

Is Indonesia's debt to Norway illegitimate?

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Sammendrag – Er Indonesias gjeld til Norge illegitim?

En rekke miljøprosjekter i utviklingsland ble på 1990-tallet finansiert delvis med norske bistandsmidler, og delvis i form av eksportkreditter – statlige garantier som sikrer norske eksportbedrifter for tap. Sju prosjektavtaler ble signert mellom Norge og Suhartos Indonesia, med en samlet verdi på US\$198 millioner. SLUG har sammen med den indonesiske NGOen INFID sett nærmere på to av prosjektene. I denne rapporten kan du lese om ambisiøse planer, mislykkede prosjekter, norske næringslivsinteresser og indonesisk milliongjeld.

Ett av prosjektene var et bølgekraftanlegg på Java. Teknologien hadde vist seg ubrukelig i Norge, men ble solgt til Indonesia for å gi ren strøm og overføre miljøvennlig teknologi. Prosjektet ble en fiasko. Fortsatt har Indonesia igjen US\$ 2.5 millioner å betale til Norge for et bølgekraftverk som aldri ble realisert og for miljøteknologi som aldri ble overført.

Det andre prosjektet har fått navnet «Seawatch». Det er et avansert system som blant annet skulle brukes til å overvåke forurensing i havet. Teknologi ikke egnet for de tropiske havforholdene i Indonesia, mangelfull opplæring og oppfølging fra norsk side, er sammen med den asiatiske finanskrisen i 1997 med på å forklare hvorfor Indonesia ikke har sett noe til fordelene de var forespeilet da de signerte millionkontrakten. 13 år senere skylder Indonesia fortsatt US\$ 8.8 millioner til Norge.

De to prosjektene tydeliggjør behovet for en norsk gjeldsrevisjon. Norske myndigheter må gjennomføre en fullstendig revisjon av alle utestående lån til Norge og må vurdere norsk utlånspraksis.

Abbreviations and explanations

BAPPENAS – the Indonesian Department of Planning and Development

BMKG, the Indonesian Metrology, Climatology and Geophysics Agency

BPPT – the Indonesian Agency of Assessment and Application of Technology (Department of Technology)

COP15 – United Nations Climate Change Conference, Copenhagen December 2009

ECA – Export Credit Agency

HIPC – Heavily Indebted Poor Countries – The World Bank and IMF's debt relief initiative, providing relief for 40 of the world's poorest countries.

GIEK - Garanti Instituttet for Eksportkreditt – The Norwegian Export Credit Agency

MDRI – Multilateral Debt Relief Initiative – an extension of the HIPIC initiative, launched at the July 2005 G8 summit

NGO – Non-Governmental Organisation

NOK – Norwegian Krone (at the time of writing, 1 USD = 5.77 NOK)

OECD – Organisation for Economic Co-Operation and Development

Paris Club – an informal institution where representatives from 19 of the world's richest countries meet to provide debt restructuring, debt relief and debt cancelation to indebted poor countries

USD – United States Dollar

Introduction

In December 1995, the Republic of Indonesia signed two agreements on environmental projects with the Norwegian companies Indonor and Oceanor. As previously reported by SLUG's network in Indonesia, there is reason to believe that these projects failed. This report shows that the projects never benefited the Indonesian people, and that Norway clearly has a responsibility for the failure.

The projects in question were financed through the Norwegian Mixed Credit Scheme, receiving a grant component from the aid budget, and guaranteed for by the Norwegian Export Credit Agency, GIEK. This happened at the same time as the Norwegian government announced the Asia-Plan. The government would provide financial support and act as a door-opener for Norwegian companies willing to invest in Asia. Suharto's Indonesia was one of the prioritized countries, and transfer of environmentally friendly technology was one of the sectors targeted. Overall, seven mixed credit agreements with a total contract value of 198 million USD, mostly involving environmental technology, were signed with Indonesia during this period.

The majority of the contract value was financed through export credits. This part has to be reimbursed by the Indonesian state. As per December 2008, the Republic of Indonesia has close to 100 million USD in outstanding debt, originating from these seven projects.

In this report, SLUG explores two of these projects in depth: Indonor's wave power project, and Oceanor's marine environmental monitoring, forecasting and information system called «Seawatch». By relating these findings to the concepts of illegitimate debt and responsible lending, SLUG wants to place illegitimate debt and lending practices on the political agenda by exploring which mechanisms in Norwegian industry and development policy lead to debt accumulation in poor countries. The report shows that Norway, despite broad political agreement and high ambitions to fight illegitimate debt and promote responsible lending, continues to collect illegitimate debt claims from the people of Indonesia.

The question of responsible lending is more relevant than ever. Many Norwegian export industries are struggling as a result of the global financial crisis, and Norwegian jobs are threatened. Part of the government's response has been to increase the use of export credits in order to support exposed export industries such as the shipbuilding industry. Also, in the ongoing climate change debate, one of the main discussion points is how to finance climate adaptation and transfer of environment technology to developing countries. SLUG is worried that the industrialized nations aim to solve the climate crisis we have created through financial mechanisms that will lead poor countries further into debt.

SLUG and the Indonesian NGO INFID have collected the data used in this report during three weeks of field-work in Indonesia. In addition to this, data was also collected from Norad's archive, and interviews were conducted in Norway.

Illegitimate debt

For every dollar that poor countries receive in aid, they have to pay back five dollars in debt repayment.¹ Governments in many countries have to prioritize debt repayment, using funds urgently needed to pay for education and basic health care to the population. Furthermore, poor countries will in 2009 and 2010 alone spend 806 billion on debt repayments.² In the wake of the international financial and economic crisis, several low- and middle-income countries take on new loans to cover finance gaps caused by external factors. Developing countries' adaptation to climate change is also partly financed by loan instruments.

Debt cancelation is not only a question of whether poor countries can afford to repay their debts. A large proportion of the debt is illegitimate, and should not be repaid. Examples of illegitimate debt are loans extended to dictators and loans that have not benefitted the population of the borrowing country.

There is no generally agreed definition of illegitimate debt. Among most lenders, the concept of illegitimate debt is still not accepted, but the concept gets more and more recognition. The growing debate on illegitimate debt has been further fuelled by Norwegian funded studies published by the World Bank³ and the United Nations⁴, and Norway's commitment to raise a debate internationally about the concept.

The economist Alexander Sachs developed one of the most common definitions of illegitimate debt. It includes loans:

- that did not benefit the population of the country
- where the people of the country did not consent to the loan, and;
- where the creditor was, or should have been, aware of both⁵

There are ongoing efforts to develop an internationally recognised definition of the concept of illegitimate debt. A case-by-case approach to illegitimate debt is a welcomed supplement to academic efforts

1 – In 2005 total Official Development Aid was 106.8 billion USD (figures from OECD) while World Bank data shows that developing countries paid 513.8 billion USD in debt service in the same year. *Slett ikke ferdig – Ti år med gjeld på dagsorden*, SLUG og Jubilee Debt Campaign (2008)

2 – Eurodad, 2009 *Debt in the Downturn*

3 – World Bank, 2007. *The concept of Odious Debt: Some Considerations*

4 – United Nations Conference on Trade and Development (UNCTAD), 2007. Discussion Papers No. 185. *The Concept of Odious Debt In Public International Law*

5 – In Noreena Hertz, 2005. *Gjeldens Historie*

within multilateral organisations, academia and the international anti-debt movement. The cancellation of the debts originating from the so-called ship export campaign (see page 7) constitutes an example of such a case-by-case approach.

Dictator debt

A large part of poor countries' debt is derived from loans given to un-democratic and illegitimate regimes. According to Jubilee Debt Campaign, some 20 per cent of developing country external debt, or more than 500 billion USD, is dictator debt.⁶ Today, many of these countries have new democratically elected leaders, who have to repay the illegitimate debt inherited from un-democratic and often corrupt regimes. It is therefore not reasonable to expect the people to repay the debt.

