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Research Article

**COMMUNITY PREPARATION OF PEOPLE ON THE
FRONTIER IN THE FACING OF MINING OPERATIONS**

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In many mining locations in Indonesia conflicts harmful to local people, have occurred due to misunderstandings and incomplete information received by groups of people in the community and/or the mining company. This paper discusses the community preparation which finally formed a local financial institution from 2009-2014; a process finally brought into being a series of pivotal local financial institutions. The ethnographic method has been employed in the collection of data. Although in 2014 this particular mining company ceased their activities, they left as a legacy several examples of best practice regarding community preparation. The mining company engaged local people from the outset, including the drafting of plans. As a result, to date there has been almost no conflict between local people and mining company. Local people consider that they have ownership of all the programs, and this has raised their sense of belonging and their feeling of power. One of the outstanding results of the discussions has been a decision to form a business entity in every village, abbreviated to Bumdes which stands for Badan Usaha Milik Desa. The presence of these local financial institutions in each village has reduced the bondage between people and merchants but not impaired their relationship. It has provided more opportunities to form new businesses. This research recommends underpinning community preparations before commencing the mining operations. The institutions act as channels of reciprocal communication of all parties, to enhance community involvement; over time these have improved the capacity and the capability of local people.

Key words: *Community preparation, mining, local financial institution, Bumdes***Corresponding author:**

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INTRODUCTION:

Many of the mining operations in Indonesia are located in remote areas where native people have lived for generations. Community preparation of people on the frontier has to date not been the focus of mining development in the archipelago. Until now, the stakeholders have been understood as two institutions, the company and the various levels of government. The dominance, both real and apparent means that the needs of the people are often misconstrued, or even ignored. The local people must be involved as part of the system; they are the third stakeholder. If the local people can be considered as an institution, they can have a place at the table of development. The theory underlying this premise is not new, but its application in mining development has only recently been attempted.

Institutions are the incentive systems that structure human interaction, which can make predictable our dealings with each other every day in all kinds of forms and shapes [1] ii). Any institution can be considered also as a system of behaviour governed by (agreed-to) rules and norms which have adhered and widespread use in the society [2]: 12). It may be formal and/or informal and can be variously interpreted by different actors. Institutions are also dynamic; they can be shaped and reshaped over time. Local institutions may also be regarded as processes of social negotiation rather than constant objects.

In addition, Chang and Evans (2006 [3]: 1) emphasized that institutions are the way of sharing expectations, taken-for-granted assumptions, accepted norms and routines of interaction that have robust effects on shaping the motivations and behaviour of sets of interconnected social actors.

In modern societies, institutions are fundamental to economic change; they are usually embodied in authoritatively coordinated organizations with formal rules and the capacity to impose coercive sanctions, such as the government or the firms. In the case of mining operations, both the mining companies and the government are institutions motivated by an economic imperative, which each understands. They both speak the same language, with an urban perspective. This is not the case for the traditional farmerson the frontier, who ekes out his existence, who sees himself as victim of the weather, powerless as an individual. The challenge is to empower the individual through institutional transformation.

There is always a feeling of power when people unite with a common cause... and it was through the baseline study that each subject interviewed found

the cause and came to believe that he had a voice and that his voice could be heard. The baseline study used community discussion to obtain much of their information about the local people, their perspectives, their aspirations.

A multi-national mining company (Rio Tinto) carried out a baseline survey for one year involving well versed scholars from both overseas and local universities. One of recommendations of the baseline study was establishing institutions in each village and sub-district as channels of communication between the company and the local people. They could then use the institutions as vehicles to communicate with local people. Peoples whose vernacular order was egalitarian lacked the institutional handles by which they could be governed. Those institutions would have to be provided [4].

The purpose of this paper is to examine the interdependence between the community preparation of the mining operation and the establishment of local financial institution (*Bumdes*) on the frontier. An underlying premise is that baseline survey and creating a conduit of communication with local people as a part of a broader process of community preparation in the mining area on the frontier. The establishment of local financial institution is evidence of a good community preparation process.

The community who are impacted by the activities of the mining industry are far wider than just the residents who live in and around the mine site. This is due to many factors which are ancillary to the actual mining operations; many people who are suppliers of a wide range of products required to support mining activities do not live on the mining site. Many of the mine employees' families live in the city. Many of the owners of land or other assets in the mining site are living in the town, some distance away, but maintain their connections with the mine site [5]. The formation of local institution in each village of the mining site in Routa is meant to reach aspirations of people who do not live in the mining site but do have family connection with the village.

Members of the community are likely to have different perceptions about the mine, its activities and the mining industry in general. Community members also have different associations with the mine, its employees, local business people and traditional owners. Knowledge about the historical background, culture and politics will assist mining companies in understanding what the elements of the local community are and determining the best way to

interact and engage in the social and economic activities of the local people.

