

Unemployment and Poverty in Mining Resources

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Foreword

The implementation of Ogan Komering Ilir's (OKI) local development policies is based on the tagline "building OKI out of villages". The tagline is a manifestation of the region's vision for 2014-2019, that is "the realisation of an OKI that's progressive, independent, prosperous and based on faith and piety".

OKI has three objectives within its local development vision - to develop a region that's (1) progressive; (2) independent; and (3) prosperous. These objectives must be based on faith and piety. The initial objective of a "progressive OKI" means that OKI as a region and its people are progressive in terms of infrastructure, education, health and other services, and are capable of adapting to global advancements without forgoing OKI's characteristic identity. The second objective of an "independent OKI" means that the local government has the ability to govern and administer programs, and meet the basic needs of its citizens, whilst enabling them to participate in local development programs that rely on potential and available natural resources. Finally, the third objective of a "prosperous OKI" aims to decrease rates of poverty and unemployment, whilst increasing public purchasing power. Thereby, enabling its citizens to enjoy a decent livelihood, physical and spiritual balance, be highly competitive, have a sense of security and a high level of trust in the government, as well as integrity and morality, so that they may also enjoy a more independent and progressive lifestyle based on their faith and piety towards God Almighty.

The realisation of OKI's vision for 2014-2019 is being enacted through the following six missions; (1) To build OKI out of villages; (2) To increase the quality and professionalism of the local government in administering development programs and human services; (3) To increase public welfare; (4) To increase economic growth; (5) To realise environmentally sound spatial designation and use and finally; (6) To create a religious, safe, and socio-cultural lifestyle for its people. As is understood from OKI's policy direction, economic growth is at the forefront of encouraging the development of sectors with the potential to drive the regional economy.

“Pseudo” Regional Economic Growth

The local government of OKI must consider the conditions and opportunities presented by strategic decisions concerning regional economic policies. The economic growth target is always used as the local government’s reason for dredging natural resources. On the basis of ‘public welfare’, the local government surrenders these natural resources to owners of capital. But the fact is, rather than the public being the ‘subject’ of welfare, it always ends up being the ‘object’ of poverty and unemployment. A similar situation has taken place in OKI and many other regions, which have abundant natural resources. Instead of increasing public welfare and economic growth by way of local revenue, the local government ‘freely’ issues licenses to owners of capital.

PDRB OKI, 2010-2012			
Affair	2010	2011	2012
Agriculture	3.313.039	3.701.433	4.047.149
Mining and Excavation	135.522	151.088	173.030
Manufacturing	548.652	617.628	708.212
Electricity, Gas and Clean Water	4.837	5.428	6.121
Construction	950.402	1.167.225	1.396.550
Trade, Hotels and Restaurants	985.672	1.156.739	1.348.463
Transportation and Communication	92.488	109.155	130.038
Finance, Real Estate and Corporate Services	164.544	192.558	222.413
Services	752.174	884.479	1.071.502
PDRB	6.946.330	7.985.733	9.103.478

Source: Region in Figures, OKI 2012 and 2013

In terms of OKI’s Regional Gross Domestic Product averages from 2010-2012, agriculture is the primary sector accounting for 46.2 per cent of Regional GDP, followed by construction at 14.5 per cent, and trade, hotels and restaurants at 14.5 per cent. However, the high demand for crude palm oil has caused an increase in the rate of land conversions to plantations across many districts in Indonesia, as is the case in OKI. The conversion of agricultural land to plantations is based on the distribution of principle licenses in accordance with Law No. 460/1998/BPN/26-27/2005 from 2005. Principle licenses allow businesses to operate on 42,000 ha of land in OKI.

Besides the agriculture and plantations sector, the mining sector also serves as an economic pedestal for the regional economy. Although, it isn’t yet a primary contributor, as confirmed in a statement by the Vice *Bupati*, M. Rifa’i, SE and the Head of the Department of Mining and Energy in OKI, Ir H Djustaf; “there are sixteen businesses who intend to invest in OKI by way of managing coal and methane gas mines”. Furthermore, it’s hoped that mining exploration will increase local revenue.¹ Coal and methane gas are expected to be the next *prima donna* of OKI, in other words, the up and coming natural resources with high economic potential. However, the social and ecological destruction that results from mining exploration and exploitation isn’t comparable with the economic gains made from mining alone.

OKI’s economic growth increased from 5.08 per cent in 2010 to 6.90 per cent in 2011, exceeding the national economic growth rate of 6.5 per cent. Moreover, there was a Rp639 billion increase in local revenue from 2009-2013; increasing from Rp815 billion in 2009 to Rp1.45 trillion in 2013. However, the increase in local revenue didn’t liberate OKI citizens from poverty and unemployment. Similarly, social and tenure conflict between citizens and businesses/local government couldn’t be avoided.

Unfortunately, an increase in economic growth and local revenue wasn’t followed by an increase in public welfare. In 2011, OKI had the fourth highest poverty rates of 15 districts/cities in South Sumatra. The highest poverty rates were found in Musi Banyuasin at 18.99 per cent and the lowest in East OKU at 9.23 per cent, whilst poverty rates in OKI were at 15.06 per cent. Then in 2012, BPS in South Sumatra recorded OKI’s poverty rate at 0.53 per cent lower compared to the previous year, reducing it to 14.53 per cent.

¹ <http://kabarsumatera.com/2014/05/16-titik-sumber-gas-dan-batubara-ditemukan/> (Accessed on 27 May 2014). Also seen on the official OKI Government website: <http://go.kaboki.go.id/potensi/pertambangan>.

