

## "Beyond the Moratorium" is "Beyond the Paris Club"

### What needs to be done and what can be done about Indonesia's Foreign Debt

INFID Statement for the Meeting of the Paris Club, on Jan. 12, 2005 and the  
Consultative Group on Indonesia on Jan. 19 and 20, 2005

*In the aftermath of the tsunami disaster various creditor countries and international financial institutions have come up with proposals for a debt moratorium and a debt relief for the affected countries. While there seems to be general agreement on the necessity of swift action regarding the provision of urgently needed funds for emergency relief and long-term reconstruction, the concepts tabled so far widely differ and remain vague. Indonesia needs a comprehensive solution to its debt problems that addresses the urgent needs for emergency relief and the long-term recovery and stabilisation of the country's economy. This is best achieved by convening an International Debt Conference. It will assess – on the basis of independent research – the sustainability of current debt repayments in relation to the needs for immediate reconstruction and long-term achievement of the Millennium Development Goals. Furthermore, it will agree on a fair sharing of the burden of the necessary debt relief.*

#### **A Moratorium is Important – but not Sufficient**

The International NGO Forum on Indonesian Development (INFID) representing some 80 NGOs in Indonesia, Europe, Japan, Australia and the United States welcomes any effort to maintain and strengthen the Government of Indonesia's economic and financial capacity to address the needs of the country and its population. A debt moratorium is the appropriate answer to the present situation provided that:

- it will cover the entirety of Indonesia's current debts, and not only – as suggested by various parties – the obligations to the members of the Paris Club, which currently own only roughly one third of Indonesia's overall external debt;
- there will be no interest charged for the postponed payments, since these would aggravate Indonesia's indebtedness after the expiration of the moratorium.

A moratorium would create the badly needed breathing space for financing the urgent emergency aid and planning the medium-term reconstruction. More importantly it would allow a rethinking the present strategy to solve the debt problem. A moratorium, however, bears the risk of an increased indebtedness after its expiration, unless it is granted without any additional interest payment imposed. A moratorium would not, however, as conventional wisdom wants us to believe – adversely affect Indonesia's credibility on the international financial market and its credit ranking.<sup>1</sup> On the contrary, Indonesia's financial history supports other available evidence

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<sup>1</sup> See press release of rating agency Standard & Poor's as quoted by Reuters, 05.01.04.

and is a case in point that a fairly negotiated and sustainable debt relief will strengthen the credibility of a country and contribute to its economic stability.

### **The Paris Club Should Again Take a Groundbreaking Decision**

In 1968 the Paris Club made the bold decision to task the German banker Hermann-Josef Abs, to achieve an internationally acceptable solution for Indonesia's debt. On April 24, 1970 Indonesia's creditors (Paris Club and the former USSR and its allies) agreed upon cancelling the payment of the accumulated interest and upon extending the repayment of the borrowed principal to a period of 30 years. As a result roughly 50% of Indonesia's external debt was cancelled. Abs' guiding principles were the equality of treatment for all liabilities and hence equality of treatment of creditors, the limitation of repayment period (one generation, i.e. 30 years), and the conservatively calculated debt sustainability (by linking the repayment to the export revenue and the capacity to raise capital internally).

Now is the time again for the Paris Club to give way for a bold and innovative step, because the Paris Club has so far proven incapable of achieving a sustainable and long-term solution. Since 1998 Indonesia has already twice rescheduled its debts with the Paris Club without achieving a significant improvement in its debt service indicators. The debt owned by member countries represents only one third of Indonesia's external debt. It does neither include the multilateral claims nor the private claims, let alone the high amount of domestic debt that burdens the Indonesian budget.<sup>2</sup>

#### Composition of Indonesia's External Debt (US-\$ Million):

<b>External Debt (total)</b>	<b>132,762</b>
Government *	77,093
Bilateral	28,492
Multilateral	28,394
Export Credit Facility	17,539
Leasing	325
Commercial	2,343
Private	53,597
Domestic Securities Owned by non-residents	2,072

\* Includes debt owed to IMF. Figures as of September 2003. Sources: World Bank, Bank Indonesia

### **A Comprehensive Solution – Achieved in a Transparent and Fair Manner**

Indonesia needs now a comprehensive approach addressing all types of debt. An International Debt Conference is the adequate format to address the complex situation in its entirety. The Government of Indonesia should call together all creditors, private as well as sovereign, multilateral institutions as well as banks and governments, foreign as well as domestic creditors. Such a conference should be sponsored and chaired by an independent organisation such as the United Nations. The countries and institutions gathering in the Consultative Group on Indonesia (GGI) on Jan 19, 2005 in Jakarta should support and assist the Government of Indonesia in taking this important step. The negotiations at this conference should be informed by the assessment of the sustainability of Indonesia's debt conducted by an independent institution such as the United Nations Development Program (UNDP). It must take place in a transparent and fair manner. It must allow for the active participation of Indonesia's civil society and its representatives at all times.

<sup>2</sup> According to World Bank and Indonesian Ministry of Finance domestic outstanding debt amounted to 692,6 Trillion Rp. in September 2003 (at current exchange rates equivalent to US-\$83,5 bill).

The agenda of this conference should include the following items:

- An assessment and estimation of Indonesia's financing needs for mid and long-term reconstruction and recovery after the tsunami disaster;
- A discussion of the key findings of the independent research on the sustainability of Indonesia's current debt service compared to the country's capability to achieve the Millennium Development Goals;
- An inquiry into the circumstances of the contracting of debt during the dictatorial regime of the former President Suharto and the assessment of the legitimacy or odiousness of such debt;
- An inquiry into the application of all necessary measures by the lenders to prevent corruption or misuse of loans;
- An agreement of a timeline and schedule for the conference to come up with an operational plan before the expected moratorium expires.

The results of this conference should be an agreement that:

- Enables the Government of Indonesia to finance the speedy and effective delivery of emergency aid and the necessary reconstruction of the affected regions by involving the local population and its civil society organisations. According to estimates of the Indonesian Ministry of Finance the country needs at least an amount of Rp. 20 Trillion over the next five years to rebuild the devastated infrastructure.<sup>3</sup>
- Enables the Government of Indonesia to achieve the Millennium Development Goals as agreed upon by the international community in September 2000;
- Enables the Government of Indonesia to significantly reduce the number of Indonesians living in absolute poverty or in economically vulnerable conditions;
- Enables the Government of Indonesia to meet its obligations from existing loan contracts without infringing its social and economic obligations to the people of Indonesia.
- Liberates the Government of Indonesia from all debt that has to be considered illegitimate or odious in nature;
- Provides a fair sharing of the burden between creditors and debtors for the necessary cancellation of debt.

Therefore INFID urges both the Government of Indonesia and the international creditor community to break the spell of old conventional wisdom and to respond to this unprecedented disaster by charting new ground for sustainable debt relief and poverty reduction.

INFID urges the participants of the various meetings in the near future (the Paris Club meetings, the convention of the CGI, and the meetings of the G7 and G8) to use this meetings wisely and to discuss this idea in further detail and to make the long awaited progress.

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<sup>3</sup> At current exchange rates equivalent of US-\$ 2,154 bill. Source: Departemen Keuangan <http://www.depkeu.go.id/Ind/News/NewsControl.asp?edcate=djpb10105.htm>.