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POLICY BRIEF

Optimising Specific Grant General Allocations to Improve Basic Education Services

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Executive Summary

Law No. 1 of 2022 concerning Fiscal Relations between the Central and Sub-national Governments (HKPD– *Hubungan Keuangan antara Pemerintah Pusat dan Daerah*) introduced a Specific Grant within the General Allocation Fund (DAU SG – *Dana Alokasi Umum dengan Specific Grant*) to accelerate the fulfilment of basic services through earmarked transfers. This policy brief analyses the impact of the DAU-SG for the 2023–2025 period on achieving the 2025 Minimum Service Standards (MSS– *Standar Pelayanan Minimal*). The findings reveal a positive correlation between the increased DAU-SG allocation in 2024 and progress in the 2025 MSS, underscoring the effectiveness of performance-based fiscal interventions. Yet, several challenges remain, including first, disparities in education MSS between urban and rural areas, second, the uneven use of the DAU-SG utilisation across regions, and third, the underdeveloped monitoring and evaluation systems. To address these issues, this policy brief recommends strengthening planning and budgeting, developing technical guidelines at the regional level, and enhancing the institutional capacity of local governments. With stronger governance, the DAU-SG can serve as an effective and sustainable fiscal instrument that promotes equity in the quality of basic education services across Indonesia.

Keywords: *DAU-SG, Education, Basic Services, MSS, HKPD, M&E, Fiscal Policy*

Introduction

Article 130 of Law No. 1 of 2022 on HKPD and Article 65 of Government Regulation No. 37 of 2023 stipulate that a portion of the 2024 General Allocation Fund (DAU – Dana Alokasi Umum) is to be earmarked as a DAU-SG – a specific grant for education, health, and public works. To reinforce this policy, the government issued Minister of Finance Regulation (PMK – Peraturan Menteri Keuangan) No. 102 of 2024, an amendment to PMK No. 110 of 2023. This regulation governs regional performance indicators and provides technical instructions for the use of the DAU-SG. The indicators are grouped into priority and supporting activities, with an emphasis on fulfilling basic services.

The main advantage of the DAU-SG is that it ensures funds are used for the basic service set by the central government. By earmarking allocations, the central government can more effectively oversee spending in priority sectors such as education, health, and infrastructure. This approach is designed to accelerate the achievement of MSS, narrow disparities in public services between regions, and improve community wellbeing.

However, the DAU-SG also presents challenges. It reduces the flexibility of local governments in managing their budgets, which can limit their ability to innovate and respond to local needs. The added administrative requirements may slow the disbursement of funds and the rollout of programs. Without strong oversight, the risk of misuse also increases.

The size of the DAU-SG allocation is linked to sectoral performance targets. In education, the allocation is based on the Minister of Education, Culture, Research, and Technology Regulation No. 32 of 2022 on Technical Standards for Minimum Services in Education.

This study examines the problems and constraints in implementing the DAU-SG for Education, reviews improvements under PMK No. 102 of 2024 and PMK No. 134 of 2023, and sets out policy recommendations to help all regions achieve MSS.

Problem Description

The analysis identifies several key issues:

1. **Disparity in education MSS achievement between urban and rural areas.** Ministry of Finance data from 2025 shows that average MSS achievement in urban areas reached 70.5, compared with 66.90 in districts. Urban areas recorded a 24% increase, while rural areas showed almost no progress, at only 0.19%. Ironically, the share of the Education DAU-SG to the total DAU is smaller in urban areas than in rural ones. This indicates that effective fund utilisation depends more on regional managerial and institutional capacity than on the size of the allocation.

2. **Uneven effectiveness of the Education DAU-SG in improving Education MSS across regions.** Analysis of Sumedang District indicates that the DAU-SG has been used effectively and efficiently, leading to strong MSS achievement. In contrast, regions such as West Manggarai and Tarakan still face challenges, including excessive spending on non-MSS priorities, low accreditation rates for early childhood education (PAUD – Pendidikan Anak Usia Dini), and poor student numeracy performance.

