

# Squeezing the Riches from Mining

The Anomaly of Natural Resource Use

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## Introduction

The state is obliged to ensure the availability of natural resources, and use them for the betterment of its people. Local governments as the executors and administrators at the local level are also obliged to create social prosperity, by utilizing their region's potential and redistributing it back to the people, in order to improve public welfare and maintain environmental balance through preventative measures.

The enactment of the regional autonomy system has prompted every local government to strive to become self-sufficient in financing their own governance and development programs. Eventually, however, it will also encourage many local governments to try to extract any potential natural resources in their region as a source of revenue. Besides boosting the regional economy, it's assumed that natural resource extraction will also ensure public welfare.

However, in reality, natural resource use isn't always directly proportional with an increase in public welfare. Although the conditions are always dependent on how natural resources are used, this assumption will eventually create a dependence on natural resource exploitation and overlook the principles of environmentally sound development.

## Regional Economy Propped up by Mining

The district of Ketapang has excellent natural resources in the forestry, agriculture and mining sectors. The mining sector in particular with its abundant sources of bauxite, has the potential to increasingly develop and become the main attraction of Ketapang. Indicators of the mining sector's development can be seen from the continued increase of its PDRB and excavation rates. In 2010, PDRB from the mining sector amounted to 12 percent of Ketapang's total PDRB or around Rp727.342,77, which increased to 14 percent or Rp1.041.580,67 in 2013.

Contributions from DBH-SDA Mining to local revenue are fairly high when compared with DBH SDA from other sectors. In 2010, DBH-SDA Mining revenue amounted to Rp7 billion or 32 percent of total DBH-SDA, which then increased to Rp36.3 billion or 66 percent in 2012. While the average DBH-SDA from 2009-2012 was Rp25.24 billion. The increase in local revenue from DBH-SDA Mining is an indication that mining activities in Ketapang are also increasing.

**Vision**

“The realisation of a Ketapang that’s safe, peaceful, just and prosperous, and supported by a society that’s intelligent, healthy and faithful, as well as a local government that’s clean and dignified.”

**Mission**

1. To realise a Ketapang that’s safe and peaceful.
2. To build and improve the quality of strategic transport infrastructure, agricultural production lines, irrigated rice fields, as well as other forms of infrastructure by heeding to a fair priority scale.
3. To realise the economic development of a society that’s based on agriculture, fisheries and marine services, livestock, as well as small-medium enterprises and cooperatives.
4. To create a society that’s intelligent, healthy and faithful.
5. To realise a local government that’s professional, clean and dignified.
6. To improve environmental sustainability and disaster management.
7. **To increase local revenue.**

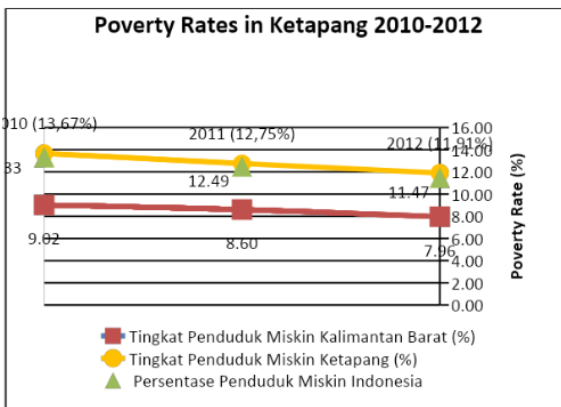
The high economic value of the mining sector has encouraged the growth of mining activities in Ketapang, spurred on by Ketapang’s local government policies as stated in the seventh mission; “to increase local revenue”. Based on the seventh mission, it can be assumed that the local government is seeking to open space and encourage policies that are ‘friendly’ towards investment, in order to increase local revenue.

Ketapang has the most mining licenses and concessions in West Kalimantan. In 2013, there were 141 IUP holders in Ketapang, divided amongst 70 mining exploration licenses that covered an area of 706.711,3 hectares and 71 production operation licenses that covered an area of 299.887,10 hectares. Then in 2014, mining concessions in Ketapang increased to 1.3 million hectares spread amongst 156 companies; the largest number of mining licenses and concessions in West Kalimantan, followed by the district of Landak (86 companies) and Kapuas Hulu (73 companies).