The Mineral Council of Australia (2005 cited in Brereton et al., 2005 [5]: 4) stated that a mining community is groups of people who live in the area affected by mining activities. The term '*stakeholder*' is also commonly used to refer to parties who have any kind of connection to mining activities. Stakeholders can be groups or representative(s) of a group who are concerned and influence decisions in mining activities. Around 60% of mining locations in Australia are on Aboriginal land and are often close to settlements of indigenous people. The government must pay special attention to preserve cultural heritage and the traditional land of the local people. Mining companies there have a legal responsibility to allocate funding as their corporate social responsibility to repair any environmental damage and support a range of programs to improve people's livelihoods.

METHOD:

This study was conducted for a year in 2011-2012 in the sub-district of Routa using ethnographic methods to collect qualitative data. In order to obtain the data, researchers involved themselves in the daily life of key informants. At first, only a few key informants were chosen in each village, and then sampling developed according to the needs of information to be collected using the snowball sampling technique. In addition, a literature search was study carried out to understand the history of community preparation in mining areas and the situations of mining companies in other regions in Indonesia. The information presented in this paper is part of the information gathered during the research process which lasted for one year (2011-2012), the latest update in the sub-district of Routa was gained during a visit in 2016.

RESULT:

Ballard (2001: 12-16) [6] explains that although artisanal mining had been in operation in Java from 700 BC, mining industry in Indonesia started in 1710 when the mining of tin opened in Bangka Island. All the mining of tin, coal and manganese in 19th century was controlled by the Dutch colonial administration. In the 20th century, the Dutch had also opened a new mining location in Sulawesi for nickel, asphalt on Buton Island and bauxite on Bintan Island. Through their exploration until 1942, the Dutch administration had succeeded in making a geological map of around 5% of potential mining locations in Indonesia. After independence, the Indonesian government banned foreign investment in the mining sector. The faucet for foreign investment reopened in the New Order

(1965). In 1968, most of the private mining companies had been merged under PT. Tambang Timah and PT Aneka Tambang.

Furthermore, Ballard (2001: 13) [7] explained that in 1967, Freeport Sulphur signed their first contract with the Indonesian government to mine copper in West Papua. Contracts with foreign mining companies followed, with several in the period between the years 1968-1971, including INCO which opened a nickel mine in Soroako - South Sulawesi (now taken over by Vale from Brazil). In 1991, Indonesian government issued new fiscal regulations and incentives to foreign investment which encouraged multi-national companies such as Freeport and Newmont. Freeport found gold in Irian Jaya (now Papua) and so did Newmont in Batu Hijau on the island of Sumbawa but the economic crisis in 1997-1998 brought significantly reduced investment in the mining sector. During the New Order era, government paid little attention to public need or interest in many mining areas in Indonesia. There were many conflicts between local people and mining companies which received support from the government; some stood out such as in Irian Jaya and Aceh which resulted in casualties.

The fall of New Order regime brought significant changes to the regulation of mining in Indonesia; notably Laws number 22:1999 and 25: 1999 regarding the financial balance between the provincial and local levels of government were enacted. The central government gave substantial power to the local sector. Nevertheless, the implementation of the law does not give any apparent impact to the improvement of public welfare. A number of loopholes and uncertainties in the permit process which has allowed for overlapping concessions and corruption in licensing has accompanied the transfer of authority (Ballard, 2001: 15) [7]. Based on empirical evidence, until recently the rights of local communities as stakeholders received scant attention from the government.

1. MINING ACTIVITIES AND HUMAN RIGHTS (SOME CASES IN INDONESIA)

The presence of the mining company in many occasions do not necessarily have a positive impact on the economic activities and income of the local community. Generally, support from the company merely addresses part of the problem as they see it; solutions provided are often not sustainable and have no multiplier effects for the empowerment of the local economy. The situation often gives rises to dissatisfaction within the community. As a result, conflicts often occur between people who may be for

or against a certain decision or direction, between people and the mining company and between people and the government. The mining company usually needs to spend additional costs to mollify conflicts. Despite the likelihood of conflicts, almost no companies have undertaken a study of any depth before commencing their mining operation. There is no government regulation which requires it. Both government and the companies see the development as nothing more than a revenue-raising activity.

1.1. Ombilin (West Sumatera)

Ombilin is the oldest continuous coal mining in Indonesia because of its huge deposit. Exploration of coal mining in Ombilin was commenced in 1891 by the Dutch government. Today, Ombilin coal mining is maintained by PT. Tambang Batu Bara Bukit Asam (a state corporation). In the period from 1892–1920, coal mining activities in Ombilin was characterized by a period of brutal and forced to labour under the authority of the Dutch colonial administration. Inhuman treatment had led to inefficiency, which intensified in 1920. The colonial government then undertook the replacement of management with more professional leaders. The situation improved after 1920. However, it prompted the formation of trade unions and the workers began to demand their rights. The peak occurred in 1926–1927 when there was an uprising of the workers which resulted in a massive strike. The Dutch colonial government used brutal coercion to end the strike. The difficult economic situation marked by the world economic recession, caused the Dutch government to be locked in negotiations with the coal miners that lasted until the outbreak of the Pacific war in 1942. The Japanese occupation in the period of 1942–1945 again caused adverse conditions for the miners. This resulted in a drastic drop in coal production.

