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**Toward Equitable Oil Governance**  
Improving the Benefits for Local People in the  
Cepu Block, Indonesia

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# Toward Equitable Oil Governance: Improving the Benefits for Local People in the Cepu Block, Indonesia

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*Abstract: Oil (and gas) governance in the Cepu Block has brought a number of issues that can be related to equity failures. The most disadvantaged parties of the failures include some of local communities in Blora Regency of Central Java and Bojonegoro of East Java. Accommodating the interests of the local people, thus, becomes important, especially for accelerating poverty alleviation. This should be done in the framework of equity-based development. The big research question is: Considering that the equity failures in the oil and gas governance of Cepu Block are closely related to the lack of participation of local communities, how should the governance be more participatory to be able to distribute the benefits more equitably for the local people? This article presents progress of two years of research in answering this question (i.e., from the perception of the local people). It has used a mixed approach with a proportional random sampling to the worse-off households in the districts of Jiken, Sambong, and Cepu in Blora, and Ngasem, Kalitidu, and Dander in Bojonegoro. A focus group discussion (FGD) involving the local people from those districts obtained the needed information. It is confirmed that four aspects of benefits distribution experience severe equity failure (i.e., the aspects of job opportunity, taxation, social security, and basic infrastructure). A model to reformulate the related policies to be more equitable has then been discussed in the FGD. The results have confirmed that equitable opportunities in relevant skills education and capacity development should be prioritized. Indeed, the applicability of the proposed model should still be verified to other stakeholders (i.e., the related governments and authorized institutions in the Cepu Block oil governance). This will be done in the second year's research.*

*Keywords: Benefit Distribution, Equity-based Development, Local People Participation, Oil Governance, Poverty Alleviation, Sustainable Development*

## Introduction

Cepu Block is an oil (and gas) exploitation field that is important for Indonesia. Not only is this because of the deposit that is estimated to be quite abundant (Kwik 2005), but more importantly it is because Indonesia has become an oil net-importer over the last two decades. The exploitation area encompasses Blora Regency (Kabupaten) of Central Java and the Bojonegoro and Tuban Regencies of East Java (see Figure 1). However, only the Bojonegoro part has been exploited since the project was restarted in 2012. As it turns out, the governance of the Cepu Block reveals controversy. Some issues can be attributed to equity failures in the oil governance:

- First, the contract extension of twenty years for Exxon Mobil until 2030 has been criticized, i.e., from the indication of rent seeking (Maimunah and Kuswardono 2006; Wibowo 2006) to issue of neocolonization by foreign parties in terms of providing a tremendous advantage to foreign agencies while overriding the capability of the domestic ones. (Kwik 2005)
- Second, there are also indications of corruption in the management of the Cepu Block, especially with regard to the exploitation of natural gas, which is estimated to cost the Bojonegoro Regency 2.2 trillion rupiah in 2005. (Nurmasari 2006)

- Third, the local communities have also complained of being excluded or deprived from receiving sufficient benefits from the exploitation of the Cepu Block. (Nurmasari 2007)

The root of the issues can actually be traced back to equity failures in the related policies and their implementation. Referring to the model of equity-based development (Sugiri 2009), equity failures can be indicated in three functions: benefit distribution, production, and sustainability reinvestment functions.

