

# Mining Governance Issues in Indonesia

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# Opportunities and Challenges



No 1  
Geothermal  
Source



No 2 Tin  
Producer



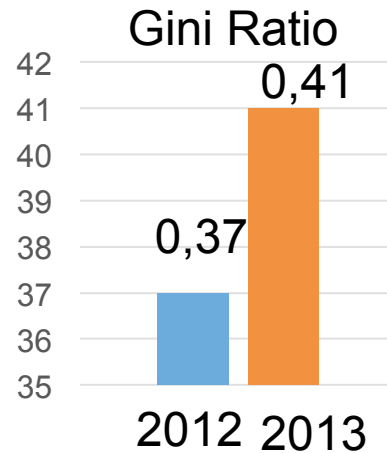
No 8 Gold  
Producer



No 3 Cooper  
Producer



No 3 Gas  
Exporter



## Corruption Perception Index

2012	32
2013	32
2014	34

**Doing Business Index 114 scale 1-189**

**Forest Governance Index 36 scale 1-100**

## State Audit Office-Audit Target

- **Non Tax Revenue Management Policy**
- Land-rent and Royalty
- Fulfillment of Mining companies liabilities related to the mining license in the forests area and reclamation assurance payments

## State Audit Office-Audit Results

Non Tax Revenue From mining Sector IDR 95.5 billion/USD 9.5 m and USD 43,332,446 less accepted by the state

64 mining license holders did not submit Reclamation Plan and/or Post-Mining Plan

73 IUP and 3 cooperation contracts companies did not submit Reclamation Assurance and/or post-mining Assurance

# 10 Issues-The Indonesia Mining Sector-KPK

1. **Renegotiating contract** with 37 contract of work holders such as Freeport and 74 Coal Mining Business Work Agreement have not been undertaken by the government---Law No 4 2009 on Mining & Coal
2. **Increasing value added** of mineral and coal commodities have not been implemented well.
3. **Information system and data development** is not integrated yet
4. **More operational regulations**--to follow up the new Mining and Coal law-- have not issued yet
5. **Improving mining business licenses** are not settled yet
6. No systematic way to increase **domestic market obligation** particularly coal sector
7. **Regular report** submitted by mining permit holders and local government to Ministry of Mining and Energy resources is not in place yet
8. **Reclamation and post mining activities** are not carried out by most of mining companies dues to limited monitoring capacity
9. **The loss of government revenue** due to unpaid obligation from mining permit holders
10. **Ineffective disincentive mechanism** to uncooperative companies

Issues on Government capacity

- Limited monitoring capacity-1000 mining inspector but 77 persons are available 2014
- Ineffective coordination between central and regional government
- Regional government ignored the central government direction on mining related issues

# More Findings on Mining Governance Issues

## Clean and Clear Permit Compliance Instrument

Status	Mineral	Coal	Total
Clean and Clear	3581	2,461	6,042
Non Clean and Clear	3419	1461	4,880
<b>Total</b>	<b>7000</b>	<b>3922</b>	<b>10,921</b>

Clear and Clean Mining Business License is Mining Business Permit Holders comply with regulations and not overlapping with others Mining Business License for same place and not in conservation forest area

## Coal Production

2012

2013

Mining and Energy Min	<b>319 m ton</b>	<b>288 m ton</b>
Statistic-production	<b>415 m ton</b>	<b>466 m ton</b>
Statistic-export	441 m ton	480 m ton
WCA	<b>FINANCIAL LOSS</b> 376 m ton	443 m ton
US EIA	414 m ton	452 m ton

## Tax Administration Record

<b>Permit holders</b>	<b>10,911</b>
Tax adm identified	4552
Tax adm not identified	3302

Permit Holders	Forest Areas
Production Stage	2,214,367
Have no permit	1,700,728
Exploration Stage	20,777,880
Have no permit	19,747,732

