

Jakarta seminar on decentralization draws lessons from experiences of other countries

In mid-1999, Indonesia passed decentralization legislation that will fundamentally change the structure of the state, which, since the 1950s, has been highly centralized. While there are considerable pressures for decentralized governance in Indonesia, the transition will not be easy and needs to be carefully sequenced. A seminar titled “Indonesia: Decentralization Sequencing Agenda” was held in Jakarta, Indonesia, on March 20–21 to place Indonesia’s decentralization effort in the context of international experience. The seminar was sponsored by the IMF’s Fiscal Affairs Department, the Center for Social and Economic Research of the University of Indonesia, and the World Bank. Delivering the keynote speech, Bambang Subianto—a member of the president’s National Economic Advisory Council and former finance minister—said that the time for implementation was very short and that many provisions of the law would have to be implemented in the 2001 budget. Subianto looked to the seminar to provide a road map for the orderly implementation of the decentralization process.

Lessons from other countries

The seminar drew lessons for Indonesia from the experiences with decentralization of a number of countries, including Brazil, China, Colombia, India, and Italy. It featured presentations by external experts, as well as

Indonesian academics and officials. The seminar focused on key issues for Indonesia, ranging from transfer of responsibility for making expenditure decisions and collecting revenues to management of the budget process and design of intergovernmental transfers, including untied general purpose transfers.

The IMF does not have a preconceived notion about the desired level of decentralization in its member countries, according to Ehtisham Ahmad, Advisor in the IMF’s Fiscal Affairs Department. Rather, individual countries must decide what is best for them, given their historical and political perspectives. However, he noted, the decentralization process needs to be carefully sequenced to avoid exacerbating macroeconomic imbalances, as illustrated by many countries that have already gone through this experience. A key lesson is that the decentralization of revenues and transfers should not precede the devolution of responsibilities. Moreover, to avoid a political backlash, it is imperative not to endanger the delivery of public services, such as basic health and education, during the transition to decentralization. Revenue and expenditure policies have to be designed carefully to create incentives for local governments to manage public finances effectively and to ensure that an inefficient centralized system is not replaced with an even more inefficient and corrupt local structure of governance.

IMF Executive Board reviews Pakistan’s misreporting, remedial steps

In a news brief issued on April 28, the IMF Executive Board announced it had reviewed data revisions and misreporting by Pakistan, along with the authorities’ commitment to promptly repurchase [repay] SDR 18.95 million in outstanding debt to the IMF and to voluntarily repurchase another SDR 22 million by May 31, 2000. IMF Deputy Managing Director Eduardo Aninat summarized the discussion. Extracts of his summary follow. The full text of News Brief No. 00/23 is available on the IMF’s website (www.imf.org).

“Executive Directors expressed concerns over the misreporting of fiscal data to the IMF between 1997 and 1999. Following their discovery of discrepancies in the fiscal data in late 1999, the authorities informed IMF staff and requested technical assistance to help with the data revision process. In response, a mission from the IMF’s Fiscal Affairs Department went to Islamabad in January 2000 to assess the magnitude of the discrepancies and the factors responsible for the discrepancies. As a result of subsequent data revisions, Pakistan’s budget deficit for 1997/98 was revised upward by 2 percent of GDP to 7.5 percent of GDP, and the

deficit for 1998/99 was raised by 1.4 percent of GDP to 5.9 percent of GDP.

“Observing that the discrepancies in the fiscal data had been discovered by the current authorities themselves and had immediately been brought to the attention of the IMF staff, Directors commended the current authorities for their prompt and full cooperation with the staff in the data revision process.

“In view of the authorities’ expression of regret over the misreporting episode, their full cooperation during the data revision process, and their prompt implementation of measures to subsequently strengthen fiscal reporting, Directors felt that the proposed repurchases constituted remedial action that was consistent with practices on misreporting that were in effect at the time the inaccurate fiscal data were provided. Many Directors expressed the hope that, following these actions in response to the data misreporting episode, the authorities could move forward with a bold and wide-ranging reform program designed to achieve a high and sustainable growth path that could be supported by resources from the IMF. In this connection, a mission to Islamabad is envisaged in the near future.”