



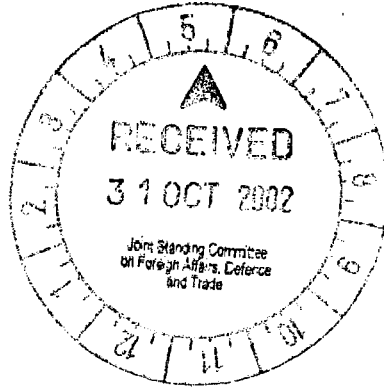
Submission No 37

Inquiry into Australia's Relations with Indonesia

Organisation: Jubilee Australia

Contact Person: Ms Teri Calder

Address: Locked Bag 199
SYDNEY NSW 1230



31 October 2002

The Secretary
The Foreign Affairs Sub-Committee
Joint Standing Committee on Foreign Affairs, Defence and Trade
Parliament House
Canberra ACT 2600

Dear Secretary

Submission for Inquiry into Australia's Relations with Indonesia

We are writing on behalf of Jubilee Australia to make a submission to the Foreign Affairs Sub-Committee inquiry into "Building Australia's Relationship with Indonesia" in the area of debt relief which is where Jubilee Australia maintains its activity and expertise.

Jubilee Australia is a broad coalition of church and community groups and non-government organisations (NGOs) committed to campaigning for the cancellation of the debts of the world's poorest countries under a fair and transparent process. It is part of an international movement advocating debt relief that has achieved significant outcomes. Persuaded by public pressure, many creditor nations have cancelled or promised to cancel 100% of what is owed to them by the poorest nations, and collectively to write off an extra US\$100 billion. We recognise and thank the Australian Federal Government for its contribution to this process, in cancelling the debts owed to it by Nicuagura and Ethiopia and its contribution to the multi-lateral debt process.

Indonesia's History of Loan Mismanagement, the Financial Crisis and Debt

Besides its legacy of an authoritarian and centralised political system, Soeharto's Orde Baru left a colossal debt burden, higher than other repressive regimes such as Mobuto, Somoza and Marcos. Indonesia's total amount of government debt, external and domestic debt, is now around \$150 billion, equivalent to its gross domestic product.

Together with Brazil, Argentina, and Ecuador, Indonesia enters the league of severely indebted countries. According to a report by Indonesia's NGO umbrella body INFID in November 2001, when measured through the standard indicators of indebtedness (Debt to GDP, debt service ratio (DSR) and others) Indonesia ranked heaviest. This debt induces a major human toll, by absorbing funds that could be used to foster growth and alleviate mass poverty.

The main impact of Indonesia's debt burden is exacted from the development budget and social spending. Before the 1997 financial crisis, development spending was high at 40 percent of total spending and more than 5 percent of GDP. After the crisis, development spending was cut by almost two thirds. In 2001, interest payments of Indonesia's domestic and foreign debts were estimated at almost 35 percent of the central government's expenditures. As a comparison,

critically needed development spending accounted for only 17.5 percent of domestic government expenditures, and more than half of this sum stemmed from donor-financed development projects. The social spending also suffered a dramatic decline, around 40 percent in real terms below spending in 1995/96.

A senior Indonesian economist, Prof. Sadli, argues that Indonesia's debt burden is unbearable or unsustainable in the middle and long term. Short run fiscal solutions were achieved through stringent limitations on development spending, personnel cost and spending on health and education. Indonesia urgently needs debt stock relief, not just cash-flows relief.

Jubilee Australia is also concerned that a significant proportion of the Indonesian Government's debt is a result of bailing out private banks in the 1997 financial crisis. Effectively this became a transfer of private debt to the ordinary people of Indonesia who are now expected to repay it.

At its current debt levels under the financial system in which it operates, the only way Indonesia could avoid defaulting on its current debts is to borrow more to service them and spend less on health, education and social services. With a very high debt-service-ratio, and with most of Indonesia's export earnings used for servicing the debt, little is left in the budget to invest in much needed economic recovery. Currently debt service payments are at 25.3% of export earnings. Debt service has increased from 8.7% of GDP in 1990 to 12.2% of GDP in 2000. By contrast, public health expenditure is 1.4% of GDP or 7.9% of total government expenditure.

The UN Development Programme in its 2002 Human Development Report indicated that 7.7% of the population of Indonesia lives on less than US\$1 per day and 55.3% on less than US\$2 per day (the income poverty line). It further reported that since the financial crisis there has been a 4-5% decrease in school enrolments, with approximately 1.3 million fewer children in school. In Jakarta alone, 80 schools have closed since the 1997 financial crisis. Since 1997, 39 million Indonesians have been unemployed. UNICEF notes that 26% of infants are moderately or severely underweight. The under five mortality rate is 48 per 1000 live births, compared to 6 per 1,000 live births in Australia. According to UNICEF a total of 22% of the population does not have access to safe water. GDP per capita dropped from US\$3,481 in 1997 to US\$3,048 in 2000, a decrease of over 12%.

Jubilee Australia is deeply concerned that Indonesia's foreign debt crisis will impede the Government of Indonesia from providing for the basic human needs of its people.