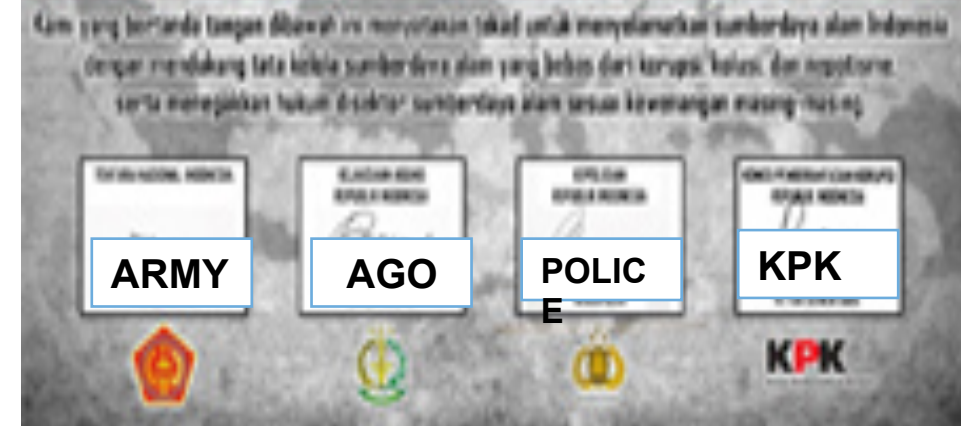
- CSO: potential of financial loss from land rent in 12 provinces USD130 million (2010-2013)
- KPK: potential of financial loss from different data-USD 280 million



## National Movement to Save Indonesia Natural Resources-KPK

- Coordinating a joint effort to enhance mining governance involving Ministry of Forestry (Now Ministry of Forestry and Environment), Ministry of Finance, Ministry of Transportation, Ministry of Trade, Ministry of Home Affairs, Government Audit Agency
- Agreeing action plan to address mining governance issues identified by KPK study at central level in 2013
- Assisting province government i.e. South Kalimantan, East Kalimantan, Central Kalimantan, South Sumatra and Jambi to develop action plan to tackle coal sector in 2014
- North Moluccas, Central Sulawesi, South Sulawesi, Southeast Sulawesi) to develop action plan to tackle mineral sector in 2014
- Doing monitoring and supervising in relation to agreed action plan every 3 months

### Declaration to Save Indonesia Natural Resources



Building a commitment among law enforcement and Indonesia Army to save the Indonesia natural resources

# Action Plan-Mining Governance Index

Main Action	Performance Indicator	Score
<b>The implementation of Mining Business License Management</b>	<ul style="list-style-type: none"><li>○ Percentage of mining businesses which meet the CnC requirements</li><li>○ Percentage of mining businesses which hold Taxpayer Registration Number (NPWP)</li><li>○ Percentage of mining businesses which obtain borrow to use permit in forest areas</li><li>○ Percentage of mining businesses which violate the regulation of land, spatial, and environment</li></ul>	
<b>The implementation of financial obligation by the mining business actor</b>	<ul style="list-style-type: none"><li>○ Percentage of mining business actor that pays production contribution</li><li>○ Percentage of mining business actor that fulfils their obligation to pay tax</li><li>○ Percentage of mining business actor that fulfils their obligation to provide reclamation deposit</li><li>○ Percentage of mining business action that fulfils their obligation to provide post-mining deposit</li></ul>	

# Action Plan-Mining Governance Index

Main Action	Performance Indicator	Score
<b>The Implementation of Mining Production Monitoring</b>	<ul style="list-style-type: none"><li>○ Percentage of mining business actor that submits the production report.</li><li>○ Percentage of local government that regularly submits the monitoring report of the mining production in their area</li><li>○ Percentage of local government that renders sanction enforcement to mining business actor that does not perform good mining practice and/or violates the regulation.</li><li>○ Percentage of illegal mining</li></ul>	
<b>The Implementation of mining refinement monitoring</b>	<ul style="list-style-type: none"><li>○ Percentage of mining business actor that fulfills their obligation of cultivation/refinement</li><li>○ Percentage of mining business actor that receives sanction.</li></ul>	
<b>The Implementation of Mining Yield Sales/ Shipping Monitoring</b>	<ul style="list-style-type: none"><li>○ Percentage of mining business actor that submits their sales report</li><li>○ Sanction enforcement for mining business actor or related parties that sell mining yield illegally</li></ul>	

# Progress Made

## Mining Governance Index

- Data obtained is being analyzed using performance indicators and scoring criteria. It takes time dealing with a lot data and requiring attention to detail-five main consultants doing it right now
- The result is planned to be launched in Anti Corruption Day December 9, 2015

## Monitoring and Supervision Activity Done by KPK

- KPK claimed that they were able to contribute revenue increment from mining sector as amount to USD 1 billion in 2014
- Mining licensing administration is much better, coordination among government agencies run and CSO involvement is welcomed and encouraged
- Several provinces are quite good to roll out action plan i.e. West Kalimantan, Central Sulawesi and South Kalimantan but a few of them are still low i.e. Bangka Belitung Province



# Thank You

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**References:** KPK Presentations on Mining Assessment, coordination meeting, Forest Governance Index Report and Mining Governance Index Initiative Interim Report