During the Old Order period under the Sukarno regime (1950–1965), the mining company was nationalized. Ombilin managed by PT. Bukit Asam. The miners politicized competition which occurred between political parties and trade unions were also hit compounded by inter-ethnic conflict. With the fall of the power of the Old Order, the New Order introduced a new phase in the relationship between workers, government and enterprise. The military took an increasingly important role in the mining activities. The only option for workers was to join the political party - Golkar and its various branches. Labour organizations become much more closed than they were the Old Order. The long history of Ombilin mining provides lessons on the management of the transformation process that occurs, from the practice of forced labour by the colonial government, through

the emergence of trade unions to the repression of trade unions. The case of Ombilin provides lessons on ethnic issues of local and national importance. The lack of completion of the various protracted cases for land compensation has borne witness to a long history of disregard for the communities around the mine.

1.2. PT. Inco Soroako

PT. Inco, owned by Inco Canada Ltd, operated nickel mines and its processing (smelter) around Lake Matano and Mahalona - Soroako in South Sulawesi province. Exploration began in 1968 with work undertaken of contract system (*kontrak karya*). The development of project and factory was carried out in 1973 and the first production successfully conducted in 1978. PT. Inco obtained an additional concession from the Indonesian government which covered areas in Central Sulawesi province such as Bahumoteffe and Bahodopi as well as Pomalaa in Southeast Sulawesi province. Expansion of concession areas allowed Inco to upgrade their smelter capacity and increase nickel production by 50%.

Many of people in Soroako lost their land and therefore their livelihoods. Many of people's farmland was taken over by Inco to build mining infrastructure including construction of the airport, golf-courses, sports stadiums and other luxury facilities appeared on their once precious farmland.

Under the works contract agreement (New Order), PT. Inco did not have any obligation to make restitution or pay royalties to the community. As a result, people received royalties only for the sand and gravel used in the construction of mine infrastructure. Land compensation negotiations were solely between PT. Inco with regional governments without public involvement. As a result, land compensation did not satisfy the community. Compensation for loss of livelihood of the people was never taken into account. Total compensation payments amounted to just US \$ 100,000 compared to total investment of PT. Inco US\$850 million. The lure of providing education and training for the community has never been realized. However, the most negative impact felt by the community of the nickel mining operations at Soroako was pollution and environmental damage, much of which is irreparable.

A similar situation occurred in Irian Jaya (now Papua), where a wide range of human rights abuses have also occurred. News of this featured in the popular press which is very popular not only in the country but also in the international community, particularly during the period of the New Order

regime. But since 1996, Freeport has conducted several initiatives to give some attention to the rights of the local community. In 2000, Freeport McMoran and Rio Tinto signed a statement of principles of human rights and security; just how this will translate into community needs has yet to be evaluated.

Esteves (2008: 39) [8] states that the involvement of the company in supporting the interests of the community and stake holders in accordance with the values espoused by the community determines the success of a company in the long term. Other social problems are often caused by any changes in the demographic conditions caused by a flood of workers coming from outside the mining area. The flood of migrants is often accompanied by the emergence of various diseases, societal ills (prostitution, crime, etc.), increasing prices, a rising cost of living, scarcity of clean water, disruption to local hunting and fishing grounds [8,9] .

Dispute between local people and the mining companies have occurred in many mining locations. Conflicts often emerge from the beginning of the opening of new mining areas. Friction often takes place because the people involved in the mining operation do not consider the context in which they have chosen to operate; they do not see themselves interlopers, imposing their mindset on an environment; they see themselves as the system rather than a new variable introduced into an existing system.

2. BASELINE SURVEY OF PT. SULAWESI CAHAYA MINERAL (RIO TINTO) IN ROUTA

Many local people have limited education and do not have the ability to fight for their fate let alone their rights. In many cases, the local people are subjected to pressure by the company, by the government or even by parties who claim to represent them. Tension which generally grows from cultural differences, traditional practices, lead to physical conflict and ultimately the loss of livelihoods; environmental changes can lead to tension which may result in conflict. There are many lessons to be learned about the relationships between communities and mining companies in Indonesia and in other countries in the world where the local people's rights are not taken into account.

A preliminary study can bring to light social and financial features of the existing system. Baseline information about the already present features of the system (like a comprehensive understanding of the local situation) is vital if there is to be planning for

success rather than potential for conflict. This kind of planning makes economic sense; prevention is better than cure. It can be a far more expensive option if the development is constantly threatened by conflict.