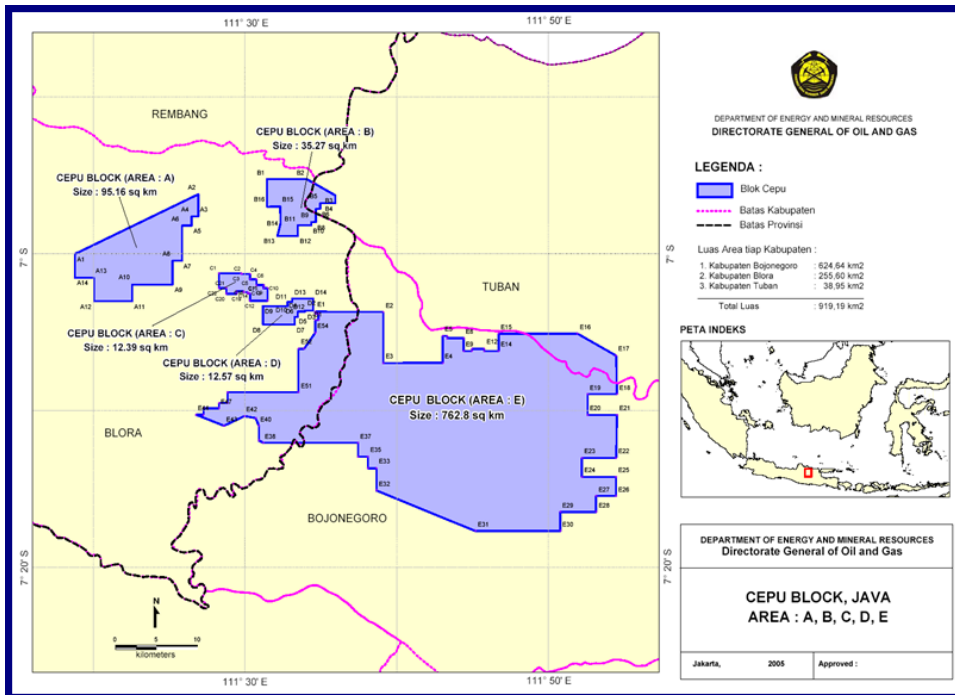


Figure 1: Map of the Cepu Block  
Source: Sugiri and Adiputra 2011, 171

The most disadvantaged parties of the failures include some of local communities in the Blora and Bojonegoro Regencies. Accommodating the interests of the local people thus becomes important, especially for accelerating poverty alleviation. This should be done in the framework of equity-based development. Therefore, the big research question is: Considering that the equity failures in the oil (and gas) governance of the Cepu Block is closely related to the lack of participation of local communities, how should the governance be more participatory to be able to distribute the benefits more equitably for the local people?

This article presents the progress of two years of research in answering this question. The first year of the research has focused on the perspective of the local people.

## Oil Governance in Sustainable Development

This literature review should be able to clarify the key aspects in this study, namely: (1) clarification of the concept of equity and sustainable development; and (2) the role of natural resources in creating and improving the welfare of the society, which also includes the threat of equity failures and the failure phenomenon of developing countries rich in natural resources to improve the welfare of the entire population. The discussion will bring awareness on the

importance of the participation of local communities. Supported by the findings of the previous studies, it will also discuss a model of participatory oil governance. This model is the research proposition that requires confirmation in the case of the Cepu Block.

### ***Ensuring Sustainability through an Equity-based Development Concept***

Sustainable development contains a necessity to ensure equity within the current generation and between generations as defined by the World Commission on Environment and Development (WCED 1987). Equity can certainly be related to, but is not the same as, equality. For example, in the fulfilment of the basic needs of people, applying equity would require that more education funds be allocated to high schools than to elementary schools, or that more food should be given to adults than to children. It is obvious that, in this case, equity is not equality. In developing the concept of equity-based development, Sugiri (2009) agrees with Rawls (1971) that equity is fairness in the process of development and justice in distributing the benefits.

In line with the definition of sustainable development by the WCED (1987), sustainable regional development is development at the region or city level that is able to ensure equity within and between generations for its people without interrupting or reducing the ability of other related regions to do the same thing (Sugiri 2009; Sugiri, Buchori, and Soetomo 2011). The concept of equity-based regional development (EBRD) by Sugiri (2009) can address the challenges of sustainability, particularly for resource-rich economies such as Indonesia. This model confirms the four functions are to be assured with the application of equity, namely the function of the distribution of benefits (I), the production function (II), the nonproduction functions (III; such as ecological, conservation, and buffer functions), and the reinvestment for sustainability (IV), as seen in Figure 2. The concept corresponds to the current relevant literature (c.f., Ituarte-Lima, McDermott, and Mulyani 2014; McDermott, Mahanty, and Schreckenber 2013). McDermott, Mahanty, and Schreckenber (2013), for example, have classified justice into distributive justice, procedural justice, and contextual fairness. All three of these types are included in the EBRD.

The result of the development process is the welfare of the population, while the input is of three types of capital: natural resources ( $K_n$ ), physical ( $K_p$ ; human-made) capital, and humans ( $K_h$ ). The development process itself includes four functions, namely the functions of production, nonproduction, reinvestment for sustainability, and the distribution of the benefits to the residents. The issue of local people participation in the oil (and gas) governance is with regard to the benefits distribution function.

