



# WORKSHOP PROCEEDINGS

**Mining Sector Policy &  
Management Workshop**

Pullman Jakarta,  
Indonesia  
May 2, 2019



**THE WORLD BANK**  
IBRD • IDA | WORLD BANK GROUP



# Workshop Summary

Natural Resources for Development (NR4D) is a trust fund initiated to strengthen governance and stakeholder participation in the natural resources sector by working together with the Indonesian Government. The program provides advisory services and research development design to provide the government with the necessary analytics for good policy and decision-making. NR4D aims to optimize the utilization of natural resources, its maximize the benefits and shared prosperity with all Indonesians citizens. The program is based on a stakeholder dialogue platform that encourages coordination between national and subnational governments and a better understanding with investors to develop the sector.

One of the activities conducted under the NR4D framework is workshop on Mining Sector Policy and Management (MSPM). The workshop was held at Pullman Jakarta Indonesia Hotel on May 2, 2019. The workshop follows the sequence of a previous study that reviewed mining sector performance in Indonesia using an analytical tool called the Mining Sector Diagnostic (MSD). The results of the study portrayed the de jure and de facto performance of various aspects in mining governance along the operations value chain from license obtainment to benefit sharing with the state and community as well as impacts on the environment.

Five issue findings that were identified through the analytics were scrutinized in more detail in separate thematic discussion sessions at the workshop. The five issues are: (i) boosting exploration and investment; (ii) community mining; (iii) social and environmental transparency; (iv)

spatial licensing; and (v) performance of mine inspection.

This record of the workshop proceeding summarizes the points of discussion from the workshop and recommends a further action plan to achieve concrete objectives to resolve the issues.



# Executive Summary:

# MSD Report

With a long history of mining and a leading role as an exporter of coal, nickel and some other minerals, Indonesia remains a key player in the global mining industry. The sector continues to be viewed as of strategic national importance and plays a dominant role in national development. Planning and oversight of the sector presents numerous challenges, especially to achieve sustainability and mitigate against environmental and social risks.

In this context, the Indonesian government has sought assistance to draw lessons from around the world. It agreed in 2016 to receive support from the World Bank to undertake policy analysis and design reforms through the NR4D program.

A key component in the World Bank's support to the Indonesian Government is the MSD. The MSD is a data-driven tool that the World Bank has developed to comprehensively assess a country's mining sector. Specifically, the tool clearly identifies the mining sector's strengths and weaknesses along the Extractive Industries (EI) Value Chain. It also explores stakeholders' views on the key areas for sector reforms. The MSD takes a detailed look at both the legal and regulatory framework of the sector (the "rules") as well as the implementation of these rules, including the capacity of the ministries and agencies involved. In doing so, the MSD considers the views of three different stakeholders—government, industry, and civil society. Due to its comprehensive and objective assessment methodology, the MSD is different from other assessment tools. Importantly, it is not a ranking tool or perception-based survey, but rather aims to provide policymakers

with the detailed information necessary to make informed policy choices.

The MSD was requested by the Ministry of Energy and Mineral Resources (MEMR), specifically by the Directorate General (DG) of Minerals and Coal (Minerba). The World Bank commissioned the Indonesian Mining Institute (IMI) to carry out this assessment. The work, consisting of desk research as well as extensive interviews, was carried out during July 2017-September 2018. IMI interviewed 98 stakeholders from government, industry, and civil society in Jakarta and in three provinces—South Sumatera, South East Sulawesi and West Kalimantan. Some of the key findings are as follows:

- The performance of mining sector management in Indonesia is uneven, with most weaknesses attributable to poor implementation of otherwise reasonable policies and regulations;
- In many respects Indonesia's mining laws and regulations reflect modern approaches to mining sector management and are well defined: for example, the rules for licensing provide the foundation for a largely open and transparent process and principles respecting sound financial management, revenue sharing, health and safety, human rights and gender
- Along the EI value chain there are notable examples of de facto performance (that is implementation) falling short of de jure performance (that is, laws and rules), which highlights the need for stronger institutional performance, coordination and administrative capac-



ity. Somewhat counter-intuitively, the findings also demonstrate that in some areas in which the laws and rules are weak or poorly defined, administration is nonetheless perceived to be effective – a notable case being administration of mining taxation.

