of the best students for honours courses; and by recognition of achievement, both of staff and students, through prizes and work.

Remedies

If this situation is to be remedied, a major reform is needed which will require careful planning followed up by decisions at the highest level.

What Needs to be Done

The three key 'carrot-and-stick' reforms needed are (i) university salaries which obviate the need for large supplementary earnings; (ii) incentives to academic staff to devote their time and energy to
good teaching and good unpaid research; (iii) regulations setting limits to permitted supplementary earnings.

It is probably the case, though not nearly to the same extent as 20 or 30 years ago, that salaries of academic staff are inadequate to support them and their families at a reasonable, minimum middle-class standard. To raise salaries to such a level obviously presents a serious budgetary problem which can be alleviated in two ways.

First, students should be required to pay fees which cover a significant part (say one-half) of the cost of their education. To ensure access to university education for low-income families, student loans should be made available, perhaps repayable by a graduate tax in the form of a 1-2% flat-rate surcharge on income tax. Alternatively, a graduate tax could raise the necessary funds without the complexities of fees and students loans.

Second, universities should be empowered to seek research contracts. The work on these would be performed by academic staff as part of their ordinary duties but the income would accrue to the university. Universities should also be encouraged to solicit private donations and endowments.

Academic staff should be given incentives to raise the quality of their teaching and research. Two kinds of incentives suggest themselves.

The first is appointment and promotion by merit, not seniority. A procedure well established at universities in many other countries is to require all academic posts (or at least the more senior posts) to be publicly advertised and filled on the recommendation of selection committees (including in each case some external members) which interview candidates on a short list based on referees' reports, records of performance as teachers and research publications. Nothing is more likely to encourage academics to do their best in teaching and research than the knowledge that their careers, their incomes and status depend on it.

Second, additional incentives could be provided by a system of prizes and awards. Why not a President's Prize for outstanding achievement in scholarship, modelled on the Nobel Prize? Such a prize (of say $10,000 each) could be offered in rotation among disciplines, say three each year, the winners being selected by prestigious committees (including some overseas scholars in each field) and feted with appropriate ceremony. Minor prizes could be offered by individual universities for good performance by junior staff.
While conferences, workshops and seminars at present probably take up more of the time of academics than the benefits to scholarship justify, there is a case for periods of study leave abroad, provided such leave is granted for well structured study or research, and the results evaluated strictly.

Finally, once salaries are raised to a reasonable minimum level, strict limits should be set on supplementary earnings by academic staff. This could take the form of the former Australian system whereby any supplementary earnings in excess of one-quarter of salary had to be handed over to the university; or the university could impose a graduated tax on supplementary earnings, for example, 50% up to one-half salary, 75% on the next quarter, and so on. Neither the necessary minimum salary level nor the limitation of supplementary earnings can be introduced overnight; both would probably have to be phased in over a number of years.

A related problem is the present brain drain from universities to the private sector, and especially of the economics faculty staff to foreign as well as domestic banks, by the offer of extremely high salaries. The problem could be tackled by the imposition of a steep progressive tax above some reasonable exemption limit. But there would be difficulties in drawing lines (between foreign and domestic firms, banks and other companies, economics and other disciplines, and so forth). It may be better to let this problem sort itself out as training schemes increase the supply of skilled people.
Introduction

That Indonesia has made outstanding progress in higher education since 1966 in terms of numbers of both institutions and students cannot be denied. The rapid expansion that has taken place, however, inevitably gives rise to some questions about the quality of the education that is provided by those institutions. The present paper, which offers a few brief comments on some of the major features of Indonesia's present state university system, is based on three decades of teaching experience in Indonesian tertiary institutions.

Those Who Teach ...

If students in state universities were given the opportunity to say what they consider to be the greatest weakness of the present tertiary education system, a large proportion would undoubtedly answer that they do not receive enough good tuition from competent lecturers. In other words, they feel that there is a shortage of good teaching staff. To a certain extent, they would be quite justified in their response. While many lecturers are both competent and totally dedicated to education, every faculty has a certain percentage of what might be called 'non-productive' staff members. The poor academic background and the lack of teaching skills on the part of many lecturers at senior as well as junior level, even in the more highly regarded universities, are generally recognised within tertiary education circles, if not among the wider community. At the

* I wish to acknowledge the helpful comments of Dr Thee Kian Wie on an earlier draft of this chapter.
same time, students would also complain about the lack of punctuality and the frequent absences of their lecturers, as well as the custom that still prevails in many institutions by which senior lecturers delegate face-to-face teaching responsibilities to an 'assistant'.

The basic constraint upon development of competent teaching staff lies in the system of tenured positions that makes every lecturer a public servant on a salary scale that is tied firmly to the public service pay scale. There is no way in which remuneration can be linked to the personal efforts of the individual or even to the number of hours that he actually works. Furthermore, the 'in-breeding' that has become characteristic of staff recruitment policies, together with the rigid application of public service administrative procedures that make it impossible for staff to spend a period of temporary appointment in other universities, inhibit revitalisation and even the exchange of ideas in the world of tertiary education. The 'credit-point' approach to staff promotion, that is, the so-called 'cum' system which was introduced some years ago in an attempt to improve standards in both teaching and research, has not proved noticeably effective, largely because of the absence of a means of performance evaluation that can operate on a genuinely academic basis. The Akta Mengajar V course, designed originally to impart some understanding of how to teach to junior lecturers seeking promotion, has done little to help improve the actual quality of teaching because it has become excessively institutionalised.