Responsible Lending and Borrowing

Even though there is no general definition of the concept of illegitimate debt, there is a growing recognition of the importance of the legitimacy of debts and contracts to avoid reckless lending and borrowing. Hence lenders' and borrowers' responsibilities in loan contraction processes have received increased attention over the last years. Whereas official lenders and Export Credit Agencies tend to focus on the financial sustainability of debt in a narrowly defined way, civil society under-lines that there is more to responsibility than sustainable debt levels. Responsibility includes qualitative matters such as contractual agreements, transparency, human rights issues and the need for predictability and clear dispute mechanisms.⁷

Mechanisms in Norwegian Industry- and development policy creating illegitimate debt:

Export Credit Agencies

A large part of the debt that poor countries owe Norway comes from failed business investments. The explanation behind this is that Norway, like other industrialized countries, promotes its national companies' exports by ensuring exporters against losses through the creation of Export Credit Agencies (ECAs). These agencies issue guarantees to domestic companies that invest abroad, so that the companies do not have to cover the entire risk involved themselves. The guarantees issued by the ECAs are meant to cover political and other non-commercial risks. If the company in the host country is unable to pay, the ECA takes over as creditor against the foreign customer. It is common practice that the credit agency requests the state in the recipient country to make a counter guarantee. The domestic export company is therefore guaranteed to receive compensation, while the financial risk lies with the state in the host country.⁸ ECAs have become the largest public funding source internationally, and exceed all bi- and multilateral development assistance.⁹ ECAs are creditors for 24 per cent of all developing country debt.¹⁰

Norway's export credit agency GIEK (Garanti Instituttet for Eksportkreditt) was established as early as in 1929. GIEK has since 1991 been under the Ministry for Industry and Trade. GIEK is a trade policy tool whose main goal is to promote Norwegian export of goods and services and investment abroad through the provision of guarantees on behalf of the Norwegian state.¹¹ GIEK is meant to be a supplement to the open market, supporting projects that would not be realized without its support.

ECAs are often criticized for lack of transparency, and for their vague guidelines in relation to environment, human rights, corruption, trade of arms, and development goals.¹² It is also problematic that contribution to poverty reduction in the host country¹³ is not among GIEK's stated goals. Consequently, loans offered to promote Norwegian business interest are not necessarily consistent with other Norwegian foreign policy objectives, such as poverty reduction and sustainable development.

Mixed Credits

The two projects to be evaluated in this report were financed under the mixed credit scheme. The term refers to a mixture of commercial loans, export credit guarantees, and a grant element taken from the aid budget. Mixed credits are used to promote investments in developing countries.¹⁴

Usually, in Norway the private bank Eksportfinans provides the credit, and GIEK guarantees for the credit. The Norwegian mixed credit mechanism was established in 1985, its prevalence peaking in 1992, with an annual budget of 331 million NOK, which accounted for 7.5 per cent of total Norwegian aid. The purpose was to increase investments in developing markets and to contribute to transfer of capital, technology, infrastructure and competence, resulting in social and economic development.¹⁵ Since 2000,

6 – SLUG & Jubilee Debt Campaign, 2008. *Slett ikke ferdig – Ti år med gjeld på dagsorden*

7 – Brynildsen, Ø. S. 2009. *Borrow My Pension*, SLUG

8 – Aas-Hansen, J & T. G. Hugo, 2008. *Etikk på kreditt*, SLUG

9 – www.eca-watch.org

10 – www.eca-watch.org

11 – www.giek.no

12 – Aas-Hansen, J & T. G. Hugo, 2008. *Etikk på kreditt*, SLUG

13 – Exept projects which are part of «u-landsordningen»

14 – FAO 2000 Evaluation of the Norwegian Mixed Credit Programme

15 – FAO 2000 Evaluation of the Norwegian Mixed Credit Programme

the mechanism has been less utilized, but a Vessel Traffic System Project in Indonesia, with a contract value in the amount of 15 million USD, is to be financed under the Mixed Credit Scheme in 2009.¹⁶

According to OECD rules, a project financed under the Mixed Credit Scheme must be considered to promote development in the recipient country, and the Norwegian supplier should get the contract through an international tender. The grant component should be at least 50 per cent in the Least Developed Countries, and minimum 35 per cent in other developing countries.¹⁷ All projects should also be initiated locally and be a part of the local development plan.¹⁸

As «The Norwegian Development Committee» (Utviklingsutvalget) points out,¹⁹ access to capital has historically been one of the main sources of economic development and poverty reduction, but poor countries only receive a small part of the world's investments. In many low-income countries, political and economic conditions such as political instability, weakly developed finance markets and infrastructure, lack of rule of law, war and unrest, are among the reasons why the global investment flow usually goes elsewhere. Mixed Credits might mobilize additional resources for development and lead to more investments.²⁰ However, in mixed credit financed projects in middle-income countries such as Indonesia, the export credits, which have to be repaid, are approximately three times the grant element.

Norwegian policy on debt

Despite the Norwegian government's high ambitions and stated commitment to develop an international agenda on illegitimate debt, the Ship Export Campaign is left as a lone example of unconditional cancellation based on creditor co-responsibility.

The ruling cross party coalition has in the State budget for 2010, and in Soria Moria II, the policy declaration of the Stoltenberg government of October 2009, expressed its commitment to advance in the fields of responsible finance and illegitimate debt. In Soria Moria II it is stated that the government will:

- work for international mechanisms for debt relief and treatment of illegitimate debt, binding international regulations for responsible lending, and perform a Norwegian debt audit.²¹
- The government followed up in the 2010 state budget, stating that they will be working to contribute to the debate about concepts such as illegitimate debt, responsible lending and creditor liability²²

In 2006, Norway became the first country to recognize creditor co-responsibility when it cancelled the debt from the Ship Export Campaign on the grounds of failed development policies in the past. In the government declaration Soria Moria II, the government took a step forward and committed itself to perform a Norwegian debt audit. This means that the Norwegian government will make an independent audit of all outstanding debts to Norway and Norwegian lending practises. The objectives are to make sure Norway is not collecting any illegitimate claims and to ensure future responsible lending which does not contribute to the build-up of illegitimate debts. In line with Norwegian development policies, claims that are found to be illegitimate must be unilaterally and unconditionally cancelled.

16 – Interview Bappenas

17 – NOU 1995:5 – Norsk sør-politikk for en verden i endring

18 – FAFO 2000 Evaluation of the Norwegian Mixed Credit Programme

19 – NOU 2008:14 – Samstemt for utvikling?

20 – FAFO 2000 Evaluation of the Norwegian Mixed Credit Programme

21 – *Politisk plattform for flertallsregjeringen, 2009-2013*. Arbeiderpartiet, Sosialistisk Venstreparti og Senterpartiet, 2009 – own translation

22 – Norwegian State Budget 2010, own translation

Proposal for a Comprehensive Framework

From the SLUG report Borrow My Pension¹

A promising initiative attempting to answer some of the above-mentioned challenges is Eurodad's Charter on Responsible Financing². The charter presents a set of principles and practical arrangements that should be included in standard loan agreements in order to ensure predictability and fair conditions for lenders and borrowers, as well as to protect the people and the environment in developing countries. The overall aim is to ensure sustainable and responsible lending and borrowing through a set of legally binding standards that both lenders and borrowers commit to adhere to, and hence to avoid accumulation of new illegitimate debt.

The Charter is meant to give very concrete input to the ongoing debate on sustainable and responsible lending and borrowing. It has received fairly positive feedback from both lenders and borrowers. The Norwegian government's position has been that the Charter is a good starting point when discussing the details of what co-responsibility implies and how responsibilities should be shared between lenders and borrowers. In December 2009 the Foreign- and Defence Committee in the Norwegian Parliament recommended to establish criteria for responsible lending, proposing to use the Eurodad Charter as a starting point³.

1 – Brynildsen, Ø. S. 2009. *Borrow My Pension*, SLUG

2 – Eurodad's Charter on Responsible Financing: <http://www.eurodad.org/whatsnew/reports.aspx?id=2060>

3 – Stortinget støtter Eurodad-charter: http://www.slettgjelda.no/Tema/Norsk_gjeldspolitik/Artikler/Stortinget+st%C3%B8tter+Eurodad-charter.b7C_wlfW5-.ips

The Ship Export Campaign

From the SLUG-report Why Norway took Creditor Responsibility – the case of the Ship Export campaign¹

In October 2006, Norway's Minister of International Development, Erik Solheim, announced that Norway would unilaterally and unconditionally cancel debt from the Ship Export Campaign of the late 70s.