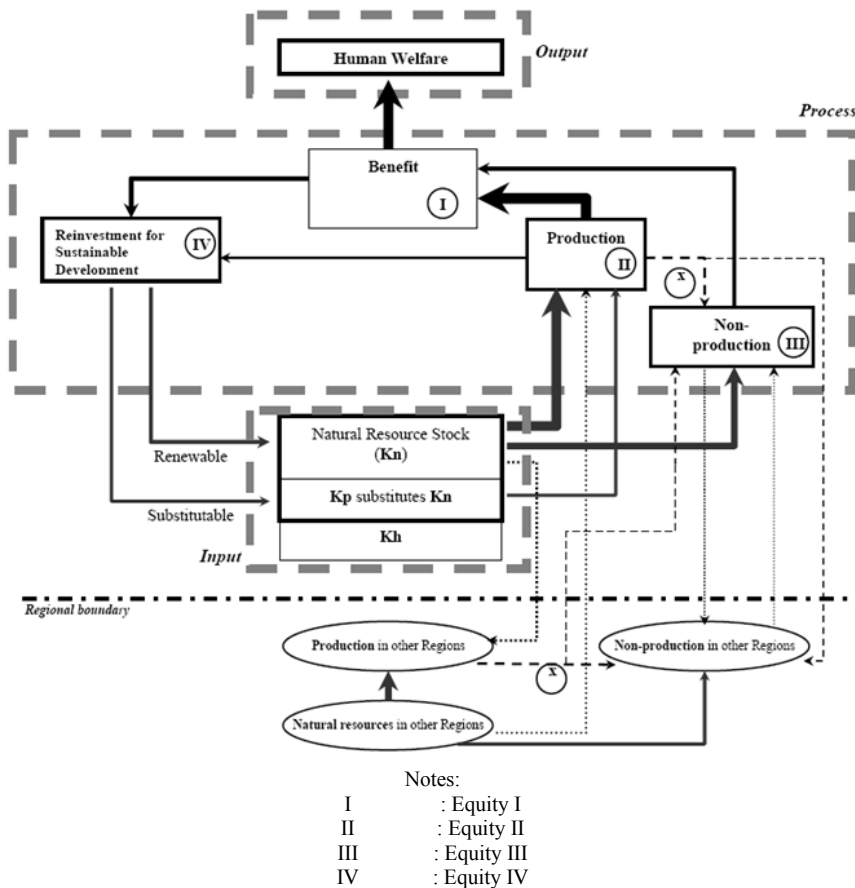
### ***The Role of Natural Resources and the Threat of Equity Failures***

The role of natural resources is very important, especially with the need to ensure sustainable development. Some aspects of the role of natural resources can be replaced by physical capital, but this concerns the production function only.

Natural resources are used in the production function as an input material and energy. Results of this function are benefits recorded in the economic statistics as the gross domestic product (GDP). In addition, natural resources are also needed for the nonproduction function or environmental sustainability. These nonproduction benefits—such as keeping the good assimilative capacity, biodiversity, comfortable micro-climate, and preventing global warming—are very important although generally not recorded in the economic statistics.

Nevertheless, the nonproduction functions should be supported by the fourth function: reinvestment for sustainability. If Function IV goes well, the authority of the city, region, or country will have enough funds to repair damage to the environment and restore the appropriate carrying capacity because a portion of benefits will generally be invested for the purpose of sustainability. Only with a mechanism such as in Figure 2 can sustainable development be ensured, that is, the optimal functions of the three types of capital can be maintained to yield in

sustainable welfare for future generations. A study on spatial inequality in the Blitar region of East Java by Sugiri and Nuraini (2013) has also found out that equity should be ensured to alleviate the inequality in regional development.



All arrows represent positive flows, except the “x” arrow which is negative externality, i.e., the negative impact of the production function to the nonproduction function; however, it is hardly captured by the market mechanism (the market failure).

Figure 2: Interregional Model of Equity-based Development  
 Source: Sugiri 2009, 117

The failure of developing countries endowed with rich natural resources has also been discussed in the literature (see, e.g., Tornell and Lane 1999; Ross 2001; Okonta and Douglas 2003; Slack 2004). Some can be linked with globalization. Trade liberalization as a form of globalization, for example, has been criticized by a former World Bank economist as an effort to maintain the inequitable relations between the developed and developing countries that only benefit the developed countries (Stiglitz 2004). The initial purpose to “bring prosperity for all” turned into a “new way in which the rich and powerful could exploit the weak and the poor” (Stiglitz 2004, 205). This is done through regulating international trade agreements, including the Uruguay Round in 1994. Stiglitz sharply criticized his own country, the United States, which “pushed other countries to open up their markets to areas of our strength, such as financial services, but resisted, successfully so [far], efforts to make us reciprocate” (Stiglitz 2004, 206).