Of much greater benefit have been the opportunities provided by various donor countries for the overseas training of university staff in the form of either higher degrees or short upgrading courses. While a higher degree from another country does not necessarily improve lecturing skills, on the whole the additional knowledge thus obtained is put to good use. Nevertheless, it not infrequently happens that on their return lecturers find either that they cannot adapt the subject of their studies to the curriculum of their faculty or that in their absence their position has been taken by a less qualified person unwilling to give up the job. Some have indeed done inappropriate courses: there is an understandable tendency for lecturers who are keen to go overseas to accept any scholarship offer, even if the field is not strictly relevant to their teaching work. Some, too, when they return, are discouraged by the resentment sometimes shown by colleagues who have not had the opportunity to
study abroad. Others find that they can do better financially outside tertiary education with their higher qualifications and so they maintain only a token presence in their faculty while working elsewhere most of the time.

Employment in multiple jobs is, of course, nothing unusual for university lecturers. It might even be said that this is the facet of tertiary education that has changed least since the 1950s. The availability of additional teaching work can be traced to the developments that have occurred in private tertiary education, where rapid expansion has been stimulated by the fact that only a relatively small percentage of would-be students can be accepted in the limited places in state universities. Yet it is the very fact that there are readily available supplies of poorly paid state-university lecturers looking for extra work that has enabled this expansion to take place. In the context of recognition of degrees, the government has recently imposed tighter regulations on these private institutions in terms of the percentage of senior lecturers that they must have on their staff, yet in doing so it has unintentionally increased the drain away from full-time work at state universities.

Other teaching work is not the only thing that encourages lecturers to reduce the hours that they spend in their jobs at state universities. Of equal importance for the staff members of certain faculties are the expanding opportunities for non-academic professional employment, sometimes as temporary consultants but often on a more permanent basis. Industry and banking are but two of the more rapidly developing sectors of the economy that have been drawing competent lecturers away from state universities. Yet these lecturers are unwilling to resign completely from their university positions for reasons of status and the ultimate security of the public service and the pension it provides.

This trend is related to another increasingly evident problem in the staffing of state universities, namely, the difficulty of attracting the best graduates into the teaching profession. The basic reason for their lack of interest lies in the high salaries offered by private companies, added to which is the complex procedure and the long time that it takes for new junior lecturers to receive their letter of appointment and their regular monthly salary. Furthermore, teaching as a whole, whether at tertiary or at lower levels, does not carry the prestige that it once did in the eyes of the community.
The 'shortage' of staff that many state universities experience is further exacerbated by the periods of leave of absence granted to any lecturer who is undertaking a higher degree. With considerable pressure on teaching staff to obtain post-graduate qualifications, many are taking the local S2 (Masters) and S3 (PhD) programs. While enrolled in these programs, they are free from duties in the university, though, faced with a need to support their families, they usually keep up their 'private' work. Since there is no way in which they can be temporarily replaced, the curriculum tends to get 'reorganised' somewhat. As it is, there is no way in which even a position that falls vacant because a lecturer reaches retiring age can be filled directly.

One feature of the prevailing situation is the lack of 'social control' from students, who are either afraid to protest, or else cannot be bothered doing so, when lecturers do not show up for class or else give very poor-quality lectures. By contrast, students enrolled in private universities, where they usually have to pay very high fees, tend to complain loudly about these things. As it is, the low-key murmurs of concern that state-university students occasionally make have very little effect, since staff are at the most reprimanded by the dean of the faculty and their promotion is delayed.

... And those Who Learn

One of the most common complaints made by the university teaching staff is the quality of the senior high school graduates whom they have to teach. Every year increasing numbers of young people seek admission to tertiary education because of the general perception that one can obtain a better job with a university degree, a diploma or even a certificate from some kind of post-secondary course. Most apply first for the state universities, for the belief still persists that these institutions are ipso facto superior in academic quality to private universities, though a further consideration is the fact that government financing enables them to charge much lower tuition fees than private universities. Unfortunately, not all of the secondary-school graduates who apply for admission to universities, either state or private, have the aptitude for tertiary studies.

Unlike the situation that prevailed in the 1980s and even the early 1970s, virtually all students entering university come straight
from high school. Today they are rarely, if ever, 'mature age' students with other qualifications such as certificates from teacher training and in-service programs like the three-year B1 courses of the 1950s. All students have, at least theoretically, a uniform academic background in terms of the curriculum that they have studied in senior high school and virtually all have entered the university through a common, nationwide entrance examination conducted by the Department of Education and Culture.

While the generation of students who knew Dutch has long gone, there is now a small percentage of students who have had a couple of years of primary or secondary schooling overseas, something virtually unknown 20 years ago. Most in this category went abroad as children when parents were doing higher degrees or undertaking training of some kind; other have parents who worked overseas with government foreign services or even with private companies. Quite apart from the fact that these students usually have a good understanding of English, which gives them better access to reference material, they tend to have a much wider knowledge of all subjects. Their impact is felt in class leadership and in the fact that they tend to stimulate other students to work harder.