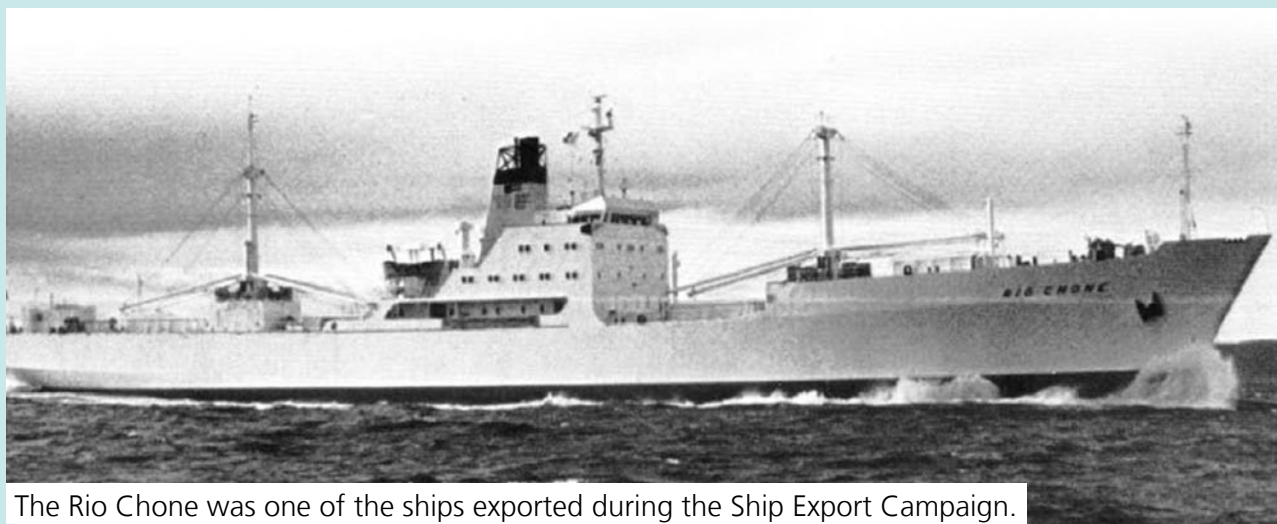
In the 70s, there was a crisis in the Norwegian ship building industry. Thousands of jobs were at stake. The response was the Ship Export Campaign – a mechanism by which developing countries would get cheap loans in return for buying Norwegian ships. The hope was that this would both help the Norwegian ship building industry, and at the same time be beneficial to the borrowing country. 156 ships and equipment worth 3.7 billion NOK was exported, including a grant element of around 25 per cent.

Early on, it became clear that the projects were high-risk and that lenders could face payment difficulties. The main reason to give the credits was to ensure that the Norwegian shipyards had sufficient work. Quality controls were lowered and credits were given for projects that would otherwise have been regarded as too risky.

In the Norwegian Parliaments White Paper nr. 25 from 1988–89, it was concluded that the campaign was characterized as an unfortunate initiative with very little developmental effect for the countries involved. In retrospect, the Ship Export Campaign in the way it was conducted had limited importance as development aid. The campaign was also criticized for inadequate needs analyses and risk assessments. The main conclusion was that this kind of campaign should not be repeated. Still, we had to wait for 17 years before Norway decided to cancel all remaining debt from this campaign, after intensive campaigning from SLUG, Changemaker and Norwegian Church Aid.

It was admitted that the campaign represented a development policy failure, and that Norway, as a creditor, has a shared responsibility for the debts that followed. This was the first time a creditor admitted responsibility for irresponsible or bad lending, and took action. This represented a crucial and significant step pointing towards creditor responsibility and more equality in the creditor/debtor relationship. The cancellation was unilateral, unconditional and not financed over the aid budget. The reasoning behind the cancellation was justice, whether the recipient country was able to repay or not was irrelevant.

¹ Abildsnes, K. 2007. *Why Norway took Creditor Responsibility – the case of the Ship Export Campaign*. SLUG



The Rio Chone was one of the ships exported during the Ship Export Campaign.

New dirty debts?

Three years after Norway cancelled the debt from the Ship Export Campaign and concluded that this kind of campaign should never be repeated, the ship building industry is once again in need of rescue, and the Norwegian Minister of Trade, Trond Giske, has called an emergency meeting. As part of the government's response to the financial crisis, the use of export credits is being amplified, increasing GIEK's budget to 110 billion NOK in 2009. The Minister has been interviewed several times about this, but his focus has been exclusively domestic. SLUG has expressed concerns about this, cautioning the government to avoid repeating its mistakes: Developing countries should not see their debt burden increase as a result of us trying to rescue national industries.



Indonesia is the largest economy in Southeast Asia and also a member of G-20 major economies.²³ Indonesia was also the country hardest hit by the East Asian Financial crisis in 1997, which threw millions of its citizens back into poverty. Indonesia has regained financial growth, but the growth does not necessarily reach the poor segments of the population. In 2009, the country is ranked number 111 on the Human Development Index, classified as «medium human development».²⁴ According to the World Bank, close to half of the population lives on less than 2 USD per day.²⁵ In December 2008, Indonesia's total foreign debt was 78 billion USD.²⁶ Annually, the Indonesian Government allocates more money from the government's budget to repay debt from the Suharto period, than what is being spent on social services such as health, education, housing, public safety and the environment.²⁷ This also reduces budgetary flexibility and leaves the economy vulnerable to external shocks.²⁸

Foreign debt repayment compared to education and health budget in Indonesia

| No | Year | Outstanding debt | Principal and interest payment | Education | Health |
|----|------|------------------|--------------------------------|-----------|--------|
| 1 | 2005 | 66,59 | 7,67 | 3,26 | 0,65 |
| 2 | 2006 | 67,52 | 8,04 | 5,03 | 1,35 |
| 3 | 2007 | 69,25 | 9,51 | 5,65 | 1,78 |
| 4 | 2008 | 77,89 | 8,58 | 6,14 | 1,56 |

Source: National State Budget and Debt Management Office, 2009

Foreign debts have clearly put pressure on Indonesia's economy. The dependence on foreign debts has pushed the government of Indonesia to follow the rules and prescriptions of the creditors and donors, no matter the risks for the livelihood of the people of Indonesia. The dependence on foreign loans has pushed the government to serve the interests of the creditors rather than the interests of the citizens. The Indonesian NGO INFID believes most of Indonesia's debt to be illegitimate, particularly debts contracted by the Suharto regime, which incurred without the consent of the people, and not to their benefit.²⁹ The debt is illegitimate, and therefore the Indonesian people should not suffer in order to repay it.

Corruption in Indonesia

When Transparency International published their list of all-time most corrupt leaders, Suharto, who was in charge when the contracts on the Norwegian mixed credits projects were signed, was on top, beating notorious heads of state like Ferdinand Marcos, Slobodan Milosevic, and Zaire's Mobutu Sese Seko.³⁰ The report estimates that Suharto and his close family embezzled between 15 and 35 billion USD. Time Asia estimated that in May 1999 Suharto's family fortune amounted to 15 billion in cash, shares, corporate assets, real estate, jewellery and fine art.³¹ In 2000, Suharto was placed under house arrest, as he was investigated for corruption. Later the same year, it was decided that he could not stand trial because of his declining health.

