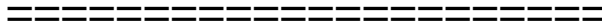


INFID Statement on the 60th anniversary of the World Bank

“60th years of World Bank: problems of bad lending unresolved”



The World Bank was established 60 years ago with the objective to rebuild western European countries that were destroyed during the 2nd World War. Over the years, it has expanded its program to reach other countries that obtained independence. Currently the World Bank plays a key role in financing development in the third world countries through its lending program.

The operation of the World Bank in Indonesia cannot be separated from the emergence of the authoritarian New Order government, which ruled Indonesia for 32 years under General Soeharto. Soeharto gained its power in 1966 after a bloodshed power struggle, and the World Bank started operating in 1967. Since then, the World Bank plays an increasingly important role in financing development in Indonesia. The World Bank was one of the key initiators on the establishment of IGGI – Inter Government Group on Indonesia – a consortium of creditors and donors for Indonesian development, consisting of donor/creditor countries in North America, Europe, Japan and other International Financial Institution. This donor/creditor consortium was chaired by the Dutch Government. In 1992, the Indonesian Government dissolved IGGI and established the Consultative Group on Indonesia, chaired by the World Bank. Both IGGI and CGI play very important role in financing development in Indonesia.

During its operation in Indonesia, the Bank has disbursed US\$ 23 million. With the current outstanding external debt of US\$ 77,093 million (September 2003) that the government has, 10,740 million US Dollar or 37,6% of Indonesia’s multilateral debt (28,394 million US Dollar) is to the World Bank (IBRD and IDA)

With this large amount of loan and over 30 years of engagement, it is more than appropriate to ask: how effective is the role of the Bank in supporting Indonesian development? Are all World Bank’s project beneficial for Indonesian people’s? How valuable is the Bank’s lending when debt repayment has swallowed substantial amount of our national budget which resulted in tremendous shrink in development spending and resulted in the degradation of human development index?

A number of the Bank’s project proves to be problematic. Under the New Order Regime, World Bank’s Project was implemented in a very repressive manner. The Kedung Ombo Dam Project (1985) is a concrete example of repressive implementation: it involved forced displacement using military and local bureaucrats; it put stigma on local community who refused to be relocated, they were stigmatized members of the Indonesian Communist Party, a Party that was banned by Soeharto and was declared enemy of the country, and the compensation fund for the displaced people was corrupted.

Another repressive implementation was the Family Planning Program, which was partly financed by the Bank. Research by Wardah Hafidz in 1993 revealed that there was coercion in family planning program: contraceptive system was forced upon women, and was not based on informed-consent principle.

The World Bank turned a blind eye on the negative impacts of their projects. Arguing that World Bank is an economic institution, it responded that it could not interfere with human rights issues in a borrowing country.

Wrong designs, wrong targets and corruptions are still found in World Bank's projects todate. The Social Safety Net Adjustment Lending (1999) proved to be corrupted, mistreated and also misdesigned. Investigation of School Improvement Grant Program (SIGP) II (2003) by the Indonesian Corruption Watch in the Garut District, West Java, revealed that there was no transparency in the use of matching fund and misuse of the fund. One example is the distribution of matching fund. Regulations stipulate that the amount of matching fund should be adjusted to the need of the school, but it turned out that every school received Rp 50 million, regardless of their condition. The project also became source of corruption for local government officials. There was no open and transparant bidding process for procurement: bidding process was just a formality.

Responding to pressure of NGOs worldwide, the World Bank tries to improve its transparency, accountability and participation. In 1993, it established Inspection Panel, at the same year, it also released Information Disclosure Policy, and in 1996 it set up an anti corruption unit: World Bank Anti Corruption Initiatives. It also held public consultation to review policy, the most recent one was the Extractive Industries Review. By organizing these mechanism the Bank believes that it will mitigate negative impacts of its projects on human rights violation, would have gender perspectives, support sustainable development, involving the public and accountable. But despite everything, things have not changed much.

Since its establishment in 1993, the Inspection Panel has instructed to investigate 17 cases worldwide, but only 3 cases were approved by the Board of Directors to be investigated. Information Disclosure Policy still limits the meaningful participation of local communities in deciding projects. The general thrust of the new recommendations in the Discussion Paper substantially fails to provide local citizens and stakeholders with the information they need to meaningfully participate in decision-making about the projects and policies impacting their lives. (The World bank's Proposed Changes To Its Information Disclosure Policy, A Critical Review by RESULTS Educational Fund, Washington DC, April 2001) The most disappointing case is the Extractive Industries Review which took place from July 2001 to December 2003. The review, led by Professor Emil Salim, the former Indonesian Minister for Environmental Affairs, as the Eminent Person, studied the World Bank's involvement worldwide on mining projects. EIR recommends that the World Bank stops financing investment on oil, gas and mining unless such an investment contributes to poverty alleviation and sustainable development. This recommendation was rejected by World Bank's Management despite the fact that EIR was initiated and commissioned by the World Bank. These examples show that the World Bank is still very reluctant to be accountable and change its practice, let alone be responsible for its mistakes.

It is true the Indonesian Government is also responsible for failed World Bank Project due to corruption and repressive regime, but the Bank should also share responsibility.

Debt that results from bad lending, repressive project implementation, and never reached the target should not be the burden of Indonesian people, These debt is criminal and odious in its nature. As stated by Jeffrey Winters: “ *The debt is criminal in two senses – first because it was a crime to allow the development funds to be stolen, and second because it is an injustice to expect poor populations around the world that never received these funds to bear the heavy burden of repayment. On average, the poor have received about 70 cents on the dollar in loan funds from MDB’s. And yet they are obligated to repay 100% of the loans plus interest.* » (“Criminal Debt” – Written statement by Dr. Jeffrey A. Winters, Associate Professor of Political Economy, Department of politics, Northwestern University, Evanston, IL at the Hearing before the Committee on Foreign Relations, United States Senate, One Hundred Eighth Congress, Second Session May 13, 2004)

Based on these facts INFID therefore demanded:

1. The World Bank and Indonesian Government establish independent team to audit past lending during the Soeharto regime;
2. The World Bank cancel Indonesia’s debt that is criminal and odious in its nature and resulted in human rights violation
3. The World Bank should be responsible for the rehabilitation and compensation for the victims whose rights were violated by the project;
4. The World Bank ensures that its lending is tied on conditionalities to promote and protect human rights, to meet environmental standard, to be based on gender analysis and not to undermine democratization process;

Jakarta July 21st, 2004

Binny Buchori
Executive Secretary