Students today are much more serious about graduating than their older brothers and sisters were, possibly because they are aware that, even with personal contacts, employment is not easy to obtain. Less students drop out of the course to which they have been admitted (even when they do not like it), once again because they have very little chance of getting into another course at a state university or of finding employment if they give it up. Until the late 1970s, those who dropped out of university could still refer to their partly-completed course as qualification for a job. But with the great increase in output from tertiary institutions during the 1980s, completion of the degree is essential. There are also fewer 'socialites' today, that is, those who used to enrol only to enjoy the status of being a student, while the enforcement of a time limit on all first-degree courses has done away with the 'eternal students' who once occupied seats in most state universities.

Perhaps the most surprising and possibly the most frustrating thing about university teaching, as far as lecturers are concerned, is the great range in knowledge and ability among students entering a faculty. This is explained by a number of factors, including the type and regional location of the high school that they attended, as well as differences in social background and in educational level of
parents. But it is also a reflection of the fact that a high percentage of students are not in the faculty or department of their choice, a situation that is basically related to the fact that some faculties will always be more attractive, and hence more popular, than others because of the field of employment that they lead to.

This raises the question of the selection system and the issue of whether individual state institutions should conduct their own entrance examinations, as the private universities do, in the interests of channelling prospective students into the faculties and departments for which they are most suited. There would be obvious advantages if they could do so. They could, for example, devise better methods of assessment than the current multiple-choice tests used in the computerised nationwide entrance examinations, which lend themselves admirably to the intensive preparatory coaching (bimbingan tes) that even the best high school students now undertake. On the other hand, the number of applicants for university admission is so great that organisation would be extremely difficult. Furthermore, prospective students would have to hurry from one campus to another, and even from one province to another, to take a series of entrance tests, as they once did. Unfortunately there is a tendency for a growing percentage of the students accepted at major state universities to come from the capital city of the province concerned. Experiments designed to overcome some of these problems, by allowing talented students to select a faculty prior to the entrance examination, which can thus be avoided, may have succeeded in some universities. But from my experience students admitted in this way have not proved particularly gifted and have tended to drop out in the first couple of semesters.

The semester-credit system (SKS), introduced in the late 1970s in an attempt to restructure the actual organisation of teaching, has been a marked improvement on previous approaches to student administration, for it allows better recording of individual academic achievement and gives students a clear idea of how they are progressing. The system, which divides a course or program of study into a certain number of semesters (normally eight for a first degree), was initially also intended to provide a framework for efforts to raise standards both in the quality of teaching and in the extent and depth of knowledge acquired by the student, but it has been much less successful in achieving these objectives.
For the student, the SKS involves three components: compulsory attendance at lectures, submission of regular written assignments, and unstructured study (that is, reading). For the lecturer, it means traditional face-to-face teaching and the correction of assignments and mid-semester tests, which are supposed to contribute to the student's end-of-semester result, in addition to the usual tasks of guidance of an allocated number of students in their choice of subjects and thesis supervision. Unfortunately, however, many staff members tend to be reluctant to set and check assignments, even when classes are small. Furthermore, the days of the diktaat have not entirely disappeared and the learning by heart of lecture notes (and not infrequently of the textbook written by the lecturer concerned) is still favoured. This undoubtedly reflects the fact that both primary and secondary school pupils are still 'getting educated' on this basis. For their part, students say that they feel 'safe' if there is something tangible to learn off parrot-fashion for examination purposes. Most are unaware of any other way in which knowledge can be acquired. Similarly, they remain extremely hesitant to challenge or even question any statement made by a lecturer. Indeed the whole educational process still tends to train the younger generation not to think critically or with originality.

The introduction of the semester-credit system, which also includes assessment of progress at certain stages and the possibility of a student being obliged to withdraw from the course, encourages students to work with greater consistency than they once did, especially since on graduation each receives an 'index of achievement' that reflects his results over the whole course. This is particularly important for those who are hoping for jobs in the private sector, where academic results could influence an employer in his recruitment of staff. Meanwhile, the long-standing tradition is still maintained by which the undergraduate program in most faculties culminates in the writing of a thesis or skripsi, even though it counts for only a small proportion of the final result. The only real argument that can be put forward in support of the skripsi is that for at least once in his academic career the potential graduate is forced to produce a systematic, properly arranged piece of written work, even if in most cases it cannot be called a piece of original research. It is insistence on this requirement that explains why few students complete a four-year degree (the S1 program) in less than five years.
The Results

The numerical output of graduates as a percentage of input is far higher today than in the past. A popular question that is often asked is whether present-day graduates are on the whole better or worse than their predecessors. In reply, it can be said that, while they are not much better, they are not noticeably worse. The most striking thing once again is that, despite exposure to the same teaching and to the same work load over a four-year period, there is still a remarkably wide range in the quality of graduates, as a glance through the final-year skripsi in any faculty will reveal and as most employers of graduates will readily agree. Some of those who graduate are indeed far better than even the better students of past days, and one is tempted to suggest that these are the ones who did a lot of reading during the course. At the other extreme, some of those who graduate should never have continued beyond the first semester. That they have been able to do so points to the many weaknesses that still exist in the whole system.