3. **Lack of a formula linking Education DAU-SG allocations to MSS outcomes.** No standard formula currently measures the relationship between Education DAU-SG expenditure and MSS achievement. This gap makes it difficult to assess effectiveness accurately across regions.

4. **Education DAU-SG expenditure not fully aligned with MSS.** In several regions, a significant portion of DAU-SG spending is still directed to non-MSS activities such as arts and cultural programs, non-formal religious activities, and community training. This diverts resources from activities that directly support MSS achievement.

5. **Weak monitoring and evaluation (M&E) systems.** Many regions still lack adequate M&E systems, which limits the development to a performance-based planning cycle.

6. **Activities overly focused on administration.** Several activities noted in PMK No. 102 of 2024 are of an administrative nature, such as providing honorariums or supporting facilities. These do not directly improve school participation rates or learning quality.

Targeted Policies

- Article 130 of Law No. 1 of 2022 concerning Fiscal Relations between the Central and Sub-national Governments.
- Article 65 of Government Regulation No. 37 of 2023 concerning the Management of Transfers to Regions.
- Minister of Education, Culture, Research, and Technology Regulation No. 32 of 2022 concerning Technical Standards for Minimum Services in Education.
- Minister of Finance Regulation No. 102 of 2024 concerning Amendments to Minister of Finance Regulation No. 110 of 2023 concerning Regional Performance Level Indicators and Technical Guidelines for the Specific Grant Portion of the General Allocation Fund.

Policy Recommendations

1. **Strengthen planning and budget tagging.** Regions need to enhance the quality of planning based on MSS achievements and implement expenditure tagging to differentiate between MSS and non-MSS spending. Effective use of the Regional Government Information System (SIPD – *Sistem Informasi Pemerintahan Daerah*) can enhance transparency and accountability in the use of the DAU-SG.

2. **Develop technical guidelines and implementation manuals.** A regulation from the regional head is needed to outline the internal mechanisms for using the DAU-SG in accordance with local needs, while also leveraging the flexibility provided by PMK No. 102 of 2024. These guidelines are crucial for bridging national regulations with the actual conditions in the regions.

3. **Build institutional capacity.** Human resources, financial management systems, and educational institutions must be strengthened, especially in regions with low MSS achievement. Training in planning, results-based reporting, and fiscal accountability should be prioritised. Capacity building should target not only the executive branch but also the legislature (DPRD – *Dewan Perwakilan Rakyat Daerah*), which plays a role in the ratification and oversight of the regional budget (APBD – *Anggaran Pendapatan dan Belanja Daerah*).

4. **Establish an outcome-based M&E system.** The evaluation of the DAU-SG should not only measure budget absorption but must also assess the effectiveness of interventions on MSS indicators. Data from education report cards should be integrated into the planning, reporting, and evaluation cycle.

5. **Review the allocation formula regularly.** The central government, in conjunction with regional governments, needs to review the DAU-SG allocation formula on a regular basis to ensure it remains relevant to changes in MSS indicators. Integrating the formula with performance outcomes will strengthen performance-based incentives.

6. **Promote cross-sectoral synergy.** Achieving education MSS requires coordinated support from across sectors. Effective coordination between Regional Government Organisations (OPD – *Organisasi Perangkat Daerah*), such as the Social Affairs Agency, Health Agency, and Public Works Agency, is essential to ensure the determinants of success in basic education are addressed comprehensively.

7. **Revise regulations through consultations.** Any revision to the Minister of Finance Regulations (PMK) must involve consultation with local governments. This process ensures that the DAU-SG policy responds to local needs. Regular revisions are also important for adapting to the dynamics of MSS indicators and addressing technical challenges in practice.

8. **Refine the list of activities in PMK No. 102 of 2024.**
   a. Provide affirmative action for weak indicators, such as PAUD accreditation, numeracy, and equivalency education.
   b. Limit non-MSS activities that are not relevant to educational outcomes.

9. **Develop DAU-SG activities with integrated interventions,** such as inclusive PAUD packages or quality improvement for junior secondary schools based on learning communities.

10. **Involve local governments in revising the activity list through public testing or national consultations** to ensure the regulation reflects the real needs of the regions.

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