The Suharto regime's management of the economy between 1967 and 1998 serves as one of the examples of how illegitimate debts have accumulated and how they consequently paralyze the economy of a developing country. It has become increasingly obvious how rapid economic growth mostly aided Suharto's family and friends, while the majority of the population continued suffering.³²

A World Bank report from 1997 estimated that at least 20-30 per cent of Indonesian government development funds were diverted through informal payments to government personnel, politicians and senior government of-

23 – G-20 countries: www.g20.org/about_what_is_g20.aspx

24 – UNDP's Human Development Index: www.undp.org

25 – *Making the New Indonesia Work for the Poor*. World Bank. 2006

26 – Directorate General of Debt Management Office, Ministry of Finance of the Republic of Indonesia – Central Government Debt Quarter I 2009

27 – Afrodad. 2007 *The Case of Illegitimate Debt in Indonesia*

28 – «Country Experiences of Indonesia on External Debt Management», presented by Director of International Affairs, Bank of Indonesia, at the *Regional Workshop on Capacity-building for External Debt Management in the Era of Rapid Globalization, Bangkok, 6-7 July 2004*

29 – International NGO Forum on Indonesian Development: www.infid.org

30 – Transparency International Global Corruption Report 2004

31 – Suharto later sued the magazine for 93 million USD in redress, without winning (NOU 2009:19 Skatteparadis og Utvikling)

32 – Afrodad. 2007. *The Case of Illegitimate Debt in Indonesia*



officials.³³ Yet, Indonesian citizens are still paying back these loans, despite the fact that they had no say in whether or not Suharto should take on these loans, and that the majority of the funds did not benefit them.³⁴

The Asia-Plan: Encouraged dictator investments

In 1994, the Norwegian government launched their «Asia-Plan», and Indonesia was one of the nations prioritized. The strategy was meant to increase Norwegian companies' investments in the emerging markets in Asia, especially in the fields of environmental technology, hydropower, oil and gas.³⁵ Former Norwegian Minister of Trade, Grete Knudsen, assured Norwegian companies that were willing to invest in Asia, that the government's financing apparatus would be available, specifically mentioning the Mixed Credit Scheme.³⁶ In the following year, extensive travelling and correspondence on the political level between Norway and some prioritized nations in Asia was meant to function as a door-opener to Asian markets.³⁷

In 1995, the same year as the Oceanor and Indonor contracts were signed and two years before the financial crisis, Suharto was still in charge in Indonesia. The mass murders in Aceh, the invasion and the following occupation of East-Timor, which Noam Chomsky has referred to as the worst instance of genocide relative to population since the holocaust,³⁸ were well known by then. So were Suharto's abuse of human rights, and charges of widespread corruption. The 1996 Nobel Peace Prize to the East Timorese freedom fighters Ximenes Belo and José Ramos-Horta, serves as recognition of the repression of the East-Timorese people.

On the other hand, Suharto was anti-communist, leader of a relatively liberal Muslim nation, and, even more important, he deregulated the economy, and opened Indonesia to foreign investors. The Suharto regime, like many other oppressive regimes during the Cold War, enjoyed the support of the United States and other Western governments, as long as they served as frontiers to resist the advance of communism in their countries.³⁹ Later, he was considered a strong leader of a nation attractive for investment.

33 – Foreign Policy In Focus. Vol. 3, No. 34, November 1998. *Indonesia After Suharto*

34 – Foreign Policy In Focus. Vol. 3, No. 34, November 1998. *Indonesia After Suharto*

35 – NOU 1996:23 Konkurransen, kompetansen og miljøet. Næringspolitiske hovedstrategier

36 – Grete Knudsen, Regjeringens Asiaplan, main speech under the governments Asia-seminar, 28.06 1995: http://www.regjeringen.no/nb/dokumentarkiv/regjeringen-brundtland-iii/ud/261275/261276/regjeringens_asiaplan.html?id=261518

37 – Grete Knudsen, Regjeringens Asiaplan, main speech under the governments Asia-seminar, 28.06 1995: http://www.regjeringen.no/nb/dokumentarkiv/regjeringen-brundtland-iii/ud/261275/261276/regjeringens_asiaplan.html?id=261518

38 – Jardine, M. 1999 East Timor: Genocide in Paradise – Introduction by Noam Chomsky

39 – AFODAD 2007 – The Case of Illegitimate Debt in Indonesia

In September 1995, Prime Minister Gro Harlem Brundtland led a high-ranking delegation on an official state visit to Indonesia, promoting Norwegian marine- and environmental technology, and giving the Seawatch-projects as an example. One year later it was the young Minister of Industry and Energy, Jens Stoltenberg, who was leading the Norwegian team on a mission to open up for Norwegian companies in Indonesia. Together with Minister of Technology B. J. Habibie, he arranged a seminar in Jakarta where 70 Norwegian companies were present. He specifically promoted two companies, Oceanor and Indonor. At the same meeting, Stoltenberg signed a Memorandum of Understanding on a range of issues under energy cooperation, with the Indonesian Minister of Energy Mr. Moerdiono.⁴⁰

At the time of the Asia-Plan, every business idea involving Indonesia, and marine or environment technology would get beneficial treatment. Only three months after Brundtland's visit, Indonesia signed contracts with three Norwegian companies: Blom, Indonor and Oceanor.

Indonesia's outstanding debt to Norway

According to the Indonesian Finance Department, in December 2008, Indonesia's outstanding bilateral debt to Norway was 125 million USD.⁴¹ To a large extent, the debts accumulated from environment and development projects of the 1990s, financed under the Mixed Credit Programme. Seven projects, with a total contract value of 198 million USD, and with a grant element of 55 million USD, were initiated under the Asia-Plan. Indonesia still (2008) owes Norway 99.4 million USD from these seven projects.⁴²

All of the projects were in 2000 evaluated in the independent research foundation FAFOs «Evaluation of the Mixed Credit Programme».⁴³ The evaluation concluded that four out of the seven projects Norway had financed in Indonesia under the programme had «stalled, either through lack of domestic operational funding, poor levels of training, technology transfer and institution-building or poor design». Besides the two projects that will be looked at in depth in this report, Blom's 429 million NOK «digital sea mapping project» and Mjellem and Karlsens 183 million NOK contract to deliver a research vessel, were reviewed as failed projects.

40 – Offshore Magazine: *Norway in Indonesia Energy ministers open dialogue on Norwegian involvement in Indonesia*: www.offshore-mag.com/index/article-display/23413/articles/offshore/volume-55/issue-11/departments/technology-focus/norway-in-indonesia-energy-ministers-open-dilogue-on-norwegian-involvement-in-indonesia.html

41 – Departemen Keuangan Republik Indonesia 2008 – Complete Debt Registration

42 – Departemen Keuangan Republik Indonesia 2008 – Complete Debt Registration

43 – FAFO 2000 *Evaluation of the Norwegian Mixed Credit Programme*



WAVE POWER PLANT

In 1995 the Norwegian company Indonor A/S signed a 53 million NOK contract with the Indonesian technology department, for the delivery of a wave power plant at Baron Beach at Java. Norad contributed with a 10 million NOK grant, while GIEK guaranteed for the loan component of 37 million NOK. The technology was already proven unsuitable for Norway. The plant was never realized, and Indonesia is restricted to use the technology because of Norwegian property rights. Still, Indonesia has to repay 2/3rds of the loan amount, indebting the population with 3.5 million. The country still has 2.5 million USD in outstanding debt as a result of this project.

Today, the people of Indonesia continue to pay the Norwegian state for a wave power plant which was never finished and environmental technology that was never transferred. How could this happen?

A technology proven unsuitable

The wave power project at Baron Beach had been long in the making when the loan contract finally was signed, December 1995. Since 1989, there had been frequent contact between Indonesian and Norwegian officials concerning the wave power project. The same year, GIEK and the Norwegian development agency Norad gave a commitment to Indonor A/S application on co-financing of the project. As the following text will show, the commitment was given under doubt, and subject to the condition of certain requirements. The acceptance was given based on a feasibility study from NECOR,⁴⁴ based on available reports and results from Norwave A/S experimental plant at Toftestallen in Norway.⁴⁵ Former State Secretary in the Ministry of Industry, Karin Stoltenberg, had also given her appraisal of the project, after an official visit to Indonesia in 1988.⁴⁶ This was eight years before her son Jens Stoltenberg's appraisal visit to Indonesia, concerning the same projects.

Norway had already spent large sums to develop wave power technology to produce energy along the Norwegian coast. «Senter for Industriforskning» developed the Tapchan technology that was to be used in Indonesia. The holder of the intellectual property right was Gro Harlem Brundtland's former fiancée Even Mehlum. He established Norwave A/S to make the technology commercially available. Years of research, with support of around 45 million NOK from the Oil and Energy Department, had resulted in a pilot project at Toftestallen, outside of Bergen. The plant was destroyed by a winter storm in 1988. The results from the pilot projects showed that the technology would not be a commercially competitive way to produce energy in Norway.⁴⁷ But maybe it could be an alternative in areas with better wave conditions? Indonor A/S was founded with the sole reason to export the Tapchan technology to Indonesia.

In the reasoning behind Norad's commitment to co-finance the project, it was acknowledged that the project would not initially be a commercially viable way to produce energy in Indonesia, stating that «the investments are too high and the production too low and uncertain.⁴⁸»

NECOR's feasibility study concluded that, «engineering, construction and operation of a wave power plant is connected with significant technical uncertainties that are reflected in corresponding cost-related uncertainties.» And, «the main problem concerning a wave power plant at Java is the lack of knowledge of local conditions such as available wave energy, topography and geotechnical conditions at potential construction sites.⁴⁹»

NECOR also acknowledged that the data material that the report was based on was deficient. «To protect its commercial interests, Norway does not want to release such documentation. Numbers presented here (in the NECOR report) are based on informal information from Norwave and un-verified assumption.»