The most encouraging thing about tertiary education today is that the structure and the framework are now firmly in place. All that remains is to continue striving to improve quality and to prevent any backward movement. In the meantime, could someone tell me when the current semester ends?
Raising the Credibility of Higher Education Institutions

Masri Singarimbun

Many conditions have to be met to develop a research institute of high repute. In the realm of higher education, there are three matters of importance in the creation of a research university with a truly scientific outlook. These matters include the researchers, funding and facilities. I recall, whilst a PhD student at the Australian National University in 1965, that the University's budget was the same as that of Indonesia's Department of Education and Culture.

If we examine the research institutions in our universities in Indonesia, we should feel far from satisfied. Our research institutions do not compare favourably with those of Australia in 1965. The budgetary support and facilities available are two matters that are firmly embedded in my mind from my PhD days in Australia. There, each student was allocated a room with a cupboard, bookcase, desk and typewriter. Additionally, each student had a supervisor.

It is a different situation in Indonesia. Here, it is not certain that even the teaching staff will obtain satisfactory facilities. Many of our lecturers are allocated to a large room, full of desks. Enough, you might say; comparisons with other countries are unnecessary. Well, what we should note carefully is that the research arena in Indonesia is not well managed. Our ability to

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undertake research is constrained by problems concerning personnel, funding and facilities.

Let me recall my experience in the development of a research institute at Gadjah Mada University. In 1973, when I and several colleagues established the Demographic Institute, later to become the Centre for Demographic Studies, the above problems were apparent. I also found the same problems in my considerable involvement as a supervisor in many research centres throughout Indonesia. It is no generalisation that academic standards have a fundamental bearing on the research environment of universities. In Indonesia, low academic standards limit the ability to undertake research.

On a related, but different level, we may note the low financial remuneration received by our researchers. We tend to view research as a sector in which to supplement income. This is a factor that must be considered in understanding the poor quality of research. Moreover, we tend to regard research as a means to increase credit points for promotion. Given this situation, the poverty apparent in our research environment is of little surprise. It is difficult for us to compare ourselves with other countries given the poor standard of living of many of our lecturers.

It is for these reasons that research is often regarded as a means to make a living rather than as a search for scientific truth. To my knowledge, research in more developed countries involves a search for solutions to problems, no matter what the obstacles. When we sign a research contract, we agree not to undertake any other work to supplement our income. This is one of the stipulations in a research contract that has to be agreed to. We agree to this, knowing that the income of researchers is sufficient!

Of course, here in Indonesia, the situation in the research field is just the opposite. We know that our researchers work quietly in other places to supplement their income because their wages are insufficient. It should be clear, therefore, why our research institutions in the universities are rather backward. The problems relate, on the personnel level, to the low salaries received by researchers and the requirement to further develop their skills; the relatively low level of funding for research despite the complex difficulties; and the inadequate facilities. These are the three basic obstacles to the development of a research university that we can really be proud of.
Another variable that can be isolated to illustrate the difficulty of establishing a research university in Indonesia is academic quality. If we are honest in our assessment, we will agree that the academic standard of our researchers is low. In many respects, we do not give our time and energy fully to the pursuit of knowledge. This matter is reflected in our low desire to read and the strong influence of our oral culture.

Every day, one can note in numerous universities the low priority accorded to libraries. Within our organisations, libraries are at the end of the administrative chain. Their condition is really quite saddening. Funds for libraries are low, as is their priority. In many university libraries, one need not be surprised to find no scientific journals. *Prisma* and *Horison* should be held in all university libraries.

How can the research environment progress if we ourselves accord the world of science such a low priority? What does it mean if there is no subscription to quality periodicals like *Prisma* in sociological and economic faculty libraries, or to *Horison* in faculty of arts' libraries? It means that the value we place on the advancement of science in our tertiary institutions is low. Indeed, the low priority given to reading, libraries and subscriptions is an obstacle to the development of a research university.

There are other obstacles. Indonesian society has a low level of curiosity. Then there is the problem of mastery of language. Many students and even lecturers pay little attention to language. Our command of good and correct Indonesian is rather poor. Just look at our seminar programs. Do you ever hear of a seminar specifically targeted to discuss the correct usage of Indonesian for researchers? Or a seminar to improve written reports in non-scientific studies? On the contrary, what we find are seminars concerning female hair buns or seminars on genies! Given this situation, how can we really master our own language?

This is the situation we meet in our tertiary institutions, particularly those associated with research. We cannot deny that this situation is improving at a slow rate. Not surprisingly, the majority of our intelligentsia, our intellectuals, writers, and acknowledged researchers, are to be found outside the system. Such people have ready access to overseas contacts, have a love of reading, a high level of curiosity, and a well-stocked library. They have ample opportunity to record the results of their research. They remain overseas for considerable periods to write, read and conduct
research. They fit into an international network, far superior to that offered in our system.

