JUBILEE
AUSTRALIA
drop the debt

Executive Summary

Though a strong economic and political power in South East Asia, Indonesia's development challenges remain significant. Indonesia's foreign debts impact on the ability of the Government to address domestic poverty. But what is Indonesia's debt situation? How does it impact on Indonesia's poverty crisis? Where did Indonesia's debt to Australia come from?

How can bilateral creditors such as Australia help reduce developing country debt while maintaining accountability of the corresponding funds?

The Jubilee Australia Policy Paper, *A Debt for Development Swap with Indonesia* considers whether a debt swap with Indonesia could offer the Australia Government a successful mechanism to address Indonesia's debt to Australia.

Part 1 charts how Indonesia's debt crisis began with imprudent foreign lending to the Suharto regime and worsened after the 1997 Asian economic crisis. It explains that despite an economic recovery since 2000, 40 million Indonesians are still living in poverty and another 100 million just above the poverty line.

Part 2 describes the current state of knowledge regarding the origins of Australia's debt claims on Indonesia, which currently total US$1.16 billion. Current information suggests that the origins of this debt lie with Australia's Development Import Finance Facility scheme (DIFF), which used aid money during the 1980s and 1990s to assist Australian export projects overseas.

Part 3 outlines the concept of debt swaps, including their historical evolution and their benefits to an indebted country like Indonesia. It also outlines the current debt swap projects that Indonesia has undertaken with other creditor countries.

Part 4 describes the benefits of an Australian debt swap with Indonesia and outlines the Global Fund Debt Conversion proposal. It argues that the Global Fund project would be an excellent framework within which Australia could undertake a debt swap.

The Australian Government has until now resisted implementing debt swaps as policy, citing in particular concerns regarding ongoing accountability for the funds released for debt repayments. This is no longer a viable position. Nor is it possible any more to claim an artificial separation between debt and development concerns; debt undermines developing countries' ability to dedicate funds to development activities. Foreign affairs experts on both sides of parliament have already accepted the logic of this argument, urging the Government in 2004 to adopt a debt-for-development swap with Indonesia.

Jubilee Australia strongly urges the Australian Government to support the debt swap project proposed by the Global Fund as an excellent initial project to participate in. Not only will the project save many lives in Indonesia, but the Global Fund monitoring systems will ensure accountability for the funding provided.

A full copy of the report is available from:
http://www.jubileeaustralia.org/files/_410_news/Debt-for-Health_JubileeAustralia_Apr2007.pdf