Why Indonesia?

So why was Indonesia still interested in this technology, and why did Norad decide to support a non-competitive technology? According to Tore Wise-Hansen, the majority shareholder of Indonor, the Indonesian coast to the Indian Ocean has a favorable wave climate for production of wave energy, compared to Norway. While Norway periodically has powerful storm waves, Indonesia has a more constant and stable production of waves. Also, for many remote islands in the Indonesian archipelago, there are few alternative ways to produce energy.

44 – The Norwegian Engineering Council on Oceanic Resources

45 – Tilsagn til bølgekraftprosjekt - Norad

46 – Norads post journal

47 – Tilsagn til bølgekraftprosjekt – Norad

48 – Tilsagn til bølgekraftprosjekt – Norad

49 – NECOR Appraisal of Wave Energy Plant in Indonesia

B.J. Habibie

After the fall of Suharto, Suharto himself appointed his long time friend and loyal supporter, Habibie, as his successor. Under his presidency, Habibie was accused of protecting Suharto from the corruption charges. It was also a widespread perception that Habibie was able to get extra budget funding to his department and to projects he approved of, because of his long acquaintance with Suharto¹. B.J. Habibie was the minister of BPPT, the Indonesian technology department that was the buyer of the Oceanor and Indonor projects, and he played an important role in accepting the projects.

1 – Elson, R. (2001) *Suharto: A Political Biography*

The Indonesian buyer would be the technology department, BPPT, ruled by Minister Habibie, who had a grand vision to leap frog and make Indonesia a nation of advanced technology. BPPT's purpose with buying the technology was not simply short-term production of energy, but for Indonesia to become a self-sustained energy nation in the future. The technology department was interested in the technology because the plant was on land, which means it would not become an obstacle for sea traffic. It also makes it easier to bring the energy generated to the electricity network.⁵⁰

One disadvantage to operate the technology in Norway was the high need for manpower. For Indonesia, a nation with high unemployment, this was in fact regarded as an advantage.⁵¹ Another disadvantage with Tapchan was, according to Mr. Wiese-Hansen, to find a proper location. This required an in-depth feasibility study, which in turn implied that substantial funding had to be guaranteed at an early stage, when it was still uncertain if the project could ever be realized. Moreover, wave power is considered a high-cost technology. Wind and solar energy has been proven to be more competitive.

In Norad's acceptance they conclude that even if the project cannot be considered to be a competitive alternative for Indonesia, certain decisive conditions were given higher importance than factors such as economic competitiveness. This was in accordance with the Asia-Plan. Norad considered the project an experimental environmental project, which could possibly become competitive in the long run. The development of the technology was important from a resource and environment perspective. Norad's commitment was subject to the condition that Norad would find the final contract satisfactory concerning quality assurance and production level. Norad also recommended that the final approval only could be given if the buyer received a guarantee that the project would in fact be realized.⁵²

The long and winding road

The fact that the wave power project was experimental was one of the reasons why it took so long to agree on the final contract. Norad recommended splitting the project into two separate phases. «Phase 1» would be a preliminary study with a budget of 2.2 million NOK. The realization of the plant would be «phase 2». Norad considered it reasonable that the preliminary study would be completed without risk from the Indonesian side, considering the uncertainties involved.⁵³

The Minister of BPPT, Habibie, gave his assurance that the wave power project was high priority for Indonesia. But for the mixed credit loan agreement to be signed, the project had to be approved by the National Planning Development Agency (BAPPENAS), since it was considered a development project. This would be in accordance with the OECD regulations that Norway is bound by, stating that projects financed with mixed credits must be a part of the local development plan.⁵⁴ The coordination department (EKUIN) also had to approve the financial package.

According to BAPPENAS,⁵⁵ BAPPENAS and EKUIN shared Norad's concern that «phase 1» should be without risk for the Indonesian side. In Indonesia, development projects, and all projects financed under the mixed credit scheme, must be included in BAPPENAS Blue book, referred to as the project shopping list for foreign donors. The book is twofold; one part is for capital assistance projects, the other for technical assistance projects. To receive finance under the mixed credit programme, the initiative to the project is suppose to come from the host country. But, before Indonor got involved in Indonesia, there was no listing of a wave power plant in BAPPENAS Blue Book. Furthermore, when BAPPENAS first considered the wave power plant, it was thought to belong in the latter category, as a technical assistance project, and would hence not be financed over the state budget.

There was a personal and close relationship between the Indonor staff and high-ranking officials in BPPT. The relationship with Deputy Minister M. T. Zen, lasting since before the initiation of the project, was particu-

50 – Interview Wisnu Martono, former project coordinator

51 – Interview Tore Wiese-Hansen, Indonor

52 – Tilsagn til bølgekraftprosjekt - Norad

53 – Tilsagn til bølgekraftprosjekt – Norad

54 – FAFO 2000 *Evaluation of the Norwegian Mixed Credit Programme*

55 – Interview BAPPENAS, Jakarta

larly close. Norad was aware of this relationship, expressing their concern already in 1989 over what effects this might have for the contractual arrangements.⁵⁶

In 1993, the project was suddenly listed as a capital assistance project in the book. Deputy Minister Zen, wrote to the Norwegian Minister of Industry and Energy, Finn Kristensen:

«The project is now included in this year's Blue Book, and has the rank A. That means it has top priority. Believe me Excellency, this is the result of hard struggle, lobbying and explaining and explaining again to so many people. Finally the project is now accepted. I urge you to do the utmost to smoothen and speeding up all administrative procedures on your side – if we linger too long the project will be removed from the Blue Book. - The time has come for us to act to materialize our ideas, wishes, and dreams.⁵⁷»

After Prime Minister Gro Harlem Brundtland's official visit to Indonesia in 1995, things finally started to happen. The loan agreement between the Republic of Indonesia and Eksportfinans was signed December 19th, 1995. The contract amount was 53,3 million NOK. GIEK guaranteed for the loan amount of 37,3 million NOK. The ten million NOK grant component was used to reduce the rate of interest from the prevailing market rate of 6.08 per cent per annum, to the subsidised interest rate of 3,5 percent.⁵⁸ The remaining six million NOK was for local cost, such as preparation of a road, that the Indonesian side had to cover.

The contract was not only for a preliminary study, as was first discussed, but for the delivery of a turn-key project, which implied that it should be handed over to the buyer ready to use.

Failure – problems with technology and the sudden financial crisis

«When the agreement was signed and the money disbursed, we believed that the money would be used to buy the physical equipment, and to build the plant. Not to make more reports. A preliminary study had already been completed, that was not a part of the contract», explain representatives of the technology department.⁵⁹

The contract was made based on Indonor's pre-study where Indonor had chosen Baron Beach, close to Yogyakarta on the south side of Java as site for the plant. However, when construction of the plant was to start, Indonor found out that more site research was needed. According to Indonor,⁶⁰ the direction of the waves had, somehow, changed and the waves were also not as powerful as first assumed, so the potential energy output would be less than assumed. There were also concerns that the cliff where the plant was to be built was fragile, and could easily erode if there for example was an earthquake, far from just a hypothetical concern in this area.⁶¹ Together these factors implied that more construction work was necessary for the site to be suitable for the Tapchan technology. Because of Indonor's first miscalculations, the cost of the project would be significantly higher than the estimations that the contract was based on.

These new findings became the centre of several disputes and slowed down the project considerably. The project was not expected to be economically viable in the first place, so to agree on who should pay for the extra cost for a project which was bound to lose money, was obviously difficult.

Many people doubted that the project would ever be realized. Even before the monetary crisis, we began to be suspicious, because there were so many arguments when we asked for the training that was promised in the contract, said the former project coordinator Wisnu Martono.

Before any new agreement was reached, the 1997 Asian Crisis hit Indonesia. In June that year, Indonesia still found itself in a period of impressive economic growth. The country had a huge trade surplus, foreign exchange reserves of more than 20 billion USD and was thought to have a stable banking sector. Indonesia was a shining example of what had been called «The Asian Economic Miracle». The downfall came suddenly and Indonesia was, alongside Thailand and South Korea, one of the countries affected the most by the crisis. The exchange rate between the Indonesian Rupiah and USD fell to one fourth of the rate before the crisis.