If we retain our current system, with its poor pay and facilities, we cannot hope for much progress in our research institutions. Many of us in this system find it difficult to improve our professional capability. There are doctors or professors who feel uneasy if asked to write a paper. It is not that they are stupid but that they lack library support. Even if there are sufficient reference books, efforts to conduct research are inhibited by some senior staff who display a lack of discipline by borrowing books and hoarding them for years in their homes. Matters like these hamper the advancement of our scientific environment.

Quite clearly, there are many obstacles in our world of science and information. In the midst of the information revolution described by Alvin Toffler, the state of our research is neglected. We still have to put up with the system as it is, a system that does not fully support progress in the field of scientific research. We can count on one hand the number of scientific journals subscribed to by our libraries. It is absolutely essential for a research university to have a good, well-stocked library with professional librarians.

Besides the requirement for good library facilities, our researchers should also have a good knowledge of foreign languages. Quite frankly, we must acknowledge that many of our lecturers have a limited understanding of English. Leaving aside the matter of other foreign languages, our master of English — an international language of communication — is poor. If we do not rectify this matter in a concerted fashion, our scientific environment will stagnate. We cannot accept that the microcosm we inhabit is all there is to life, or rest on our laurels because we have degrees. We must be brave enough to tackle obstacles. We will never master the literature of the world without a knowledge of its international language.

This is the sorry state of affairs in the research institutions of our universities. It is not only matters of funding, manpower, facilities and libraries that are inadequate. The total infrastructure is weak. It is difficult for us to want to become part of such a system. To be really successful, one needs to develop international linkages outside the existing system.

At Gadjah Mada, the research institutes operate quite satisfactorily. The university boasts a library we can be proud of that holds a range of scientific journals, as well as local and overseas books. Gadjah Mada's research staff are well qualified and
represented in a range of research institutions such as research centres for culture, village affairs, demography, the environment and development planning. Nevertheless, in a broader context, the involvement of our lecturers is still rather limited. Funds available for research are also limited.

During the oil boom, funds for research were plentiful. Funds at that time came from the government. Strong research institutions can now obtain funding from several sources outside the Department of Education and Culture. There are a number of departments ready to fund research in universities. Additionally, there are several overseas sources of funds that support research programs at Gadjah Mada. As the director of a research institute for ten years I note that there has been considerable progress from these relatively restricted sources of funds. This is because of the international network we established.

This, then, is an objective summary of the research world in our tertiary institutions. However, notwithstanding the small recurrent budgets, we need not be overly pessimistic. Based on my experience and that of my colleagues at Gadjah Mada, although funds are scarce, our research efforts will continue. The most important thing is to develop the integrity and credibility of the research workforce.

I believe that once our ability to carry out research is established, research funds will flow automatically from several sources. We can then choose untied funds selectively. A number of departments now offer funds for research. We need to consider a range of issues carefully before accepting funding. For example, there are requirements from departments that prevent publication because of the restricted nature of the research. But how can our research flourish without the support of publications? We should all hope that our research will be published as soon as practicable.

Scientific publications are an important indicator of the worth of our research institutions. Of course, there is research that is restricted, but we need to have a balanced policy concerning publication to prevent our research environment from becoming too narrowly focussed.
Some Observations on Economic Research in Indonesia

Thee Kian Wie

Introduction

Some eight years ago, commenting on the recent publication of two books on the Indonesian economy, I observed rather sadly that no such works of comparable quality had been published by Indonesian economists (Thee, 1983). Worse still, I argued, in view of the circumstances faced by Indonesian scholars in general, and by academic economists in particular, it appeared highly unlikely that such books would soon be produced by Indonesian scholars.

Although this observation may have seemed unduly pessimistic, it was shared by foreign scholars who had for a long time been striving to promote Indonesian economic research. For instance, in the late 1970s, Professor H.W. Arndt, one of the pioneers in the field, stated that a great deal of what was written and circulated as economic research papers and reports in Indonesia was of very indifferent quality (Arndt, 1978: 376). Around the same time, an American scholar, Professor Robert Klitgaard, visiting Indonesia under the auspices of the Ford Foundation to study the state of economics in Indonesia, stated that the profession was in a sorry state: he concluded that university training and research in even the leading universities in Indonesia was bad and perhaps getting worse (Klitgaard, 1978:1-2).

1 Namely, The Indonesian Economy During the Soeharto Era, edited by Anne Booth and Peter McCawley, and The Indonesian Economy, edited by Gustav Papanek.
The Current State of Economic Research

This observation may seem unduly harsh. Faculty members in various economic faculties all over Indonesia have struggled, often against great odds, to maintain academic standards in their teaching and research. Certainly during the past decade some important progress has been made in the volume and quality of academic economic research in Indonesia, as reflected in the various books and articles being published each year. To a large extent this has been the result of the rapid increase in the number of highly qualified economists, many of them with PhD degrees from reputable universities overseas. Another factor, already noted by Arndt (1978:366) some 13 years ago, has been the vast improvement in the data base, largely due to the impressive work done by the Central Bureau of Statistics (BPS). The vast quantity of data generated by the decennial population censuses, the inter-censal surveys and labour force surveys, the industrial surveys, the national socio-economic surveys, and the recent economic census of 1986, to name the most important, has made empirical economic research on a wide range of topics much more possible than it was in the 1970s. In fact, according to various foreign experts working on the Indonesian economy, the range and quality of work performed by the BPS ranks among the best in Southeast Asia.