Stiglitz’s observed conclusions of globalization on developing countries are in accordance with those of Slack (2004), who has examined the natural resource economy in general using

data from many countries. Slack (2004) has suggested that globalization can be associated with low economic growth, worsening poverty and economic inequality, and institutional damage such as corruption and rent-seeking behavior in the developing countries that are rich in natural resources. Hassan, Sukar, and Ahmed (2006) also conclude similarly for the case of sub-Saharan Africa. Meanwhile, the aspects of corruption and rent seeking resonate well with the results of a previous study by Ross (2001) concerning the governance of timber in Southeast Asia.

Specific studies concerning the governance of oil (and gas) are not many, but the conclusions regarding the natural resource management in general seem to be valid for oil and gas as well. This is supported by Okonta and Douglas (2003), who have highlighted the exploitation of petroleum in Nigeria by foreign companies, which violates the rights of local communities. It appears that equity failures occur in all the above four functions. Local communities, as has happened with other natural resource governance, cannot be involved appropriately in the decision-making process. Nigeria's case was so severe that it ignited deadly violence (Okonta and Douglas 2003). Meanwhile, Kenya had a similar experience as far as the benefit distribution to local people is concerned. A segment of the population has been marginalized due to unequitable oil governance in the Turkana region (Enns and Bersaglio 2015). It has been so unfortunate that people who are worse off become more reliant on the oil companies than on the state.

A study by Abdo (2014) found that applying extensively only one mode of governance has led to a failure in meeting the targets of the petroleum regime. Based on the UK case that used either a possessive or a nonpossessive type of governance during its more than forty years of experience, Abdo (2014, 55) recommends a refinement "by using tools from the two types of mineral resources governance: proprietorial and the non-proprietorial and reducing the number of tax changes so to add stability to the UK petroleum fiscal regime." Although Abdo's study may be relevant with the Indonesian oil (and gas) regime that has been using the proprietorial mode only, it offers relatively no lesson for managing more equitable benefits for local people, which is the focus of this research. The issue of people participation to get equitable benefits from natural resource exploitation is essential.

Supporting the participation of local communities should be done in the governance of natural resources, including oil and gas, as suggested in many studies (see Tornell and Lane 1999; Ross 2001; Slack 2004; Hassan, Sukar, and Ahmed 2006; Ayelazuno 2014; Enns and Bersaglio 2015). In addition to transparency and accountability, Slack (2004) suggests democratization in the form of a participatory approach in the management of natural resources. Slack (2004) also emphasizes fairness in empowering the civil societies in extraction-dependent countries toward a more just world order. This is in line with previous recommendations by Tornell and Lane (1999) and Ross (2001), and thereafter by Hassan, Sukar, and Ahmed (2006) and Ayelazuno (2014), to reformulate policies that can be relied on as well as changes in economic and political structures to a better direction. Moreover, Enns and Bersaglio (2015) have found new forms of inequality and marginalization in the recently exploited Turkana county of Kenya.

It is clear that all these suggest necessary participation of the local communities.

### ***Toward Equitable Oil Governance: A Proposition***

The findings of a previous study by Sugiri and Adiputra (2011), which became the foundation for this research, clarified that the state of governance in the Cepu Block, as far as the benefit distribution to the local community is concerned, can be classified as poor. The pattern can be seen in Figure 3.

It is apparent from Figure 3 that the local people cannot participate in highly productive economic activities. They can only get involved in the local companies providing services to subcontract-related activities. The local people's involvement is even less than that of the

nonlocal communities. Unfortunately, there was only one local company active at that time (2011), namely PT. Rajekwesi Mitra Tama owned by the association of fifteen village heads (lurah) in the area around the Cepu Block. Thus, the biggest portion of benefits of the economy is distributed to foreign and nonlocal parties.