Other than licensed activities, the mining sector in Ketapang also hosts unlicensed mining activities. Up until 2013, 59 mining areas had been found to be unlicensed, predominantly in gold mining.

When compared with the extent of mining areas in Ketapang (3.124.074 ha), ± 42 percent of Ketapang’s total area has been converted for mining purposes. The continued opening of space for mining activities as well as the lack of commitment by mining companies to maintain environmental conservation will only trigger environmental destruction, as mining activities put enormous pressure on the environment.

**Opening Space for Mining Doesn’t Correlate with an Increase in Prosperity**



Currently, the local government has the perception that opening space for mining will increase local revenue and public welfare, as it opens more employment opportunities. As noted in Regulation No. 8/2012 on the Implementation of Mineral and Coal Mining, Paragraph 4 Point E states that the objective of mineral and coal mining is to; “increase the revenue of local communities, regions and the state, and create large-scale employment for the prosperity of the people”.

However, it’s been observed that rates of poverty in Ketapang from year to year are still higher than the poverty rates of the province of West Kalimantan, and

Indonesia more broadly. In 2012, poverty in Indonesia reached 11.47 percent, and in West Kalimantan 7.96 percent, whilst poverty rates in Ketapang reached 11.91 percent with a depth index of 2.13 percent. Ironically, as a region that takes advantage of the exploration of natural resources, it has the highest poverty rate.

These conditions illustrate that the majority of mining activities do not necessarily increase a region's public welfare. Instead, it's more likely to have an increasing number of poor people, because most mining activities result in a reduced amount of and reduced access to natural resources (timber, rattan etc), that are often being used by residents.

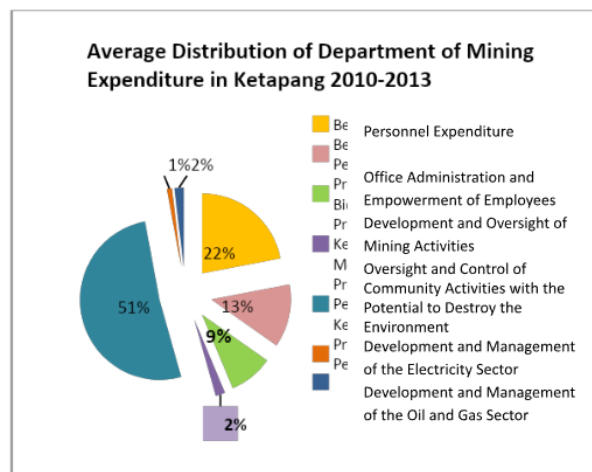
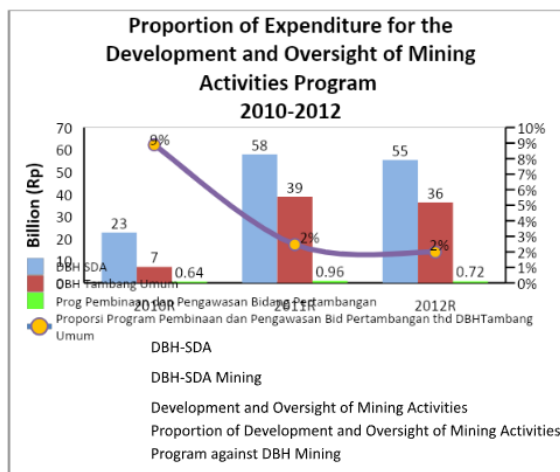
### Commitment to Reduce Damage from Mining

Ultimately, all mining activities in Ketapang put pressure on environmental conditions. High mining activities have contributed to deforestation as well as forest and land degradation, and even transformed landscapes. The threat of environmental destruction is also compounded by mining manager's lack of commitment to controlling the environmental impacts of mining.