In addition to the BPS, other government agencies, such as the Ministries of Agriculture, Mining and Industry, Bank Indonesia, and the Capital Investment Coordinating Board (BKPM), have been engaged in the collection, processing, and presentation of primary data for a long time.

Despite these positive trends — the greatly increased stock of well-qualified economists, and improvements in the range and quality of economic statistics — the academic output of Indonesian economists has thus far been less than satisfactory on at least two counts.

First, with a few notable exceptions, Indonesian economists have not made significant contributions in the field of policy-oriented research. As a result, Indonesian policy-makers have turned to foreign research and consulting agencies and foreign experts. A case in point is the Industry Analysis Project, conducted by a team of Dutch economists of the Netherlands Economic Institute and funded by the Netherlands government, to improve the capability of the Centre for Data Processing and Analysis within the Ministry of
Industry to analyse and plan industrial development and to formulate policies. Even though this project has yielded a series of useful working papers, technical notes, reviews, and a comprehensive final report (Wymenga, 1991), it remains to be seen whether the Centre, after the termination of the project and the subsequent departure of the Dutch experts, will have the capacity to continue to conduct the required policy studies. Since the Indonesian staff on the project functioned mainly as research assistants, such an arrangement does not lead to the required transfer of technology and skills to the local counterparts. Similarly, it is doubtful that the Japanese economists attached to the Ministry of Industry and financed by the Japan International Cooperation Agency (JICA) have been able to transfer their knowledge and skills to their young Indonesian counterparts so that the latter may continue the policy studies on a sustained basis.2

It is not surprising that the Indonesian government has turned to foreign experts to conduct policy-oriented research. These projects were generally financed by donor governments as part of their technical assistance programs to Indonesia. But perhaps a more important reason has been the weak state of the domestic research capacity as noted above. A major reason for the latter has been the fact that most of Indonesia's best academic economists have been, and continue to be, recruited to serve as government ministers, directors-general, or senior officials, with little or no time for academic issues. The problem is compounded by the fact that the Indonesian government has not yet considered it necessary to establish a strong policy research institute along the lines of the Korea Development Institute (KDI) or the Thailand Development Research Institute (TDRI).

2 These strictures apply to other government agencies to which foreign experts have been attached, such as the National Development Planning Board (BAPPENAS), where a team of Dutch economists has been working on regional development issues, and a team of Japanese economists on a long-term econometric model of the Indonesian economy; the Development Studies Project II, in which American and other foreign economists have been conducting various policy studies for BAPPENAS; and the Ministry of Finance, where a team of American economists from the Harvard Institute for International Development (HIID) has for many years been working on various policy issues for the Ministry.
There are, to be sure, some research institutes engaged in important policy studies, notably the Centre for Policy and Implementation Studies (CPIS). This Centre, however, while headed by an Indonesian director, and employing several highly qualified Indonesian economists and social scientists, is still largely an American operation, supported and staffed by the Harvard Institute of International Development (HIID). Another important centre is the private think tank, the Centre for Strategic and International Studies (CSIS), which, as evident from its name, has mainly conducted studies on strategic and international policy issues. While the CSIS has provided valuable inputs to policymakers it has, by its nature, not generally conducted policy studies on domestic macro-economic and micro-economic issues.

Another centre worth mentioning is the private Centre for Policy Studies (CPS), which for many years has been publishing the authoritative journal *Kajian Ekonomi Indonesia* (Indonesian Economic Studies), edited and supervised by two former cabinet ministers, Professor Sumitro Djojohadikusumo and Professor Mohammad Sadli. While CPS has focused its attention on various policy issues, its general impact on economic policy-making is likely to be limited.

Second, the record on basic research has also been less than satisfactory. While there has been significant progress over the past two decades, it is unfortunately still true that much of this work is applied economic research, as it was in the mid-1970s when I conducted a survey on the state of economics education and research in Indonesia (Thee, 1979:256-281). While this applied economic research has been useful to the researchers, in that they have gained experience and knowledge of the concrete economic problems facing the country, the focus on applied and short-term work has had the drawback that it has diverted economic research institutes away from long-term basic research which is equally if not more important for Indonesia’s long-term national development (Thee, 1979). Moreover, most of the applied research work conducted by the research institutes on a contractual basis continues to be of a nature which is more appropriate to the research divisions of the various ministries or to private consulting firms rather than universities. An unfortunate pattern has emerged whereby economic research institutes in universities have become more like 'service agencies', rather than academic institutes concerned with basic research. Moreover, since much of this research work has been of a routine
nature, the theoretical content of the reports often leaves much to be desired.

The purpose of basic research is understood to be the search for truth, and an increase in the stock of human knowledge, hopefully in a way which can be useful to mankind. Good economic research should therefore involve an effort to discover new facts and new relationships between these facts, with a view to discovering new patterns or laws relating to these facts, which then can lead to the development of new theories or revisions to existing theories. In turn, the findings of basic research can provide the basis for applied research in which a known or accepted theory is applied to existing data (Fisk, n.d.: 5).