At this point, because of the new information about the site and the new cost estimations, BPPT suspected Indonor to look for an excuse to get out of the contract without having to reimburse the amount that had already been paid. After the crisis, the new budget situation made it impossible for Indonesia to cover the additional costs, caused by the miscalculations. As no solution was found, the parties agreed to put the project on hold. Indonor tried to call the financial crisis a force majeure.⁶² BPPT did not agree that the crisis qualified as a force majeure.⁶³

According to Indonor,⁶⁴ before the crisis BPPT had acknowledged that they would cover the extra engineering costs through an oral agreement. After the crisis this was no longer possible. BPPT, who should have covered the local costs, such as preparing a road, had to buy machinery in foreign currency, which was now four times as expensive. The following disputes were based on different perceptions of the contract, and who

56 – Norad's Post Journal, internal document

57 – Norad's Post Journal, internal document

58 – Loan Agreement, BPPT - Indonor

59 – Interview Andri Subandriya and Wisnu Martono, BPPT

60 – Interview Tore Wiese-Hansen, Indonor

61 – When visiting the site SLUG observed a huge burst in the cliff that, according to local fishermen, was a result of the major 2006 earthquake in the region

62 – *Force majeure* is a common clause in many contracts which frees both parties from their contract obligations when an extraordinary event or circumstance beyond the control of the parties, that could not have been foreseen or planned for, hinders one or both of the parties to fulfil their part.

63 – Interview Subandriya, Rustiono and Ontowirjo, BPPT

64 – Interview Tore Wiese-Hansen

should pay for the extra costs arising from the new currency situation, and from the extra engineering work necessary as a result of new information about the site.⁶⁵

The struggle for a solution

The next couple of years there were many attempts to find a solution, but without success. Some of the experts in BPPT still found the Tapchan technology interesting for Indonesia, and looked into the possibility to realize the wave power plant themselves, without Norwegian assistance. The answer from Indonor was that Norwave A/S held the intellectual property right for the technology. Even though one of the main reasoning's behind the Mixed Credit Scheme is transfer of technology to developing countries, Norway would not let Indonesia use the technology they had already paid for! Indonesia had already disbursed 3,5 million USD, so when they realized that it was not possible to reach an agreement with Indonor, they decided to take the case to court.

In the contract between BPPT and Indonor, it is stated that: «Any dispute between the Parties, which cannot be settled amicably, shall finally be settled by arbitration to be held in Jakarta.⁶⁶» After deciding to take the case to the arbitration court in Jakarta, BPPT soon found out that only private enterprises or individuals could sue another party through the arbitration court. To take the case to court in another way would be too costly and too time consuming. Instead, BPPT, eager to get something in return for their expenditures, formulated three options that they gave to Norad and Indonor⁶⁷:

- Realize the project
- Cancel the debt
- Let BPPT use the technology

In 2003, the parties had not yet reached an agreement. Three representatives of BPPT went to Norway to have meetings with the involved partners; Indonor, Eksportfinans and Norad. At the meetings they pointed out that 3,5 million USD had been disbursed, without getting anything in return, and Indonor had not fulfilled their obligations according to the contract. They also brought new scientific data to support BPPT's claim that the project still could continue without too much additional funding, as the change of wave direction was only seasonal. After discussions with Norad, they got back from the visit feeling assured that the project would be realized, or that they would be compensated. «Norad agreed to assist to find a solution, but only orally, not in a written agreement», said Andir Subandriya from BPPT.⁶⁸

Indonor had by then realized that the technology was outdated and that it would be too expensive to realize the project. Norad, after consulting technical expertise, agreed that spending more money to realize the project was not a good solution. All expert advice clearly recommended not to throw more money after a bad project.⁶⁹

Norad also discussed the possibility of cancelling the debt. However the conclusion was that because of the principle of creditor solidarity⁷⁰ one country, bound by their obligations to the Paris Club, where the world's richest countries meet to discuss debt relief, could not unilaterally cancel the debt from a specific project.⁷¹ This was only three years before the decision to cancel the remaining debts from the Ship Export Campaign.

Indonor made a proposal that would allow BPPT to construct as many Tapchan Wave Power Plants as they wanted provided that for each plant BPPT would pay an inventor's fee to Mehlum's Norwave A/S. The «calculating key», and the mathematical algorithms necessary to measure wave power, would however not be available. This proposal was rejected by the Indonesian representatives.⁷²

A quick fix

Two years passed by, but nothing happened. In 2005 BPPT contacted Norad asking if they could confirm what BPPT had perceived as an oral agreement, a promise that one of the three options given would be granted. The same year Norad visited Baron Beach, together with BPPT. This time the message was that this case was no longer Norad's responsibility, as it was now a case between Indonor and BPPT.⁷³ Instead, Norad came up with the idea of giving one million USD in bilateral aid, to be used for a new energy-park at the same site as the non-existing wave power plant in Baron Beach. BPPT interpreted this as an acknowledgement of guilt, and that Norad paid one million USD to smoothen the Norwegian-Indonesian relation. Officially, Norway sent a letter to BAPPENAS guaranteeing that the grant given was in no relation to the failed wave power project.⁷⁴

In discussions with the Norwegian Embassy in Jakarta, BPPT's assumption is proven correct. «Yes, not officially, but from the Embassy's point of view, this grant was seen as a quick fix».⁷⁵ The embassy's impression is that in hindsight there is an understanding that this project should never have been approved, as it was predictable that it could never be successful, and this should have been foreseen.

65 – Interview Subandriya, Rustiono and Ontowirjo, Martono and Wiese-Hansen

66 – Project contract

67 – Interview Wisnu Martono, BPPT, Tore Wiese-Hansen - Indonor, Morten Svelle - Norad

68 – Interview Andri Subandriya, BPPT

69 – Interview Morten Svelle, Norad's Asia director and later director for the Section for Environment and Industry development

70 – Interview Morten Svelle, Norad's Asia director and later director for the Section for Environment and Industry development

71 – Creditor solidarity – No creditor may seek to achieve terms that are better than those which follow from a Paris Club agreement. From www.giek.no

72 – Interview Tore Wiese-Hansen

73 – Interview Andri Subandriya and Wisnu Martono, BPPT

74 – Interview BAPPENAS

75 – Interview Norwegian Embassy, Jakarta

Norad also confirms that the new grant was an acknowledgement of a failed investment. There were two reasons behind the grant, says Morten Svelle, who was in charge of the section for environment and industry development at the time of the meetings. He explains that one of the reasons behind the grant was to give the department compensation. «First, you have the sugar pill component. Secondly we wanted them to get on another path. Instead of spending more money on outdated technology, we wanted to support new energy technology».⁷⁶

BPPT's last option was to sue Indonor. But, the following year, Indonor, concerned that they might have to pay back the money they had already received if BPPT won the case in court, was closed down and liquidated.

What was in it for Indonesia?

When asked if the project resulted in any benefits for Indonesia we get similar answers from all Indonesian representatives – the technology department has gained knowledge on the Tapchan technology, but the knowledge is restricted by intellectual property rights, so they cannot use their knowledge. The project has not created a watt of energy nor has it generated employment, or in any other way had a positive effect on development. Indonesia still has to pay 2.5 million USD for a product that was never delivered. The only legacy of the project is the everlasting payment demands from a Norwegian bank. The former project coordinator Wisnu Martonos sums it up well: «We have had a lesson learned as a nation; that we are too naïve. We trust too much the foreigner⁷⁷».

Irresponsible financing?

As early as in 2000, the FAFO evaluation concluded that the project was a failure:

«Technical difficulties with regard to site location have stalled the project. This project is an example of insufficient planning and ex ante evaluations on many sides. The technology chosen seems to have been speculative and hence highly irrelevant. The project is not economically sustainable but rather a potential loss-making operation.

[...] and,

Work stalled when two-thirds of the loan had already been spent. The plant is still not built and is currently the subject of arbitration.»