With an increase in mining activities, there is a greater need to establish adequate oversight. In order to address the environmental impacts of mining, the local government of Ketapang issued Local Regulation No. 8/2012 on the Implementation of Mineral and Coal Mining, as well as Local Regulation No. 5/2010 on Mining, which essentially sets out the development and oversight of mining in accordance with the sixth mission of Ketapang's RPJMD 2011-2015, which clearly states; "to improve environmental sustainability and disaster management".

However, the commitment hasn't been reflected in the distribution of local government expenditure, particularly in terms of the development and oversight of mining program, which functions to monitor the compliance of IUP holders with their commitment to environmental sustainability.

The budget expenditure for the development and oversight of mining program that sits within the Department of Mining has increased every year. In 2010, the realised budget amounted to Rp639,32 million and increased to Rp720 million in 2012. Although the proportion of expenditure for the development and oversight of mining program is not comparable with the amount of DBH-SDA Mining received i.e. in 2012, only 2 percent was realised or around Rp0.72 billion, even though DBH-SDA Mining reached Rp36 billion. As such, revenue from the mining sector isn't comparable with efforts to develop and monitor mining activities.



In the development and oversight of mining program, 12 actions were found whose purpose it is to monitor mining activities. Although, from 2010-2013, the Department of Mining only distributed on average 9 percent or Rp711 million of its expenditure for the program. Furthermore, average expenditure for the oversight and control of community activities with the potential to destroy the environment only amounted to 2 percent, or Rp154 million of the Department of Mining's average total expenditure from 2010-2013 of Rp7,965 billion.

As such, when compared with mining areas in Ketapang, the average unit cost of the development and oversight of mining program is only Rp747 ha/year. The minimal budget could indirectly undermine the implementation of the program, making it difficult to achieve the comprehensive development and oversight of mining - despite the fact that it's been acknowledged that mining activities have enormous potential to cause environmental degradation.

### Unit Cost of Development and Oversight of Mining Activities Program

Budget	2012	2013
Development and Oversight of Mining Activities Program & Oversight and Control of Community Activities with the Potential to Destroy the Environment Program (Rp)	824.483.209	666.500.000
Mining Areas (Ha)	990.060	1.006.598
Unit Cost per Ha	832,76	662,13

Besides budget allocations, the introduction of mining inspectors in the implementation of the development and oversight of mining program is another important factor. Mining inspectors would have the responsibility of ensuring the compliance of IUP holders in meeting their obligations, contributing towards the effort to monitor environmental sustainability and suppress any environmental impacts from mining.

The presence of a mining inspector, especially one that is certified, will be an important part of implementing the development and oversight of mining program. Moreover, the number of mining licenses and concessions to be monitored is worth noting, as the number of mining inspectors must be in line with the number of mining licenses and concessions to be monitored in order to optimise performance. The ideal ratio is one mining inspector to a maximum of 10 companies (it's estimated that one company = one IUP). If there's an imbalance in the number of mining inspectors with the number of IUPs and mining areas to be monitored, this can decrease the effectiveness of their work and result in the further erosion of environmental conditions.

### Conclusion

The opening of space for mining activities must be accompanied by impartial policies. The presence of mining activities in a region doesn't necessarily increase public welfare, but rather can have the opposite effect due to the lack of public access to natural resource use, which local communities are currently taking advantage of.

With policies that are friendly towards mining investment, and an inability to maximise efforts to develop and oversee mining activities, the sector has only triggered a faster rate of environmental degradation. As such, impartial budget allocations as well as the recruitment of mining inspectors are important ways of monitoring as well as reducing the environmental impacts of mining activities.

### Recommendations

1. The local government should start to think about the concept of energy reserves, so that natural resources can be enjoyed by future generations, by:
  - Massively reducing the amount of coal exploitation;
  - Revitalising the mining sector's licenses, especially coal mining licenses;
  - Conducting periodic evaluations of mining licenses.
2. Raise environmental management standards for miners by:
  - Increasing budget allocations for the development and oversight of mining activities, and mining inspectors;
  - Increasing the capacity of natural resource and mining inspectors;



- Adjusting the number of mining inspectors to the mining licenses and concessions to be monitored;
- Increasing supervision of the post-mining reclamation processes;
- Including the planned closure of mining pits in local development plans.