- Those areas identified as in need of improvement at the first stage of the EI value chain (“Contracts, Licenses, and Exploration”) include strengthening the operation of the mineral rights cadastre, (especially at provincial level), enriching available geological data, and better assurance of the technical and financial capability of mineral rights holders.
- In the second stage of the EI value chain (“Operations”), areas of weaknesses include poor performance in managing artisanal and small-scale mining, poor administration of resettlement and compensation obligations and, more generally poor coordination among government agencies.
- Performance with respect to the third stage of the EI value chain (“Taxation and State Participation”) is viewed quite favorably overall. The areas of improvement should include clearer definitions of tax rules, including more stakeholder consultation, and the introduction of simplified tax procedures for artisanal miners.
- Revenue management and its allocation are generally assessed as performing relatively strongly apart from quality of public investment management, which falls, however, outside the purview of the mining sector.
- The area in which the room for improvement seems to be greatest is in managing the local impacts of mining. Performance needs to be strengthened especially on consultation with local communities, public disclosure and dissemination, the monitoring of envi-

ronmental and social impacts and mitigation measures, and grievance mechanisms generally.

- In terms of factors affecting the investment climate (“Context and Enabling Environment”), the MSD provides evidence of concern about the impact of the political environment on investment. All four indicators of the political environment: (i) expropriation risk; (ii) political stability; (iii) predictability of mining; and tax policy; (iv) and control of corruption – still need to be improved as they are rated low.
- Finally, a significant finding is that stakeholders have very different views on their priorities for sector reform. Government and industry stakeholders agree on “Clarity and Harmonization of Sector Rules” and “Sector Management and Intra-Governmental Coordination” as key priorities. Government and civil society stakeholder both prioritized “Environmental and Social Impact and Mine Closure Management” as a priority. There are no overlapping areas that all three groups of stakeholders identified as key priorities.

The findings of the MSD are seen as critical inputs into a process of mining policy evaluation and reform, notably in assessing the outcome of reforms introduced through the Mining Law of 2009. That legislation has been under review for some time and availability of the MSD findings can help to identify shortcomings in the design of the law and in the ability of institutions to implement the law. The next step in the World Bank’s assistance through NR4D will, therefore, build on the MSD findings to assist the government to design a reform program for the Indonesian mining sector.



## Context and Objective

The Mining Sector Policy and Management Workshop is the second of two workshops and follows the first workshop on the socialization of the MSD Report that was held in late October 2018. During the discussion session of the second workshop, a number of thematic areas drawn from the results of the mining diagnostic were identified as needing further in-depth analysis. These areas cover:

1. Mine Inspection performance (including monitoring and evaluation of operation);
2. Transparent and accountable environmental and social performance disclosure;
3. How to boost mineral exploration and mining investment;
4. Cadastral licensing; and
5. Proper management of artisanal and small-scale mining, including their fiscal contribution.

## Workshop Components

The first part of the workshop is a plenary session in the main hall to present the findings of the MSD.

The second part of the workshop separated the participants into breakout sessions. Each breakout group focused on one of the five thematic areas identified through the MSD. The discussion in each separate meeting room was led by a moderator whose expertise correlated with the topic at hand.

The participants in each group had been informed earlier through their invitations to prepare discussion materials for the breakout session and they were grouped according to their expertise to contribute effectively to the discussion of each topic.

The third part of the workshop brought the participants back together in the plenary hall. Before the closing remarks to the plenary session, the points of discussion and recommendations from each group were briefly presented and a final action plan for each topic will be agreed on.

## Participants

- Directorate General of Minerba;
- Representatives of subnational mining agencies;
- Other related government agencies;
- Global Affairs Canada;
- Private sector representatives;
- State-owned enterprises (SOEs);
- Civil Society Organizations;
- Academia; and
- Media representatives.



# Welcome Address



Arcandra Tahar

*Vice Minister of MEMR*

*“Policy is part of innovation. You only have two choices: disrupt yourself by creating new policies or get disrupted by other policies”*

*-Arcandra Tahar*

In his address, Pak Arcandra Tahar, posed a question on getting tangible benefits from the activity. The kind of benefits which depends on the outcome of today’s workshop and the participant’s skills and experience to produce outputs that are beneficial for all stakeholders.

The Vice Minister has the conviction that every man-made product is flawed and has a loophole, including policies. This means that there is always room for improvement. He hopes to receive good recommendations for policy improvement, that can form the basis on which the government can reform the mining sector.

The ministry always welcomes feedback from stakeholders and investors and is also eager to see the results of the workshop discussions. Nevertheless, the government will certainly have to work over a period of time to properly implement those recommendations in order of priority.



