ECONOMIC AND ENVIRONMENT IMPACTS OF COAL MINING ON SMALL REGION IN INDONESIA*

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ABSTRACT

The purpose of this paper is to asses economic and environment impacts of the coal mining industry on small region, South Kalimantan Province, Indonesia. Coal mining is growing industry in South Kalimantan as the need of energy conversion in the world due to the rising price of crude oil. Therefore, the exploitation of coal in this province is intensifying from small scale to a large scale operations. A massive exploitation without a proper technical handling for reclamation can cause environmental degradation. This condition will affect economic development sustainability. This research uses a Social Accounting Matrix (SAM) to analyze the impact of the coal mining industry on the economy and to simulate policy scenarios on the coal industry that are suitable for economic improvement and environmental sustainability.

There are five policy scenarios covering a stricter regulation of the small-scale miners (S1), enforcing a more stringent codes of mining management practices on all miners in the region (S2), redistributing royalties and other revenues to lower income families in the region (S3), implementing land rehabilitation programs (S4), and introducing mine rehabilitation bonds (S5). Among five policy scenarios, the best alternative policy is the third alternative policy (S3) if the purpose is to improve income distribution among households in the region. Distributing revenue from coal mining activities to the poor in the area will help to reduce the income gap. Additional tax applied to coal mining followed by a subsidy for poor households is very effective way to distribute income. On one hand, the application of tax to some extent will reduce a massive exploitation, on the other hand, the government revenue from this tax can be used for poverty alleviation. Therefore, this option is socially acceptable for the community, environmentally is sound and economically is feasible.

Key words: Economic and environmental impact, social accounting matrix, input-output analysis, policy simulation.

JEL-classification: C670, O130, O210, Q010.