A significant part of Indonesia's debt is odious and illegitimate in nature, since much of the current debt was accrued by an undemocratic authoritarian regime. The World Bank has admitted that at least 30% of its lending to Indonesia has been corrupted. An internal report from the World Bank's Jakarta office in 1997 stated:

"In aggregate we estimate that at least 20-30% of GOI development budget funds are diverted through informal payments to GOI staff and politicians, and there is no basis to claim a smaller "leakage" for bank projects as our controls have little practical effect on the methods generally used."

Recommendation

That the Committee recommend that the Australian government strongly support cancellation of at least 30% of the debt owed to the World Bank, IMF and Asian Development Bank by Indonesia. (This is the estimated proportion that creditors knew, or reasonably ought to have known, was corruptly taken by members of the Indonesian regime of the time with no benefit to the ordinary people who are now required to repay it.)

Recommendation

That the Australian Federal Government strongly supports and advocates for the establishment of an international insolvency mechanism that is fair and transparent. Such a mechanism would enable Indonesia to negotiate debt relief under a just process where both it as an indebted country and its creditor would have equal rights to be heard and basic humanitarian needs would take priority over debt repayment.

Debt and Terrorism

The poverty and vulnerability of Indonesia are high and the difficulties it faces in any economic recovery have been exacerbated as a result of the recent bombings in Bali, which will lead to a decline in tourist income. The root causes of terrorism can be found in religious fanaticism which the international community has recognized is fuelled in part by the gross inequities between nations. Jealousy and hatred of the West grow in the poverty and squalor of Third World Countries. Many of the world's poorest countries send back to the rich world more in debt repayments than they receive in aid. A complete and effective approach to making Australia safe from the threat of terrorism must include measures to reduce poverty and prevent Indonesia's economic disintegration. Debt relief is a crucial part of this picture.

The Millennium Development Goals

Jubilee Australia welcomes the Australian Government's commitment to the United Nations Millennium Development Goals. However, Indonesia's current debt burden will make it impossible for the country to achieve the first goal to reduce by half the number of people living on less than US\$1 a day.

Debt servicing payments in Indonesia are making it impossible for the government to meet its obligations to its citizens. Money spent on debt repayments cannot be invested in job creation, export promotion and services like education - all aspects of economic growth needed to reduce poverty according to economists. Indonesia's economic growth is estimated to be 3.3% (2001, CIA) but the UK's Overseas Development Institute argues that growth of 5.5% is needed merely to meet the first MDG on poverty reduction. Debt relief is essential to help make up the shortfall.

Indonesia's Bilateral Debt with Australia

Jubilee Australia welcomes the assistance that the Australian Government has provided Indonesia in managing its debt, in an anti-money laundering system, fraud awareness and detection and in developing transparent, accountable and competent legal institutions. It also welcomes the assistance the Australian Government is providing to programmes directed at reducing poverty in Indonesia, in the areas of primary health care, the provision of essential drugs and medical supplies, the supply of clean water and sanitation, education and training, increased rural productivity and environmental management. However, further assistance should be provided in the form of debt relief. Assistance to Indonesia in the 2002-2003 financial year will be below the 1995-1996 level in nominal dollar terms at \$121.6 million.

According to an independent assessment (Raffer 2001, Sadli 2001), Indonesia's debt burden is unbearable or unsustainable. By any of the Heavily Indebted Poor Country (HIPC) initiative

JUBILEE AUSTRALIA Locked Bag 199 Sydney NSW 1230
PHONE: 02 9299 2215 FAX: 02 9262 4514 EMAIL: jubilee @ncca.org.au
WEBSITE: www.jubileeaustralia.org

Jubilee Australia has emerged from the international Jubilee 2000 campaign,
to lift the heavy burden of debt from the poorest nations on earth.

indicators and objective assessments, Indonesia is qualified to obtain a deeper and broader debt relief both under the latest terms/best terms of Paris Club as well as under the HIPC criteria. The Australian Government's rationale for cancellation of its bilateral debts with Ethiopia and Nicaragua were a result of their classified HIPC status. As Indonesia meets all HIPC criteria in relation to its debt burden, Australia should also apply the same rationale in providing debt relief to Indonesia.

As of June 2002 Indonesia's bilateral debt with Australia is: **\$1.598 billion**

Recommendation

That the Australian government provides bilateral debt relief to Indonesia, provided the money freed from debt service is used for poverty reduction measures and initiatives. (This could be achieved through exploring the scope for a debt-for-poverty reduction swap such as the German Government has just agreed with Indonesia.)

I thank the Committee for its consideration of the matters raised within this submission.

Yours faithfully

Teri Calder and Amanda Jackson
Jubilee Australia

Sources:

Greenhill, Romilly: February 2002: *The Unbreakable Link – debt relief and the millennium development Goals*
Jubilee Research at the New Economics Foundation

INFID 's Background Paper for the CGI Meeting in November 2001: *Indonesia's Debt Burden: When and How the Creditors are Accountable* <http://www.infid.be/backgroundpaperondebt.html>

The Justice and International Mission Unit, Uniting Church In Australia