# Opening Remarks



**Bryan C. Land**

*Lead Energy & Extractives Specialist,  
The World Bank*



*From left to right: Abdoellah Mojaddedi (GAC Canada), Messers Bryan Land and Frederico Gil Sander (World Bank), Pak Arcandra Tahar, Prof. Irwandy Arif (IMI), Pak Muhamamad Wafid (Minerba) and Pak Rizal Kasli (PERHAPI)*

Mr. Land opened his remark with a statement of the World Bank's mission in Indonesia to share global knowledge and work together with local partners to identify tailor-made solutions to strengthen Indonesia's economic and social development.

The workshop brings together stakeholders who want Indonesia to take advantage of its rich mineral endowment to bring benefits to the people.

As requested by DG Minerba, the World Bank hired the IMI to conduct the MSD an analytical tool - to find out if the current legal and regulatory regime are well defined and implemented within the sector.

The idea of having the workshop followed an earlier workshop with the government officials in late October 2018, during the socialization of the MSD results. It was decided by DG Minerba, to invite a wider set of stakeholders to discuss the mining policy and management framework using the MSD results to provoke discussion.

The World Bank recognizes that MSD is just one of the few things - there have been many studies in the past and stakeholders all have their own experiences to share. The Banks is not here to lecture Indonesians on what to do, but rather to provided fuel for discussion.

Mr. Land hopes that the workshop discussions will be useful to DG Minerba and stakeholders as Indonesia continues to review and reforms mining policies, law and regulations to strengthen the sector.



# Plenary Presentation



## Muhammad Wafid

*Program Director,  
Directorate General Mineral and  
Coal*

In his presentation, *Overview of the Indonesian Mining Sector*, the Director stressed the importance of the sector pursuant to the rich variety of the country's mineral resources and abundance of coal resources which are spread across the archipelago.

The production plan for coal in 2019 is 489 million tons as coal is still one of Indonesia's primary export commodities that is relied on to reduce the balance of trade deficit. The Domestic Market Obligation for coal has reached 115 million tons in 2018 from 76 million tons in 2017 and the next target is 128 million tons in 2019. Domestic utilization of coal is dominated by coal-fired steam power plants (70 percent).

Moving on to the achievement of non-tax revenue collection, the ministry is quite proud of the DG Mineral and Coal's performance in exceeding the target of Rp 32 trillion and collecting Rp 50 trillion in 2018. As of April 2019, the subsector has collected Rp 12.7 trillion out of the targeted Rp 43 trillion in 2019. In this regard, the implementation of the ePNBP application has been quite effective in accelerating revenue collection.

All of the central IUPs have registered on and familiarized themselves with online platform; the remaining IUPs at subnational level are currently being socialized in its use. The ministry now expects to become the backbone of revenue newly introduced system now requires a 100 percent payment compared to the previous manual method that enabled payment in installments.

On the subject of mining governance, Pak Muhammad Wafid highlighted the DG's achievement in reducing non-CnC IUPs from around 10,000 IUPs to a residual 542 IUPs, also highlighting the strong coordination with related parties to achieve the success in managing permits

## — Reconciliation of IUPs —





Another aspect of improvement in mining governance is the management of regulations. The aim of creating regulations is to guarantee the optimization of minerals and coal while increasing the role of the sector in national development. As such, the ministry has undertaken a breakthrough by deregulating, simplifying regulations, revoking permits, reducing requirements for obtaining licenses, combining regulations and reducing the application time for permits.

All of the government's efforts in reforming the regulatory landscape ultimately leads to a strengthening of the downstream industry side. Downstream development triggers a multipliers effect to create jobs, boost regional and national development, improve the investment climate, strengthen national ownership through divestment and secure state revenue.

The current value of investment in mineral and coal sector is US\$ 7,234 million comprising 68 percent in coal and 32 percent in the mineral subsector (2018). This is, an increase from US\$ 6,138 million in the previous year. 2019 is targeted to bring in USD\$ 6,174 million.

Future investment opportunities in the mining sector, mainly comes in the form of:

- Capital and technology of bauxite, iron, ore and zinc refinement.
- Capital and technology for coal gasification in the course of transitioning from a pilot plant to commercial application.
- Technological development of Rare Earth Elements (defense equipment).