Before starting mining operations in Rوتا, PT. Sulawesi Cahaya Mineral (hence fore PT. SCM) conducted a baseline survey. The company involved scholars from both foreign and local universities who have information and experience in dealing with community preparation. Scholars from the local university around the mining location provided information regarding ethnic identities, culture, history and government policies regarding mining development in Indonesia.

Collaboration between the Australian National University (the foreign university) and the two local universities Tadulako University (Central Sulawesi) and Haluoleo University (Southeast Sulawesi) was established to carry out baseline survey in Rوتا. This team then worked for around 9 months to collect information regarding the people, their history, their patterns of migration, their livelihoods, past and present, their assets and their aspirations. Information was also collected on aspects of social and economic importance like the situation of formal and informal financial institutions. In addition, information was compiled on resources and their role in the development of this remote frontier.

During the survey, experts and the employees of Rio Tinto had the opportunity to develop channels of communication and good relations with local leaders and other people. On many occasions, all team members explained and discussed the plan of future mining operations in simple language. People then gradually become more relaxed to express their ideas, not only about relations between them and the company but also to discuss any problems. Rio Tinto then recruited a member of the team to work with them as the leader of community affairs division. He used recommendations from the baseline survey and continued to undertake discussions with people to gain a feeling for local aspirations.

3. THE ESTABLISHMENT OF COMMUNITY INSTITUTION AND THE WORKPLAN

Lorenzen (2015: 4) emphasized the following common problems which arise in the relationships between stakeholders, especially between the mining company and the community:

1. Lack of community involvement.
2. The rights of people are neglected.

3. Corporate Social Responsibility/CSR is construed only in the form of direct payment.

4. Lack of transparency from the company.

5. The obscurity of roles and the seizure of power.

6. A top-down approach is used to design community development programs.

7. The company assumes government responsibilities.

Furthermore, Lorenzen explain that a mining company will generally recruit contractors to undertake the development of infrastructure. Problems often occur between the contractor such as:

1. Do not understand the community.
2. Do not involve all groups in the community.
3. Incorrect evaluations are made.
4. Conflicts go to unresolved.
5. Problems of completion occur because of lack of money.
6. Promises which cannot be realized are made.
7. Other parties (eg. An organization or NGO) are taken to be the representative voice of the community.

Regular communications with the communities is pivotal therefore, it is important to develop communication mechanisms between the company and the people. Initially, the officials of community affairs of PT. SCM engaged in community activities both public and individual. They became involved in collecting dammar resin, cultivating dry rice, improving public facilities such as cleaning the micro-hydro plant, improving roads and involving themselves in celebrating Independence Day.

The discussion between local people and a community affair division of PT. SCM increased when the company was willing to recruit local people as a geologist assistant. Local people in every village have also been involved in the stipulation of criteria to prioritize the recruitment of local employees. Briefly, the series of focus group discussions which were conducted in every village to form the criteria for being classified as local workers can be described in the following scheme.