Nine years after this evaluation, SLUG's research comes to the same conclusion. Both on the Norwegian and Indonesian side there were much scepticism as to whether this project was worth indebteding the Indonesian people further. But because of the political environment, with the Asia-Plan and the political will to support projects involving environment technology, especially in South East Asia, intense lobbying from Norwegian and Indonesian stakeholders, and the Suharto-regime's grand vision of becoming a technological power by adopting advanced technology, this healthy scepticism was not taken into consideration.

The technology, which it had cost Norway a lot of money to develop, had already been proven uncompetitive in Norway. Establishing Indonor, and allocating funds over the aid budget to export the technology to Asia, seemed a good way to get a return for all the time and money spent to develop the technology. It was never realistic to believe that this project would benefit the Indonesian people. The decisive motivation has clearly been to support a struggling Norwegian industry. Norad has in a way taken responsibility through unofficially acknowledging guilt, and through giving one million USD as a grant. But one million is not enough to pay for one of the wind turbines that will be a part of the new energy park, still under planning.⁷⁸ And this does not make up for the 3,5 million USD that the Indonesian people have to pay.

⁷⁶ – Interview Morten Svelle, Norad's Asia director and later director for the Section for Environment and Industry development

⁷⁷ – Interview Wisnu Martono, BPPT

⁷⁸ – Interview Andri Subandriya, BPPT

Overpriced export credit projects

Projects financed under the mixed credit scheme, and other projects receiving export credit guarantees have a tendency to be overpriced. There could be several reasons for this, including administrative costs¹. One example is a study of power contracts in Indonesia, which revealed that most power transmission projects financed by foreign export credit agencies cost on average 37 per cent more compared to projects that have undergone international tenders². This reflects similar findings by Transparency International that revealed that it was common practice for the value of an ECA contract to have been inflated by between 10 and 20 per cent, necessary to account for the «commissions» necessary to secure the deal³.

¹ – FAFO 2000 Evaluation of the Norwegian Mixed Credit Programme

² – Foreign funded power projects marked up – PLN, Jakarta Post 10/17/00

³ – Frisch, Dieter «Export Credit Insurance and the Fight Against International Corruption». Transparency International Working Paper, feb 26, 1999

Picture of Seawatch buoy from oceanor.no (enlarged)



On the same day that the Indonor agreement was signed, Oceanor and Indonesia signed a 105 million NOK contract on deliverance and implementation of the Seawatch system. The Seawatch system is an advanced marine environmental monitoring, forecasting and information system, produced by the Norwegian company Oceanor. Norad contributed with a 30 million NOK grant, while GIEK guaranteed for the loan component of 61.8 million NOK. The buyer reports that training has been poor, parts of both hardware and software were non-functional from the beginning, and Oceanor has not delivered according to the contract. Maintenance and operating costs proved to be much higher than expected because of different sea conditions in the tropical waters. The project stalled around 2000, and the planned «phase two» of the project was never initiated. As per December 2008, Indonesia has 8.8 million USD in outstanding debt from this project.

High hopes

It is not difficult to argue that Indonesia needs an environmental monitoring system of its waters. Being a maritime continent, consisting of 17 000 islands, with a shoreline of more than 80 000 km, covering 1/8 of the equator, Indonesia is responsible for a major part of the world marine environment. Its territorial waters contain the major shipping lanes between Asia and Europe/Africa and the Middle East. Indonesia is also in the early stage of becoming an offshore oil-producing nation and Indonesian waters are an important source of food for its population.⁷⁹

The first time anyone in Indonesia heard about the Seawatch project was in 1991, when Norwegian Minister for Oil and Energy, Finn Kristensen, promoted the technology in a meeting with Minister of Technology Habibie.⁸⁰ Four years later the contract and loan agreement was signed. The contract amount for «phase one» of the project was 105 million NOK, of which 91.8 million NOK was to be raised through the Norwegian mixed credit scheme, whereas 61.8 million was a bilateral loan.

As with the Indonor project, the long process finally materialized into a contract after Prime Minister Brundtland's official visit. Eksportfinans had prepared a drafted loan agreement for the Prime Minister to bring to Indonesia, urging Indonesia to speed up the process, so that the agreement could be made right after Brundtland's visit.⁸¹ During a speech at the Norway-Indonesia Business Council, Brundtland promoted the Seawatch technology: The Norwegian Government has made development funds available for the introduction of a sea water monitoring program known as Seawatch Indonesia, which will contribute to strengthen the management of Indonesia's maritime environment.⁸²

The first phase of the project involved the construction and mooring of 12 observation buoys, to cover the area around the Malaka Strait and Java Sea. For the next phase of the project, the plan was to cover the Makassar and Lombok Straits. The buoys were to be equipped with sensors with real-time data transmission systems to collect parameters on air pressure, air temperature, speed and direction of wind, waves and sea current, vertical sea temperature and salinity profile, oxygen saturation, algae concentration and radioactivity. The project was therefore categorized as environmental technology, perfectly suited to the political priorities at the time of the Asia-Plan.

What happened?

In contrast to the Indonor project, there was actually some physical evidence of the Seawatch project. In 1996, ten out of twelve buoys were moored and installed. Nevertheless, this is yet another story of inadequate planning, inappropriate technology and Norwegian business interests. In 2000, when FAFO evaluated the project, most of the buoys had been taken onshore and since then have not been operational.

Fourteen years after Brundtland's visit, and nine years after FAFO's evaluation, the project has proved a complete failure. Today, all the buoys are out of service, and the next phase of the project was never initiated. A

79 – *Seawatch Indonesia Final Report*. 1999

80 – Interview, Tutsi, first project coordinator Seawatch Indonesia

81 – NorWatch 15.01.1999 Forskere hardt ut mot Seawatch i Indonesia og Thailand: -Alvorlig mangel på kompetanse

82 – Gro Harlem Brundtland's Address At The Inauguration of the Norway – Indonesia Business Council, Jakarta 18. September 1995

Norad expert was asked about his opinion on the project in a Ny Tid article in 2005, calling the project «the dumbest of all development projects».⁸³

According to Mr. Heru Subagio, who was responsible for the deployment and maintenance of the buoys, the buoys were defect almost from the beginning. «There was a mistake in all the sensors. All twelve optical sensors, and all twelve radioactivity sensors, were defect and sent back to Norway in return, but we never got them back from Oceanor».⁸⁴

In addition to this, for the parts of the hardware that was initially functional, the operationalisation was more problematic than anticipated. According to Agus Setiawan, who was the project-coordinator, the buoys were not designed for tropical sea conditions, and consequently maintenance of the buoys proved to be very expensive. BPPT were responsible for the day-to-day maintenance, and they were told that maintenance was hardly necessary. In the promotional material it says that the Seawatch Buoy is proven to operate in rough conditions for months without maintenance.⁸⁵ But the high density of plankton in the Indonesian waters covered the sensors, so they needed to clean them every couple of weeks. There were also several incidents of vandalism from local fishermen, which was not predicted. In the final report of the project, it is stated: In connection with the SEAWATCH buoy system, because of different conditions between the tropical and sub-tropical water properties, there is a problem with the growth rate of bio fouling in tropical water that faster compare to the sub-tropical water, so the period of buoy lifetime is shorter. This condition finally makes the total cost of maintenance increase every year.⁸⁶

The Indonesian project coordinator explains that BPPT did not have a flexible budget: every time they needed money for maintenance, or there had been incidents of vandalism, they had to apply for extra funding. This was an example of inappropriate planning and lack of local knowledge. Because Oceanor predicted low maintenance costs, the project had financial problems from the beginning.

Breach of contract?

On other posts, Oceanor were not as stingy. BPPT points to several posts in the contract where Oceanor has not delivered according to their obligations.

In the budget (that the contract is based on), it is specified that a number of experts are suppose to come, work and live in Indonesia, and become counterpart in the project. According to Setiawan and Subagio who were working at the project, the Norwegian side has not fulfilled this part of the contract. This was also confirmed by the government's internal evaluation, which is performed on all government projects. In reality they were only instructors, staying for very limited time period, usually around ten days before they quickly returned to Norway. Some of them never even went to Indonesia.⁸⁷

A total of 21 different positions were specified under «international team». Each person was supposed to stay for various periods of time, ranging from four to 24 months. The total cost of hiring this team added up to more than 16 million NOK.

As an example, according to the contract, Oceanor should send two software and data analysts, both of whom were to stay at the site for four months. However they only stayed for a couple of weeks.