One of the coordinated strategic national plans is with PINDAD in developing defense equipment. Most of their equipment is currently produced from materials sourced from other countries, even though Indonesia is, in fact, rich in the raw materials needed. The only problem is in the midstream processing value chain, where the mining and industry sectors need to improve coordination.

The industry Development Master Plan 2025-2035 states that Indonesia will become a strong industrial country. The mining sector, has worked hard to contribute to achieving this goal through industrialization of minerals and coal. One example being accomplished is the pioneer effort from Pertamina and PTBA to transform low rank coal to DME or other petrochemicals to increase added value.



# Working Groups

## Working Group 1: “Boosting Exploration Activities and Investment”

Key findings discovered in the discussion and proposals for solutions are:

- The allocation of exploration funds in the state budget is necessary for executing first stage exploration activities. This will hopefully boost investor confidence in conducting exploration. The allocation can also improve the resources data inventory in Indonesia.
- Stakeholders are aware of challenges facing the above proposals which is coming from the legislative front.
- There is room to strengthen regulations and agencies that regulate exploration activities as well as related to other regulatory instruments.
- Building cooperation between companies and government in the discussion on prioritization of commodity areas for exploration.
- The bidding procedure for exploration areas should be reviewed and improved. To do so, more discussions with mining experts should be initiated to complement the improvement in the bureaucracy.
- An exploration guarantee fund can be considered by the government during the initial phase of exploration.

## Working Group 2: “Performance of Mine Inspection”

A number of challenges were identified by the working group on the topic of how to improve the performance of mine inspection. These challenges are:

- Communication barrier between mine inspector, Dinas at subnational level and DG Minerba. There is a lack of clarity on

the responsibility and authority for monitoring.

- Low level of competency of the mine inspectors, in particular related to mining operations technology advancement.
- Restricted budget to conduct mine inspections. In East Kalimantan, for example between 2015 and 2017 no budget was allocated for inspection activities. The projected budget for 2019 is Rp 650 million which is extremely low for the 192 IUPs in East Kalimantan.
- Mine Inspectors are additionally tasked to monitor illegal mining activities.
- Very low quality and quantity of supporting infrastructure to do the job such as, vehicles, computers, and work stations.
- The scope of work of mine inspectors is too broad and not clearly defined.
- These mine inspectors are also not equipped with adequate information and technology capacity related mine inspection.

The working group proposed several solutions below, each corresponding to the numbered challenges identified above:

- Development of technical guidance (*juknis*) on coordination and communication with regard to mine inspection.
- Effective training and secondment programs at mining companies for mine inspectors.
- Serious assessment must be undertaken to allocate a budget for mine inspection activities.
- Mine inspectors should not be authorized to monitor illegal mining (not stipulated in the regulations).
- The lack of adequate infrastructure and office support for mine inspectors should be taken into serious account.
- There should be a division in the scope of work of mine inspectors, according to each of their competencies; e.g. inspectors specifically for monitoring coal min-



ing and inspectors for road hauling supervision.

- IT can undeniably ease monitoring work, for example, in water quality monitoring, drones to monitor mine sites, and a tracking system for hauling road supervision. There is an imminent need to gear up the mine inspectors capabilities in IT.

### Working Group 3: “Community Mining/ ASM Management”

The key issues that were identified by this working group are:

- Obtaining permit for community mining is not easy
- No clear definition exists on community mining
- Gender mainstreaming aspects have yet to be included in the discussion of community mining.
- The illegal status given to community mining invites the involvement of illicit funders (mafia).
- Ineffective role of subnational government in managing community mining.
- Restriction of technology in the operation of community mining.
- Other mining commodities besides gold do not find a presence in the discourse of community mining management.
- Community mining includes neither clear mine closure plans nor reclamation.
- Community mining operations should be legitimately requested to complete AMDAL (environmental impact assessment) and follow good mining practices in accordance with its scope of business.

Pursuant to the issue identification and discussion, the group produced the following recommendations:

- Legalization, prioritization and removal of discrimination towards community mining are necessary.

- A quota for community mining areas at each IUP sites can be applied, mimicking PIR (Perkebunan Inti Rakyat = community’s core plantation) in the agriculture sector.
- A firm definition of community mining and small-scale mining must be developed.
- Include gender mainstreaming aspects in community mining.
- Strengthen coordination horizontally across ministries and vertically with subnational governments to manage community mining.
- Abolish technological restriction in the operation of community mining.
- Inclusion of community mining in the supply chain of SOEs to add value to the process.