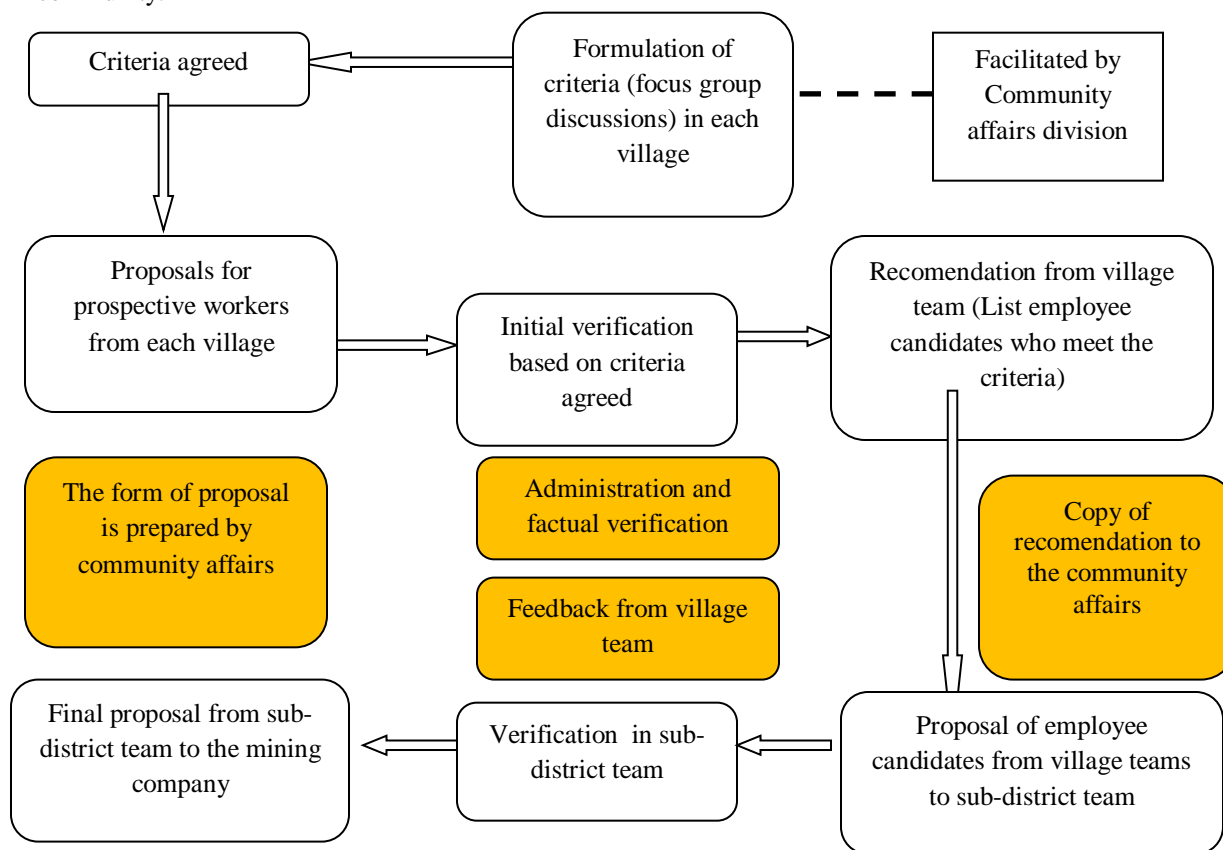


Fig.1. The Mechanism of the Recruitment of Local Workers (after Lorenzen, 2015).

In order to determine equal opportunity and fair quotas for all villages, the community affairs division undertook discussions with the people, village teams and the sub-district team. As a result, simple a formula that is easily understood was agreed upon.

$$\left[\frac{\sum \text{employee candidate of village Y}}{\sum \text{Total workforce of Routa sub-district}} \times \text{Total vacancy from the mining company} \right]$$

= Employee quota allocation for village Y

The series of processes as illustrated in the diagram above has an impact on several things:

1. The people are involved from the beginning;
2. The process is transparent;
3. Monitoring and evaluation of the process is a joint responsibility, so the companies and the communities work together;
4. Finding solutions and compromises builds a capacity of co-operation between the companies and communities.

From the series of discussions in each village, an idea to form a village team which would report to a sub-district team was spawned. As an institution, a village team is responsible to communicate any results of discussions based on the priorities and possibilities from the village level to the sub-district team which then put forward those results to the company and government at the district level.

Every village team consists of three members; the village head, a chosen representative of the community and a chosen representative of the women. Every village bring systems to the sub-district team meeting which takes place every two months. Discussions both in every village and sub-district team are facilitated by a facilitator from the community affairs division of the company. The facilitators have roles to steer the discussion in order to avoid vague discussion, explain the financial ability of the company and any activities that may be funded or supported by the company. Discussion also includes strategies for implementing the activities and the roles of each party (community, company and the

government); an expert from university or NGO may be included both in village and sub-district levels, if local people consider it is necessary and the company is willing to support it.

The programs proposed by sub-district team are then analyzed and discussed by the company (community affairs) and government officials at the district level, involving experts from the University or other institution such as an NGO. The official of community affairs will discuss the proposal with the relevant government officials in order to prevent program overlap and if possible to share responsibility with the government, especially if there is a similar program from the government. Experts from university may help to mediate sharing programs between the company and the government. In addition to help select the proposals, experts from university or an NGO can be engage in the discussions to devise implementation strategies and enrich the proposal through observation and research in the field.

Briefly the mechanism of discussions can be described in the following scheme.