If this is the measure of good academic research, then unfortunately academic research in Indonesia shares some of the shortcomings identified by Professor Fisk in his review of the social sciences in Malaysian universities (Fisk, n.d.: 7-8). All too often this 'bad' research merely involves the hurried writing of a paper to be submitted at one of the numerous seminars being held each year in Indonesia or abroad. This type of 'research in a hurry' often involves a quick consultation of a few references and, sometimes, a few computational exercises. Obviously, such work can better be described as essay writing rather than real research. Real academic research, involving arduous work in the design and preparation of a research project, and the careful and critical collection, arrangement, processing, and analysis of data, often requires months, sometimes years, of intensive investigation and data collection, followed by a period of analysis and study. There may still follow a long period during which the researcher tries to put his findings on paper which, after several revisions, can lead to a final draft accepted for publication in a properly refereed journal (Fisk, n.d.: 3, 8).

It is the relative scarcity of this academic research activity in Indonesia which accounts for the scarcity of solid academic work on the Indonesian economy written by Indonesian economists. Indonesian economists have yet to write — in English or in Indonesian — books or monographs on the Indonesian economy comparable to, for example, H.W. Arndt's and Anne Booth's books on the Indonesian economy, Anne Booth's book on agricultural development in Indonesia, Hal Hill's books on export-oriented industrialisation, foreign investment, and regional development in Indonesia, and Howard Dick's book on the inter-island shipping
industry. The few notable exceptions in this regard include Anwar Nasution's book on *Financial Institutions and Policies in Indonesia* and Sjahrir's book on *Basic Needs in Indonesia*. These books, however, were based on research conducted by the authors when they were working on their doctoral theses abroad.

Several Indonesian economists have, of course, made important contributions to books and international journals in the English language, and in this way communicated to their foreign colleagues the findings of their research. However, in comparison with their counterparts from other Southeast Asian countries, the performance of Indonesian economists in the international academic arena is still unsatisfactory. This was quite evident from the very few papers which were submitted by the Indonesian participants at the Second Meeting of the East Asian Economic Association held in Bandung in September 1990. It is in this respect that Indonesian academic economists, with a few notable exceptions such as Anwar Nasution, Iwan Jaya Azis, Sjahrir, Hadi Soesastro, and Mari Pangestu, have not yet achieved international, not even regional, 'competitiveness'.

This assessment may seem unduly harsh and unfair to the many capable academic economists who, against great odds, perform their teaching and research jobs competently and responsibly. A visit to bookshops in Indonesia indicates that, in comparison with 10 years ago, great strides have also been made in the publication of books on economics in Indonesian written by Indonesian economists. In this way both economists, economic students, and the general public have been given access to a wide range of economic literature, particularly dealing with various aspects and problems of Indonesia's economic development. In this respect particular mention must be made of the annual volume *Prospek Ekonomi Indonesia* (*Prospects for the Indonesian Economy*), which contains a valuable collection of papers written by staff of the Faculty of Economics, University of Indonesia, on economic developments during the past year and prospects for the coming year. Many of the papers in this annual volume reflect the high technical sophistication of the younger generation of Indonesian economists.

While the past decade has thus seen a welcome increase in Indonesian publications on economics, it is also true that many of these books are collections of essays. Although often quite interesting and penetrating, these papers nevertheless cannot be regarded as being the product of proper academic research of the type outlined above. That this real research activity is rarely found
among Indonesian academic economists is not so much a reflection of their capability, but of the very limited time they can afford to allocate to 'real' research.

Factors Affecting the Current State of Economic Research

What factors account for the rather sorry state of economic research in Indonesia? There is certainly not a scarcity of highly qualified economists. As mentioned earlier, the past two decades has witnessed a rapid increase in the number of highly-qualified economists with postgraduate degrees. Although quite a few of them have been recruited to occupy senior positions in the Indonesian government and bureaucracy, a sizeable number of them have remained in academia. Why, then, have these economists been under-performing in terms of academic output?

The major factor has been the inadequate and inappropriate structure of incentives, particularly the structure of material incentives, prevailing in state universities and research institutes, where most of the academic economists are employed. The structure of academic credit points to be accumulated for academic promotion enables — indeed encourages — the researcher to spread his time and energy on other activities which have little to do with real research, such as giving lectures and seminars, writing articles in newspapers, and participating in numerous seminars. These activities are often described as the 'public service' (pengabdian masyarakat) duties incumbent on government research institutes. Aside from accumulating academic credit points by participating in these activities, the researcher also benefits by receiving an honorarium, which is a welcome addition to his or her relatively low salary.

The opportunity and need to engage in numerous other activities little related to academic research in order to earn academic credit points and extra income obviously leads to a fragmentation of time and energy of these faculty members. They were aptly described as being 'busy' in Clifford Geertz's penetrating report on the state of the social sciences in Indonesia, submitted to the Ford Foundation two decades ago. It is a matter of great concern that this situation has not improved appreciably; in fact, the best-known economists (and other social scientists) are with few exceptions, now busier and
therefore — in terms of academic publications in refereed journals — less productive than ever.