The training in operating the software was not adequate. BPPT informed Oceanor that, according to the contract, they had to send two experts who were responsible for the training. Oceanor sent one person as a response to BPPT's request. He was an expert in physics and did not have sufficient competence of how to operate the software.⁸⁸

One of the programs included in the project was HIRLAM, a numerical weather prediction forecast system. In the budget, the price of delivery and training in this software was estimated to 4.5 million NOK. BPPT explain that they later found out that HIRLAM is an open source program, available for

83 – Norsk miljøteknologi feid på land, Ny Tid 14.01.2005

84 – Interview Heru Subagio, BPPT

85 – Seawatch Indonesia homepage: <http://seawatch.50megs.com/index.html>

86 – *Seawatch Indonesia Final Report 1999*

87 – Interview Agus Setiawan and Heru Subagio, BPPT

88 – Interview Agus Setiawan, BPPT

The project had a higher grant component than the Indonor project, receiving 30 million NOK from NORAD's aid budget. As with the Indonor project, the grant component was used to soften the loan by reducing the rate of interest. While the grant component for the Indonor project was used to reduce the interest from 6.8 per cent to 3.5 per cent, the grant for the Seawatch project reduced the rate of interest from 9.4 to 3.5 per cent. It seems the bank simply raised the initial interest level. What this implies is that the extra grant does not benefit Indonesia, but is used to directly subsidize the private Norwegian bank Eksportfinans.

free on the internet.⁸⁹ It has however not been confirmed that the program was in fact available for free. Oceanor signed a cooperation-agreement with the Institute for Metrology at the University of Oslo in 1996, to train two persons from Indonesia to learn how to operate the HIRLAM program. According to staff at the Institute, HIRLAM is a very advanced modelling system that requires highly qualified personnel to operate. It was not realistic to think that the Indonesian partner could benefit from this program with only limited amount of training. According to the Indonesian Metrology, Climatology and Geophysics Agency, one of their staff participated in HIRLAM training in Oslo in 1998, but the training was inadequate.⁹⁰

According to BPPT,⁹¹ the training received by the Indonesian side was not in correspondence with the high amount earmarked in the contract to HIRLAM implementation. The Seawatch project tried to use the HIRLAM program, but did not have the input data necessary to get significant data. After 1999, HIRLAM was not used at all.

Moreover, BPPT pointed out a long list of reasons why the project never was a success in the «Seawatch Indonesia Final Report» (1999). To sum up, Indonesia did not have the necessary resources to produce input data necessary to benefit from the possibilities in the project. In addition, the data produced was very limited, mainly because of reasons already mentioned such as different sea conditions from Norway, bugs in the software and defect hardware. There was also a need for more experienced and skilled human resources. The team members had insufficient skills in mastering both the hardware and software. Training was not performed according to the contract, both regarding the number of experts from Norway and training of Indonesian staff.

Irresponsible financing?

It was never realistic to expect that this project would benefit the Indonesian people.

The former project coordinator for Seawatch Indonesia is clear on Oceanor's role in the project: «they have exploited our limited knowledge of their technology. Oceanor have kept things secret to minimize the cost, compared to posts in the contract, to increase the company profit».⁹²

Oceanor, today a part of the multinational company Fugro, had received large amounts of public funding to develop the Seawatch technology, but still had large budget deficits every year before the agreement with Indonesia was signed.⁹³ The initiative to finance the project in Indonesia did not come from Indonesia, but from Norway. Support to the Norwegian export industry, not Indonesian development, was the initial purpose behind subsidizing the Seawatch project.

The technology is in itself irrelevant for Indonesia. To benefit from this very advanced technology, it would have had to be an integrated part of existing institutions, with competence and the financial resources, to follow up. An anonymous Norad source admitted to NorWatch that Norad's expert section was opposed to Norad giving financial support to the project, stating «it should have been obvious that Indonesia did not have the institutional premises required to use the technology in any meaningful way».⁹⁴ He called the project «experimenting on account of aid money; a project totally without developing effect in the country».⁹⁵

To export this very advanced technology to a developing country, without existing competence on how to operate it, and rely on sufficient budget funding every year, and categorize it as a developing project, is at best very naïve. The Republic of Indonesia had a responsibility not to buy technology if they should have known that the country did not have the prerequisites to benefit from the technology. But in the contract it is clear that Indonesia bought a turn-key project, with everything involved, including training. When paying for the project they expected to be able to receive the full package, and to be able to operate it when the project was realized. Indonesia has not received what they paid for. Also, the project had very high operating and maintenance costs, much higher than anticipated when Indonesia agreed to accept the project. The escalating maintenance costs came as a surprise that jeopardized the entire project. BPPT were promised that the system was «proven to operate in rough conditions for months without maintenance»⁹⁶ so it is not reasonable to expect that this should have been foreseen

89 – Interview Agus Setiawan, BPPT

90 – Interview Prabowo Sugarin, BMKG

91 – Interview Agus Setiawan and Heru Subagio, BPPT

92 – Interview Agus Setiawan

93 – Norwatch: Ministry of Foreign Affairs order to NORAD: - Seawatch-India must be supported!:

www.norwatch.no/199706151011/english/archives/ministry-of-foreign-affairs-order-to-Norad-seawatch-india-must-be-supported.html

94 – NorWatch. *Oceanor received NORAD aid despite expert warning - Scandalous export of technology to Indonesia* 15.10.1996: www.norwatch.no/index2.php?option=com_content&task=emailform&id=986&itemid=79

95 – NorWatch. *Oceanor received NORAD aid despite expert warning - Scandalous export of technology to Indonesia* 15.10.1996: www.norwatch.no/index2.php?option=com_content&task=emailform&id=986&itemid=79

96 – Seawatch Indonesia homepage: <http://seawatch.50megs.com/index.html>, and interview Agus Setiawan

by BPPT. Today (2008), the new government of Indonesia has to allocate money directly from the state budget to pay the outstanding debt of 8.8 million USD.

Conclusions

The debt from the ship export campaign was cancelled because it was a failed development project. The main motivation behind the project was to support the Norwegian shipbuilding industry. The Norwegian government's decision to admit its co-responsibility and hence cancel the remaining debts was based on the lack of adequate analyses of needs and risk assessments. It was admitted that the campaign represented a development policy failure, and that Norway, as a creditor, had a shared responsibility for the debts that followed.⁹⁷

Neither the wave power project, nor the Seawatch project have had any positive development effect for the population. They were high-risk, experimental projects. The projects were not initiated locally and were not, as OECD guidelines require⁹⁸, initially integrated in the local development plan, Indonesia's Blue Book. None of the contracts were gained through international tenders. It is clear that these projects represent a development policy failure, and that Norway has to recognize its creditor responsibility for the debt.

Also, the loans were given to a strongly oppressive, and one of the most corrupt regimes in history. The loans did not benefit the people and the people did not give its consent to the loans. It is reasonable to expect that the creditor was, or became aware of this during the period of the projects. The debt is therefore illegitimate, and it is not reasonable to expect the people of Indonesia to repay the debt. Norway must take its responsibility as a lender and cancel the remaining debt of 11.3 million USD from these two projects.⁹⁹

These two cases are mere examples that clearly illustrate that there is an urgent need to perform a complete review of the entire Norwegian loan portfolio immediately through a debt audit. An audit of the other five projects constituting the Mixed Credit package to Indonesia, with a total outstanding loan amount of around 100 million USD, would be a good starting point. This amount constitutes only a minimal percentage of Indonesia's total external debt, but if Norway acknowledges creditor responsibility, this will send a strong signal to other creditors that they should also perform debt audits on their outstanding claims to Indonesia.

This report has also shown that Norwegian industry mechanisms, such as providing export credit guarantees to support Norwegian industries, might lead to accumulation of developing country debt, without necessarily being coherent with other policy objectives of the Norwegian government, such as poverty reduction and sustainable development. SLUG recommends that an additional guideline must be included in GIEK's instructions to ensure that projects supported must be consistent with other policy objectives, and do not become an obstacle to poverty reduction in the recipient country.

97 – Press release by Norwegian Ministry of Foreign Affairs, *Sletting av gjeld fra den norske skipseksporkampanjen*, 2nd of October 2006, and *Vedlegg til Pressemelding*

98 – NOU 1995:5 – Norsk sør-politikk for en verden i endring

99 – At the time of writing, this amount equals 66 million NOK

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