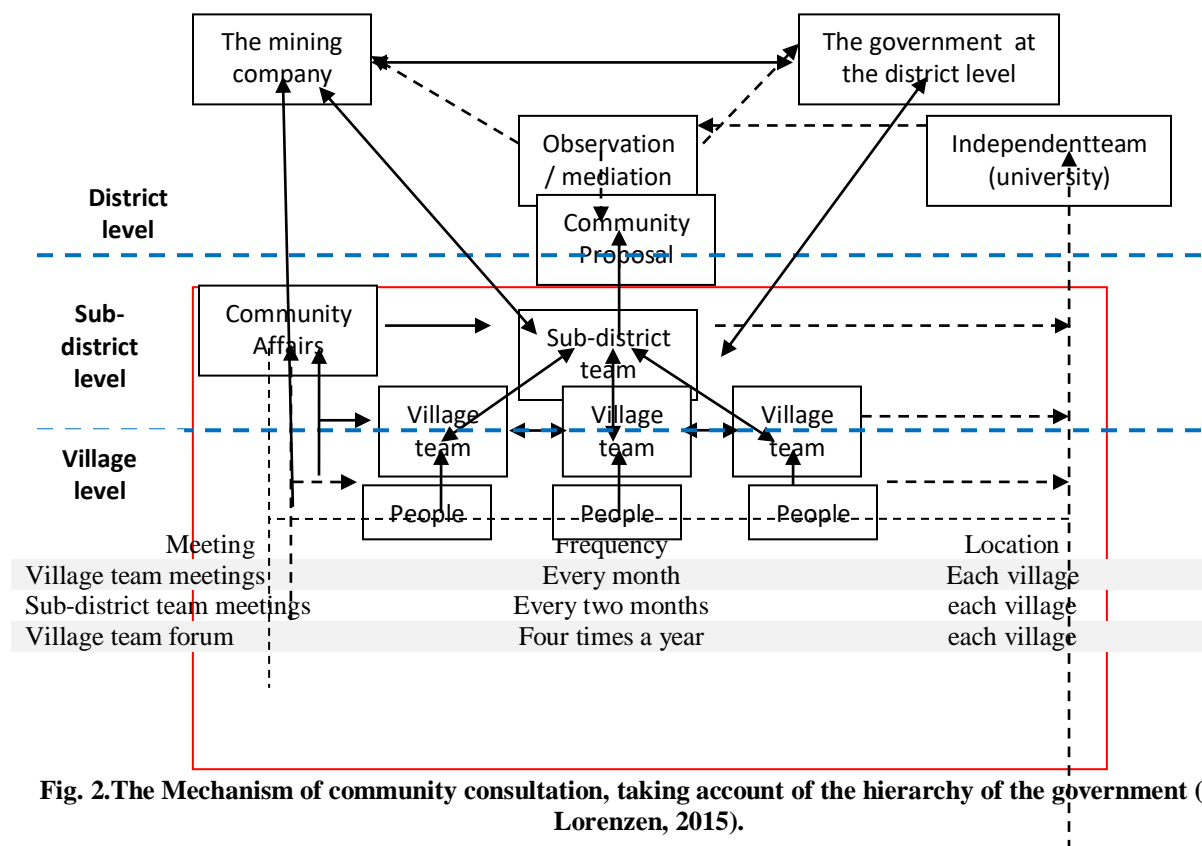


Fig. 2. The Mechanism of community consultation, taking account of the hierarchy of the government (after Lorenzen, 2015).

7. FORMATION OF THE FINANCIAL INSTITUTION 'BUMDES' AND ITS ROLES

The availability of a financial institution to provide credit is one financial incentive to make farmers able to acquire resource inputs (Johnston and Nielsen, 1966: 289). Furthermore, OECD publication (2009: 65) revealed that the Chile's government had utilized the revenue from copper to modernising agricultural institutions to support small-scale agriculture (family agriculture and/or poor farmers). Holloway et al. (2000) in DFID report (2009: 12) emphasized the important of economic institutions on milk cooperatives to support agro-industrialization in the East African highlands. Freeport in Papua found difficulty in delivering development aid to local communities before 1992 due to the absence of indigenous institutions (Hasan, 2009: 134). The establishment of institution allow payments of mining monies both to people in areas affected by mining and more broadly. Indigenous people make assessments of cultural value in accordance with their own traditions, heritage, and institutions. Holistic notions of culture that encompass all facets of the way people do things inevitably encompass economic practice. Assessments of cultural and economic value

then inform emergent relationships between indigenous people, the mining industry, and the state (Holcombe, 2009; 188).

The establishment of local financial institution program which was initiated by the mining company with the communities in Rوتا, boosts the local economy through the establishment a village-owned enterprise; it is called Bumdes (*Badan Usaha Milik Desa*). This institution was formed through the process as described above. The selection of this kind of economic institution was based on a consideration of the lack of availability of formal financial institutions in the Rوتا sub-district. The formation of such an institution means that most villagers can save their financial surplus at harvest time. As well, marketing can be organized through Bumdes and as a result of this cooperation, people can enjoy a better price; before people received less and had to spend more. Now agricultural equipment and needs such as fertilizer can also be purchased more cheaply.

The absence of a formal financial institution was the main reason that encouraged people to support the development of Bumdes. Johnson (2004: 501) based on her researched in Kenya emphasized that

providing of small loans to the lower income clients has a positive impact on their livelihoods and improves their well-being. Furthermore, Ong, L (2006: 377) stated that the establishment of local informal financial institution with less strict regulation can encourage the mobilization of financial mobilization that may support rural development.

Based on the discussions, PT. SCM in 2013 then brought in an expert, Agus Asmana, who has experience and was successful in the formation of Bumdes in several provinces in Indonesia. The company and people also considered that Bumdes may help them to obtain reasonable prices for agricultural expenses through collectively purchasing and helping people to gain a good price for their agricultural products by forming a cooperative selling venture. The availability of a financial institution was also expected to help people to be able to accumulate any funds surplus to requirement after harvest time and use it to expand and improve their farms or businesses.