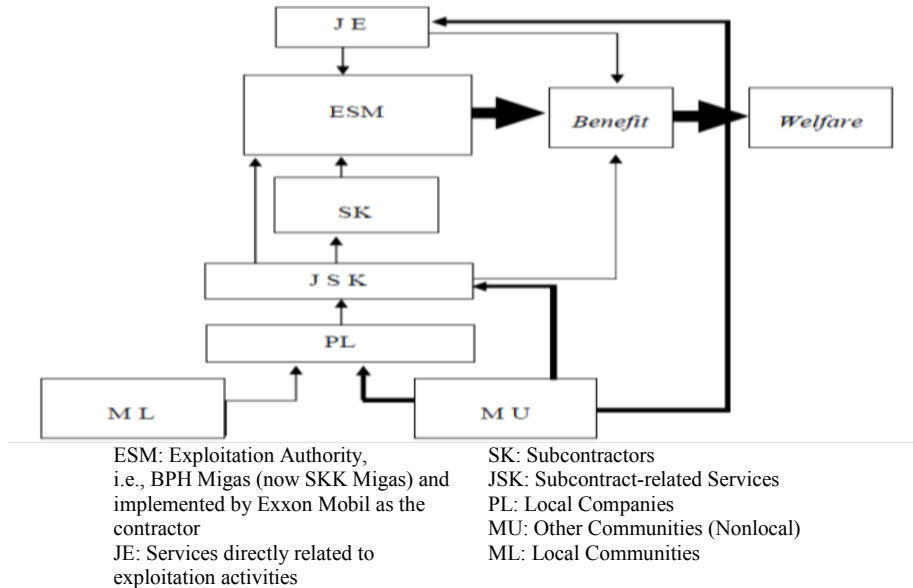


Figure 3: The Existing Oil Governance in the Cepu Block  
 Source: Sugiri and Adiputra 2011

It is also clear from previous research (Sugiri and Adiputra 2011) that local people perceive equity failures, at least in oil exploitation in general and in the seven aspects of benefits distribution (namely employment, taxation, social security, education, health, basic infrastructure, and sheltering). The fact that local communities can only engage less significantly in a local service company with low productivity conveys the message that the level of community participation is still far from the level of partnership (see Arnstein 1969).

A model of better governance, which can be implemented gradually, has been proposed by the previous study (Sugiri and Adiputra 2011). The short term model can be seen in Figure 4 while the medium-term and long-term models are in Figure 5 and Figure 6 respectively. For the short-term (i.e., one to five years into the future) tasks to be done are to facilitate local people to be involved in local companies as significant as the nonlocal people, and to begin to engage in subcontract-related services (JSKs) that are highly productive.

For the medium term (five to ten years), the local communities should be able to participate at all levels of activity, albeit their most significant involvement is still in local companies (PL) and JSKs. This is reasonable given that the level of education and skills of the local people would still be low on average. Therefore, only a few of them would be able to engage in activities that require high skills, i.e., in the companies of subcontractors (SK), exploitation-related services (JE), and exploitation activity (ESM).

Finally, for the long term (eleven to twenty years), local communities should be able to participate properly in the oil and gas governance so that they can gain more equitable benefits from the oil economy. Capacity building through training and education is key in all stages. Improvement and development of training and educational facilities must be done. A long time ago, the Dutch colonial government implemented this strategy that made the Cepu district a center for training in skills related to the oil exploitation in Indonesia. This strategy should be



revived by utilizing various financing efforts, from the reinvestment for sustainability such as corporate social responsibility (CSR) and reformulation of taxation, to the public private partnerships (PPP).

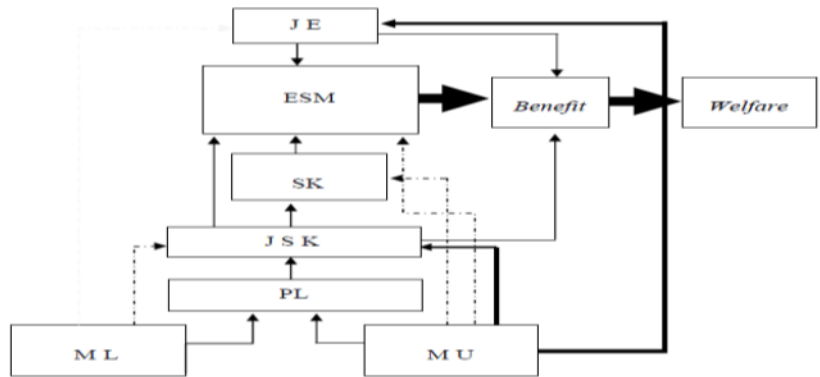


Figure 4: A Model of Short-Term Governance of Oil and Gas in the Cepu Block  
 Source: Sugiri and Adiputra 2011