The lack of effect the increase in local revenue had can also be seen in rates of unemployment. Unemployment rates in OKI increased drastically from 7.9 per cent in 2008 to 12.3 per cent in 2012. The increase established OKI as the district with the highest unemployment rate in South Sumatra; evidence that economic growth isn't always directly proportional with public welfare and all too often only enjoyed by certain groups of people. These statistics are evidence of the inequality in OKI's development programs, which aren't in direct proportion with economic growth. Ideally, economic growth should be measured by public welfare as mentioned in the first mission statement, by decreasing inequality between regions whilst simultaneously achieving equitable and just development.

As such, it can be concluded that land investment policies in OKI support the exploitation of natural resources, and thus social and ecological destruction i.e. natural disasters and high rates of conflict. Caused by land investment policies that are solely oriented towards material gain, these policies fail to take into account the principles of sustainable development.

However, the third and fourth mission statements of OKI's local development plan for 2014-2019 emphasises "public welfare and increasing economic growth". These two objectives can only be realised simultaneously, as they are intricately related to one another. Whilst the fifth mission which aims "to realise environmentally sound spatial designation and use" should not be repeated, as a result of local economic policies being too reliant on natural resources.

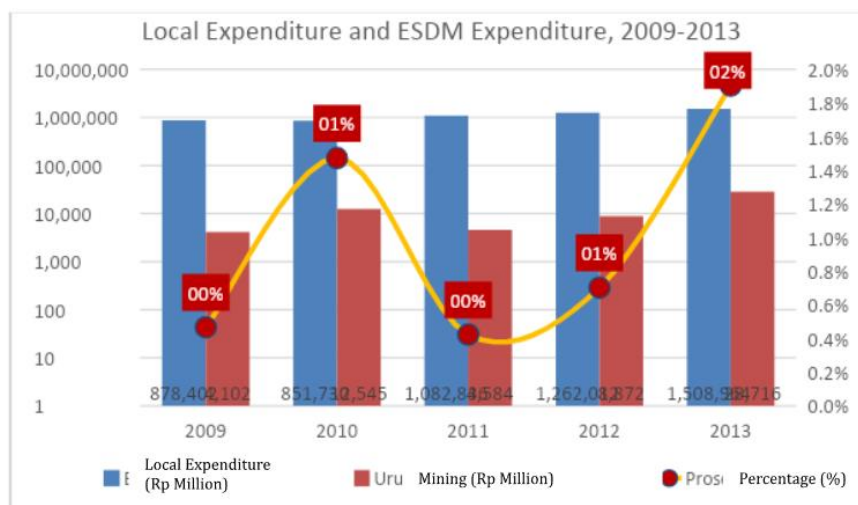
Evaluation of the Mining Budget

Currently, revenue from the mining sector is the third highest after petroleum and natural gas. From 2011-2012, Natural Resource Revenue-Sharing Funds (DBH-SDA) from the mining sector contributed 13.6 per cent towards total DBH-SDA. With the potential for further mining expansion; however, the local government can't continue to rely on natural resources for revenue. Many regions have abundant natural resources but remain trapped in a resource curse that has no positive impact on public welfare, nor any of the other aspects in the vision and mission of OKI's local development plan

Year	Land Rent	Revenue Sharing from Exploration and Exploitation (Royalties)	Total DBH Mining
2010	172.722.419	11.346.156.468	11.518.878.887
2011	414.959.615	14.416.551.653	14.831.511.268
2012	115.981.973	19.675.343.441	19.791.325.414

Source: APBD of OKI, 2010-2012

Energy and Mineral Resource (ESDM) expenditure rarely accounts for more than 2 per cent of local expenditure. From 2009-2013, the average rate was only 1 per cent or Rp11.7 billion of the region's spending.



Moreover, the distribution of ESDM expenditure isn't proportional with the problem at hand. Although personnel expenditure and program administration is decreasing, expenditure for these two areas is still relatively large when compared with expenditure for the Advancement and Monitoring of the Mining Sector program, which is also decreasing. As such, it's difficult to implement programs designed to prevent damage from mining based on the principles of sustainable development.

ESDM Expenditure	2010	2011	2012	2013 (Pure)
Personnel Expenditure	36,4%	38,3%	16,3%	5,5%
Program Administration	9,1%	16,0%	5,2%	2,3%
Development and Oversight of the Mining Sector	2,0%	3,0%	1,4%	0,7%
Development and Oversight of the Electricity Sector	31,6%	17,7%	65,5%	84,7%
Development and Oversight of Geological Issues	20,0%	24,2%	9,5%	6,5%
Development and Oversight of Oil and Gas Businesses	0,8%	0,7%	2,1%	0,4%

Source: APBD of OKI, 2010-2012

OKI's local government has already enacted Law No. 12/2007 on Regional Economic Development. The regulation stipulates six principles to be followed by the local government in carrying out regional economic development; economic democracy, sustainable development, equity, justice, efficiency and finally, the rule of law. In this effort, the private sector, academics and local communities must also play a role alongside the local government.

Due to the condition of the mining sector in OKI, the local government needs to take a stand and use the budget as an instrument to monitor the mining industry. It must also create programs oriented towards the prevention and control of mining exploitation, and ensure that the post-mining reclamation process is carried out according to current regulations.

Recommendations

In response to the above findings, we would like to encourage the local government to improve the substance of its mining policies by taking the following steps:

1. Conducting a study on the benefits of investing in the mining industry on public welfare, as well as the socio-ecological effects incurred. The study will be expected to strengthen Law No. 12/2007 on Regional Economic Development.
2. The Department of Mining should prepare a comprehensive 'grand design' for sustainable development, then internalise it within its RKA SKPD through programs oriented towards the prevention and control of mining exploitation, whilst ensuring that the post-mining reclamation process is carried out according to current regulations.
3. Conducting an evaluation of mining licenses that have been distributed, and taking a firm stance on any infringements committed by mining businesses.