The expert stayed in Rوتا for around six months to motivate people to joint Bumdes and to set up the necessary regulations. Bumdes officially formed firstly in Tirawonua village in April 2013. Tirawonua is a village located close to South Sulawesi province where many traders who are mostly Buginese live. Probably the background of people in this village who are mostly migrants and many are traders makes them likely to give a positive response to such an idea of forming a financial institution (Bumdes). The next village which followed formed Bumdes in May 2013 was Lalomerui, a village where the base camp of PT. SCM is located followed by Rوتا village. By July 2013, all the villages in Rوتا sub-district had formed Bumdes (Walandawe and Parudongka in June 2013 then Tanggola and Puuwiwirano in July 2013).

All Bumdes which had been formed in each village of Rوتا sub-district relies on initial capital from the

local people. Thanks to the present pepper boom, only about six months after it was formed, the overall funds collected has reached hundreds of millions rupiah (around USD 50,000). In August 2016 around 1 year after the formation of Bumdes, I visited Rوتا; the amount of money in Bumdes has reached Rp.1, 135,038,750 (USD 87,310).

Initially, the collected funds were used to purchase organic fertilizer; the result was the prices of fertilizer fell by about 30%. In order to avoid competition between Bumdes with the local traders who have been a longstanding informal financial institution in the area, local traders were involved in rotation fertilizer purchasing. In order to avoid the domination of richer farmers and traders in the credit off-take, it was necessary to have some regulatory process; people, administrators of Bumdes under the facilitation of the official from the community affairs department of the company (PT. SCM) formulated a regulation to govern the distribution of credit off-take. In India, the establishment of financial institutions in rural areas has limited success because the domination of the rich and large landowners, means that marginal farmers received substantially less loan amount (Pal, D. and Laha, A.K. 2014: 1).

The activities which are managed by Bumdes have grown to encompass the management of rural electricity, financial services and trading of agricultural products. Shahidur, et al (2013: 1) revealed that although in urban places the presence of newer microfinance institutions has lowered recovery risks because of increasing borrowing from households and competition between microfinance institutions, the opposite occurs in the villages; loan recovery rates are the highest among the newest microfinance institutions for women in rural areas, suggesting that microfinance institutions may offer distinct products in these areas to attract better-risk clients. The portfolio of newer microfinance institutions also has a greater share of lending for agriculture.

In more detail, the amount of money which stored in Bumdes in each village of Routa sub-district can be shown in the following Table.

Table 1: Money which has been managed by Bumdes in each village of Routa sub-district, in August 2017.

| Village | Amount of Money | |
|--------------|----------------------|-------------------------|
| | Rp | USD (USD 1 = Rp.13,000) |
| Tirawonua | 432,565,000 | 33,274.23 |
| Routa | 276,417,000 | 21,262.85 |
| Lalomerui | 223,455,000 | 17,188.85 |
| Parudongka | 93,515,000 | 7,193.46 |
| Walandawe | 51,896,000 | 3,992 |
| Puuwuwirano | 40,625,000 | 3,125 |
| Tanggola | 16,565,750 | 1,274.29 |
| Total | 1,135,038,750 | 87,310.68 |

Source: Community Affairs PT. SCM and Bumdes in Routa sub-district, 2017.

Tanggola and Puuwuwirano as well as Walandawe have low populations and are located in an area with very limited access (roads). Based on data from local statistical bureau of Routa sub-district 2016, only 55 people live in Tanggola in 2015, in Puuwuwirano was only 78 people and in Walandawe was only 175 people. This may most likely the main cause of of the low amount of money that Bumdes can manage in those three villages.

Table 2: Area, population and population density by village in Routa sub-district, 2017

| Villages | Area (Km ²) | Population | Population density (people/Km ²) |
|------------------------|-------------------------|--------------|--|
| Routa | 544,64 | 634 | 1,16 |
| Tirawonua | 466,98 | 513 | 1,09 |
| Parudongka | 327,79 | 290 | 0,88 |
| Lalomerui ¹ | 37,14 | 330 | 8,88 |
| Walandawe | 205,27 | 175 | 0,85 |
| Puuwuwirano | 361,41 | 78 | 0,20 |
| Tanggola | 245,35 | 55 | 0,22 |
| T o t a l | 2.188,58 | 2.075 | 0,95 |

Source: Statistical Bureau of Routa sub-district, 2017.

There is no road to Tanggola and to Puuwuwirano, so for transporting agricultural products people use a walking track which sometimes is impassable particularly during the heavy rain in the wet season (November – January).

¹The village where Oil Palm plantation located in Routa sub-district.