### Working Group 4: “Spatial Licensing”

This particular working group looked into the challenges and barriers found in mining operations related to spatial licensing including land permit overlaps. The discussion session identified a few key findings as follows:

- National, provincial and regency or city spatial plans often clashes with each other. There are also overlapping land right permits between sectors.
- IUP areas must be clearly defined and included in spatial plan (Rencana Tata Ruang Wilayah: RTRW).
- Overlapping and land conflicts causes ineffective optimization of mineral and coal’s potentials and high operating costs.

Some recommendations to tackle the above issues are presented:

- Re-enacting Presidential Decree No. 1/1976 which prioritizes the mining sector in land and space utilization.
- In relation to the above, re-enacting the Joint Ministerial Decree of four ministers



(Internal Affairs, Mining, Environment and Forestry, and Agriculture).

## Working Group 5: “Transparency of Environmental and Social Performance”

The main issues discussed with regards to the impact of mining operations on environment and social aspects are:

- Regulations are sectoral in nature and do not apply a sustainable monitoring procedure. There are disparate perceptions on environmental and social criteria to be adhered to as a result of minimal socialization efforts by the government.
- Accurate and valid data are often unavailable, thus causing erroneous decision-making.
- For the purpose of building integrity and knowledge of stakeholders, a capacity building program on transparent and accountable environmental and social impact management is advised.
- Community development programs should not be considered based on the amount of funding to create the program but rather on the degree of benefit and sustainability of the programs.

The proposed recommendations to tackle the identified challenge include:

- The need to organize continuous regulation socialization and synchronization across sectors coupled with integrated and coordinated monitoring systems that are simpler.
- A uniformed data base used by the regulators needs to be developed.
- Design capacity building programs on knowledge improvement and division of roles and responsibilities.
- Develop formal guidelines on design and implementation of community development programs.



## Policy Paper Series

The next step in conjunction with the completion of the Mining Sector Policy and Management Workshop is preparing a series of policy papers, based on the themes of the working group discussions.

The thematic policy series will be developed through a coordinated effort between DG minerba, the World Bank, PERHAPI and IMI. A peer review process is in order at the finalization stage of each of the thematic paper series before the official publication of the policy papers.

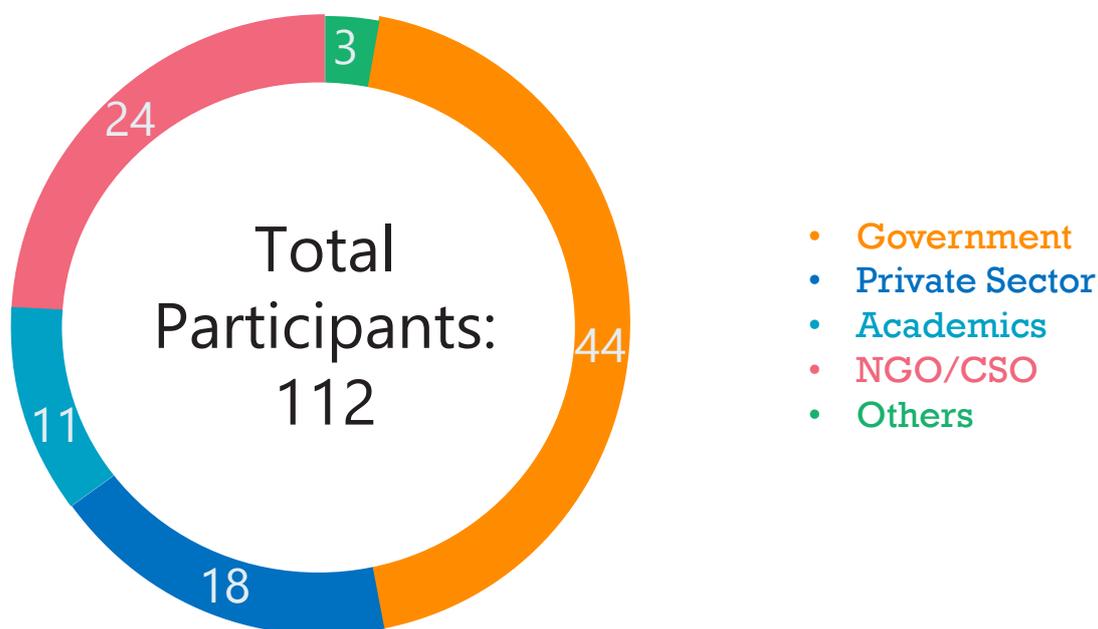
The MSD is expected to be a good kick-start to trigger many stakeholder dialogue platforms and generate a more concrete output on recommendations for policy reform and a detailed plan of actions to strengthen of the implementation of mining governance in Indonesia.