The inadequate structure of incentives accounts for the high 'opportunity costs' (in terms of foregone earnings) of undertaking basic research. The problem is exacerbated by the frequent demands of senior government officials on academic economists to work on various ad hoc tasks. In the typical developing country context, where highly qualified economists are still relatively scarce and where policy-makers face daunting challenges, this fragmentation of intellectual energy is perhaps inevitable, particularly as academics in Indonesia are constantly exhorted not to isolate themselves in their 'ivory tower'. However, it is precisely this lack of sufficient opportunity to isolate themselves in their 'ivory tower' for at least some of their time from the frequent demands of senior government officials, community leaders, university rectors, and faculty deans, which accounts for the relatively poor academic output of many academic economists.

This problem, of course, is not unique to Indonesia. In fact, in an interview given to the journal Third World Quarterly in April 1980, the famous Indian economist, Jagdish Bhagwati, Professor of International Economics at Columbia University in New York City, stated that as an academic in India, he had little time left for academic pursuits, as he had to sit in more than 30 odd committees. Explaining why he eventually decided to take up a position in an American university, Bhagwati stated that in India he found himself to be 'more prominent rather than eminent', while he wanted to be an eminent rather than a prominent economist (Bhagwati, 1980). It is this relentless demand on the time and energy of those prominent Indonesian economists, to be involved in all kinds of activities — in endless seminars, committee meetings, hearings and briefings, and other non-academic activities — which prevents many prominent Indonesian economists from becoming really eminent in their field of expertise.

To produce academics of high quality, the Indonesian government has for a long time been investing substantially in the training of this high-value human capital, in the hope that this investment will yield a high social rate of return in terms of quality teaching to the next generation of students and quality intellectual output. However, these inadequate and inappropriate incentive structures, together with an inappropriate view of the proper tasks of researchers, has led to a misallocation of scarce research resources.
which may be harmful to Indonesia's long-term interests. The failure to allow and motivate capable academics to do real research has led to an intellectual dependency on foreign academics. This observation by no means implies a plea for harmful and inefficient 'academic import substitution', as a developing country may be in need of expert advice from developed country experts for a long time. What it merely tries to convey is that a lack of research expertise in Indonesia does not provide the opportunity for a healthy exchange and interaction of views and insights between Indonesian and foreign scholars.

The Way Out

In economic jargon, the development of academic research, particularly economic research, in Indonesia can be considered as a case of 'market failure', as the prevailing price system has led to an inefficient allocation of scarce resources. Hence the best way to tackle this market failure is to improve the structure of incentives, including the system of academic credit points, in such a way that researchers will have adequate incentives to engage in real academic research rather than 'quasi-research' or other, non-academic activities. Such an improvement will entail a substantial reduction in the opportunity costs of doing academic research. Since economists have marketable skills, which can be utilised in high-paying consultancies and lectures, the opportunity costs of undertaking academic research are often higher than those of the other social scientists.

Naturally, a substantial improvement in the structure of incentives will require a strong awareness on the part of policymakers at the highest level about the vital importance of academic research in Indonesia. Without a strong political commitment to promoting real academic research in Indonesia, academic output will largely remain 'derivative', that is largely dependent on the research findings of foreign academics. This strong political commitment will have to be translated into adequate funding, for both applied and basic research, including adequate remuneration for researchers. However, once salaries become more remunerative, more stringent regulations will have to be introduced and enforced to prevent researchers from continuing to engage in limitless outside income-earning activities. Promotion will have to be dependent
solely on a continued flow of academic output in properly refereed journals. In this regard the system of tenure for public servants who happen to be researchers will also need to be revised, as under the present system public servants cannot be discharged unless proven to have been engaged in activities detrimental to the state or in criminal activities. The Indonesian government will have to recognise that researchers in government research institutes are a special category of public servants whose tenure as researchers is primarily dependent on a sustained flow of academic output. In other words, if these researchers do not perform satisfactorily, they will have to relinquish their position as researchers, although they might continue as public servants in administrative jobs.

In the final analysis, however, an improvement in the structure of incentives is a necessary, but not sufficient, condition for raising the quantity and quality of academic output in Indonesia. Without an adequate inner motivation to become a good scholar in the best sense of the word, even a generous system of material incentives is not likely to result in a larger flow of good academic output. In a perverse way, such a generous system of material incentives might even lead to a contraction in the flow of academic output, as the most talented researchers scramble to be recruited to these lucrative activities.
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Aids to Research

This monograph is based on papers presented to the ANU's Indonesia Update 1991, organised by the Indonesia Project, Department of Economics, and the Department of Political and Social Change. The Update — and this volume — consists of two parts: an overview of recent economic and political developments and a major theme in contemporary debate and discussion in Indonesia. The theme on this occasion is the state of higher education in Indonesia. This volume is an invaluable guide for policymakers, academics and all those interested in keeping up to date with recent developments and future prospects for tertiary education. The editor of this volume, and organisers of the Update, have long experience in the analysis of the Indonesian economy and society. Dr Hal Hill is Senior Fellow in the Department of Economics, and Head of the Indonesia Project.

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