DISCUSSIONS:

Experience from the development of mining activities in many parts of Indonesia has shown a range of issues regarding the relationships between the companies, governments and local people. In the Old Period (*Orde Lama*), the period after independence (1945) until the fall of Soekarno (the first President of Indonesia) in 1965, the major problems of the development of mining in Indonesia were the lack of availability of experts and financial backing to support the opening of mining areas. The Indonesian government simply relied on the mining operations which were inherited from the Dutch government. Further, the operation of those mines was based on the Dutch regulations which placed local people as labourers or workers. Both the government and the companies never engaged anyone, let alone the local people in the formulation of planning regarding the development of mining areas which determined the life of locals. Without social obligations, the mining companies exploited local people.

The changing regime from Old Period to the New Period (*Orde Baru*) in 1965 which was marked by the fall of Soekarno and the presence of Soeharto (1965-1997) did not bring significant changes to the relationship between the mining companies and the local people. It seems that. The New Period regime focussed only on the opening of foreign investment to overcome the lack of financial backing to facilitate the opening of new mining areas. In order to provide a conducive environment for foreign companies, the Indonesian government added military muscle to the might of the companies to keep down any insurrection by local people who disagreed with the exploitation plan by the companies. In reality, the involvement of military troops made the life of local people more miserable. In many areas the rights and aspirations of local people were abandoned, the exploitation and coercion continued. As a result many local people around mining areas lived below poverty line in the place where they should have been enjoying moderate circumstances. This situation had provoked people to protest to both the mining companies and the government; often these protests result in further victimization of the local people, financial loss to the companies and a bad image to the government. Toward the fall of Soeharto (New Order) regime, Indonesian government had started to accommodate local aspirations but the limitation of experience, skill and knowledge regarding how to develop communication with local people has resulted in many of aid programmes both from the mining companies and/or the government did not reach those who need help and assistance. Many of the

programmes proposed by the local elites served only them; the process paid lip service to local needs.

After the New Period regime fell which was marked by the retreat of Soeharto as president, voices from local people became determined. This situation forced the central government to delegate part of their authority in the opening of new mining areas to local government (province and district). Nevertheless, the historical legacy, the lack of local regulations and unpreparedness of human resource (government officials) in terms of knowledge, skill and experience has meant that many local needs are still not covered by local policy. Unclear mechanism and the limitation of assistance from central government has resulted that the authorities from central government can still only satisfy local elites; governor, head of districts and their henchmen. Because of the limitation, the new policies still do not produce optimum benefit to local people and do not encourage mining companies to be more responsive and transparent to local people.

Rio Tinto which started their operations in Rantau on 2007, undertook new strategies of community preparation. At the outset, the engaged scholars from both foreign university (ANU) and local universities (Halu Oleo and Tadulako). Many discussions have been undertaken in order to gather information about the local situation in terms of physical (environment) and social (culture and economic) situations. These efforts have produced good mechanism and created good communication channels between the companies, the local people and even with the local government (province and district levels), local NGO and other community organization. With sustainability as a common goal, the company and the locals establish mechanism of serial discussions with local people through the formulation of teams in both village and sub-district levels. In order to prioritize proposals from local people, the company engaged local scholars; universities, local government and local NGO. One of the results of the long discussions is establishing local financial institutions (*Bumdes*).

CONCLUSION:

Companies which are not responsive and not transparent will find it difficult to obtain trust and support from local communities. Instead, companies which are more open, concerned and always provide explanations will find it easier to gain people's trust. Companies which can predict and act proactively to anticipate complaints from residents, or will react in an appropriate and timely fashion will have greater opportunities to be accepted by the communities than

companies which are merely reactive (after Mineral Council of Australia, 2005: 2).

Although Routa sub-district is located in the remote place where most of its people live as farmers with limited infrastructure; nevertheless, they have a variety of ways to improve their well-being. Svensson (2006: 390) suggests that resistance to the kind of change which development brings does not mean that peasant farmers are generally backward; rather they have different ways to participate in a transformation process.

The formulation of community engagement carried out meticulously and methodically over two years, starting with a baseline study has created a model of community involvement which actually was based on community needs. Communications between the company and all components of society have been well nurtured over time in Routa sub-district. The selection of program types by the company and people working together is also really based on the capacity and the ability of the community is in accordance with the aspirations of the people. As a result, during the period of exploration, turmoil or conflict between communities and companies never occurred. It is unfortunate that this approach may not continue because the declining of nickel prices, made Rio Tinto decide to withdraw from their plans to mine nickel in Routa sub-district.

The importance of financial intermediation in attacking poverty has long been recognized, Substantial challenges remain in providing affordable, useful and sustainable financial services to the poor in Indonesia including in Southeast Sulawesi. Consequently, there remain instance in many parts of Indonesia in which financial constrains – rather than lack of skills, market opportunity, or supply bottlenecks – prevent poor families from making the key investment necessary to escape poverty. Evidence of the success of Bumdes management in Routa sub-district through the cooperation between people and the company has provided a solution to challenges of financial management in rural and remote areas.

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