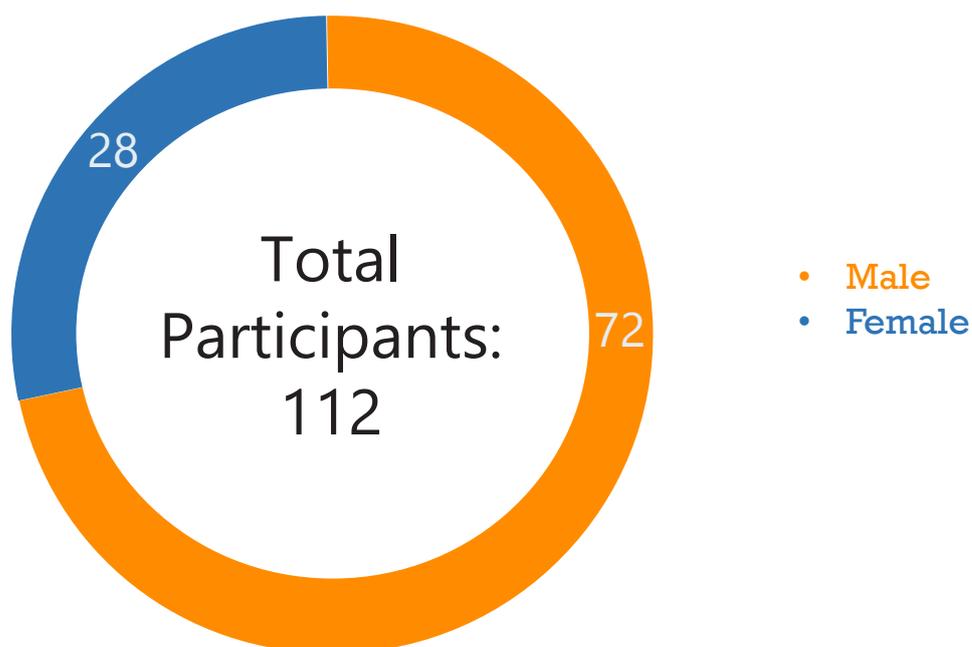
# ANNEX



# Stakeholder Groups



# Gender Comparisions





# Government



- Minerba
- ESDM Kalimantan Timur
- Biro Klik
- KLHK Bangka
- PPPA Kalimantan Timur
- ESDM Direktor Teknik
- Kesehatan
- PPPA Kalimantan Selatan
- Menko
- BKF
- BKPM
- BKPM Aceh
- BKPM Sulawesi Tenggara
- BKPM Sulawesi Selatan
- BKPM Kalimantan Barat
- KLHK
- ESDM Bangka
- ESDM
- KPK
- Bappenas
- KLHK-PWAT
- BKPM Kalimantan Tengah
- Kemendagri
- Geologi
- KLHK Kalimantan Selatan
- KLHK Sumatra Selatan
- ATR/BPN
- KESDM
- DESDM Maluku Utara
- Menko Maritim



# Workshop Agenda

Data & Time		Thursday, May 2, 2019	
Location		Pullman Jakarta Indonesia Hotel	
Participants		DG Minerba, Private Sector, Embassy of Canada (GAC), CSOs, Academia, Media	
13:00 - 14:00	1'	Registration & Snacks	
14:00 - 14:25	5'	Welcome Address	PERHAPI Chairman
	5'		The World Bank
	10'		Vice Minister EMR
	5'		Group Photo
14:25 - 14:40	15'	Indonesia Mining Sector Review	Dir. Program Development, DG Minerba
14:40 - 14:55	15'	Mining Sector Diagnostic Report	IMI
14:55 - 16:35	100'	Breakout Session	Group Moderator
16:35 - 17:50	75'	Group Presentation	PERHAPI
17:50 - 18:00	10'	Closing Remarks	Dir. Program Development, DG Minerba
18:00 - 19:00	60'	Dinner	



**THE WORLD BANK**  
IBRD • IDA | WORLD BANK GROUP

Canada 



**PERHAPI**

PERHIMPUNAN AHLI PERTAMBANGAN INDONESIA  
ASSOCIATION OF INDONESIAN MINING PROFESSIONALS

