



Odious Debt Case Studies Series:

INDONESIA

Almost twenty percent of Indonesia's population is classified as poor, with the unemployment rate also around twenty percent.¹ Indonesia was devastated in 2004 by a tsunami and has a debt burden of \$132.2 billion in 2005 to foreign creditors including the World Bank, International Monetary Fund (IMF), Asian Development Bank, and those rich nations assembled in the Paris Club.² "Rescue packages" in the form of IMF loans after the 1997 Asian financial crisis increased the foreign debt by over \$40 billion.³ For a country that has suffered both the Asian financial crisis of 1997, and now the 2004 tsunami, the debt is unsustainable. Further, much of the debt has illegitimate origins incurred under the 32-year-long Suharto regime. A growing number of Indonesian and global voices are calling for cancellation of Indonesia's debt.



History 1965-1998:

After a military coup in 1965, General Suharto assumed power. He was officially named President in 1967, and ruled Indonesia with an iron fist for the next 32 years. During the two-year civil war from 1965-1967 between 160,000 to 500,000 people were killed.⁴ Because he used the principle of communist containment as the central tenet of legitimacy of his regime, he was rarely questioned by other governments or bank lenders. In 1975, Suharto invaded East Timor and over the 24-year occupation, the Indonesian army killed one-third of the East Timorese population. Alongside his reputation for human rights abuses, Suharto was notorious for embezzlement. In 1967, with the onset of his official political career, Indonesia began borrowing from the World Bank. Though the Indonesian economy grew under his rule, it cannot be overlooked that he was stealing government funds. The World Bank lent \$30 billion to Indonesia under Suharto, and as much as \$10 billion of this went to Suharto's personal bank accounts.⁵ Unfortunately, monetary corruption was prevalent throughout the Indonesian government. In a leaked memorandum from World Bank Project Budgets, it was estimated that "20-30% of Indonesian government development funds are diverted through informal payments to government staff and politicians."⁶ This stemmed a bit after the cold war with the increase of international scrutiny. In 1997, Indonesia was hit hard by the Asian financial crisis, as its

¹ United Nations Development Program. "MDGs Campaign in Indonesia Kicked off on Environment Day." www.undp.org, June 2005.

² BBC News. "Indonesia 'Declines Debt Freeze'." bbc.co.uk, 25 January 2005.

³ Nette, Andrew. "Briefing on the Indonesian Debt Situation." Australian Council for Overseas Aid, 2001.

⁴ BBC News. "Years of Living Dangerously." bbc.co.uk, 2 June 1999.

⁵ Winters, Jeffrey. Interview with Anita Barraud. *The Law Report*. Australian Broadcasting Corporation, 5 July, 2005.

⁶ World Bank. "Summary of RSI Staff Views regarding the problem of 'leakage' from World Bank Project Budgets." August, 1997.

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currency, the rupiah, collapsed. In turn, domestic resistance skyrocketed, the international financial institutions became even more critical of Suharto, and there was dissent within Suharto's own Golkar party. This dissent within his own party and the military proved to be the last straw, and Suharto stepped down under pressure in 1998.

1998-Present:

Heavy World Bank lending continued after Suharto was overthrown. In 1998, the World Bank approved a \$300 million loan to Indonesia to support new structural adjustment policies. One outcome was the expansion of the water privatization process. A new water management bill was passed that granted private investors more access to Indonesia's water industry, including groundwater.⁷ As Indonesia's debt continued to increase, social spending suffered. In 2004, Indonesia spent 10 times more on debt service than it did on healthcare.⁸

To make matters worse, a tsunami claimed the lives of at least 128,000 Indonesians at the end of 2004. The cost of reconstruction is estimated at close to \$6 billion. In March 2005, the Paris Club announced its offer to delay Indonesia's debt service payment of \$2.6 billion for one year, though interest on this debt will still come due in 2006. Indonesia holds debt of \$48 billion to Paris Club countries as of 2005.⁹ Thus the moratorium falls well short of what is urgently needed. Servicing the total debt of \$132 billion including Paris Club and the international financial institution debts, is too heavy of a burden for Indonesia, especially in light of the illegitimate origins of the vast majority of that debt.

⁷ Friends of the Earth International. "World Bank Water Projects." www.foei.org, 2005.

⁸ Jubilee South. "Tsunami: Debt and Disaster." www.jubileesouth.org, 28 December 2004.

⁹ Xinhua News Agency. "Indonesia to Receive Debt Moratorium from Paris Club." www.china.org, 15 March, 2005.

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