



## Mining

### Business and development exchange summary

Indonesia is not only the world's fourth most populous country, it also has one of the world's largest reserves of minerals, particularly gold, tin and coal. The production of metallic minerals in 2010 totalled over US\$ 12.2 billion and accounted for one fifth of total exports. Recent estimates suggest that over 38,500 people are directly employed by mining companies in the country.

These statistics, however, hide the large number of livelihoods sustained informally by Indonesian mineral resources. Our initial research suggests that 427,000 artisanal and small-scale miners support approximately two million dependants, often in relatively remote provinces with high incidences of poverty. If we include multiplier effects from artisanal and small-scale mining activities, i.e. jobs created in the community to provide goods and services to artisanal and small-scale miners, this figure rises to three million people.

The vast majority of this artisanal and small-scale mining is illegal, however. Not only does this raise questions over royalties, labour standards and sustainability – let alone which ministry or company is responsible for dealing with artisanal and small-scale mining – importantly, it is also contributing to rising tension and conflict between large-scale mining companies, artisanal and small-scale miners, as well as local communities. These conflicts often result from disputes over land rights, concessions and associated benefit sharing. They are complicated further by the increasingly powerful role of local government with separate but vested interests from those of central government.

Artisanal and small-scale mining, and issues around mining sites with local communities, are therefore often both poverty driven as well as – if managed well – poverty alleviating. With the involvement of large international companies, which are motivated by a strong business incentive to improve relations with artisanal and small-scale miners and local communities to manage their operations effectively and deepen their development impact, it is a sector apt for direct donor engagement with business.

Our research will help to define critical issues around artisanal and small-scale mining, as well as good practice in benefit sharing. We will provide recommendations for potential donor engagement models with large mining companies on these topics, with a focus on:

- The scale and characteristics of artisanal mining and its relationship with large-scale formal mining operations. We will analyse the current modes of engagement between formal large-scale mining companies, and artisanal and small-scale mining, and compare these with international best practice. Recommendations will be made on how AusAID or other donors in Indonesia can effectively engage with large-scale mining companies to promote, safer, more sustainable and more profitable artisanal and small-scale mining to the benefit of local communities.
- The benefits shared by large-scale, formal mining operations with local communities. Our research will analyse the different types of benefit currently provided, including conventional corporate social responsibility programmes, but also those related to core business operations such as infrastructure development and local sourcing of goods and services, and compare this with good practice internationally. Recommendations will be made on how AusAID or other donors can engage with large-scale mining companies in Indonesia to maximise local community benefits from their operations.<sup>1</sup>

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<sup>1</sup>Cover image: Gunung Lumut, East Kalimantan, Indonesia. Jan van der Ploeg for CIFOR, Flickr, 2005.