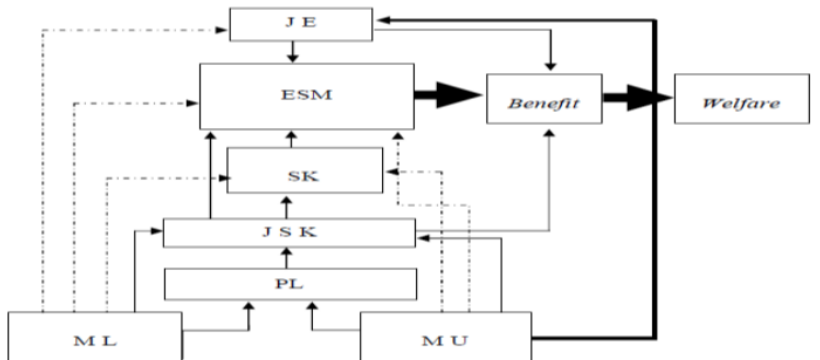


Figure 5: A Model of Medium-Term Governance of Oil and Gas in the Cepu Block  
 Source: Sugiri and Adiputra 2011

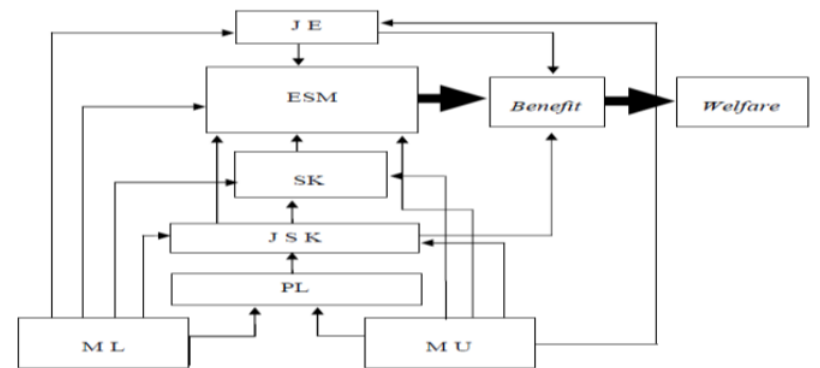


Figure 6: A Model of Long-Term Governance of Oil and Gas in the Cepu Block  
 Source: Sugiri and Adiputra 2011

The oil and gas governance model with three stages of implementation proposed by the earlier study is adopted as the research proposition, with a note that BPH Migas has been replaced by the SKK Migas.

## **Methodology**

### ***Approach and Stages of the Research***

As can be seen from its inquiry, this study is based on social constructivism philosophy. Therefore, the research approach is mostly qualitative (see, e.g., Creswell 2009; Yin 2009) with the help of a quantitative approach in measuring the equity failures as perceived by the local people.

Four stages have been completed. First, preparation was made, comprising literature review and research design. Having the research design in hand, confirmation of the proposition was started by observation and collecting data from the field. The third stage has also been done by compiling, systematizing, and analyzing the data and information. Finally, the fourth stage was to conclude and to give relevant recommendations based on the findings.

### ***Confirmation of the Proposition***

To confirm whether equity failures happen in the benefits distribution, the local people's perception on the issues was investigated. It has used the same methods applied by Sugiri and Nuraini (2013) as well as Sugiri and Adiputra (2011). Questionnaires were distributed randomly to the worse-off households in Jiken, Sambong, and the Cepu Districts of Blora Regency, and Ngasem, Kalitidu and the Dander Districts of Bojonegoro Regency. The Solvin formula (Bungin 2010) is used in determining the sample size. The population comprises of households that are worse off in the development mechanism (see Sugiri 2009) and have lived in the districts for at least five years. Since the population could not be estimated firmly due to the lack of data, the maximum sample size with a 90 percent confidence level was used, and the size was 100 households.

Meanwhile, to confirm whether the local people agree with the proposed model of equitable oil governance for short, medium and long terms, and what they expect to refine or make the model more applicable, an in-depth interview and a Focus Group Discussion (FGD) were conducted. The interview could only be made with the Head of Cepu District due to the time limitation. Fortunately, a one-day forum of FGD could be made involving forty participants including representatives of all the six districts. Content analysis was applied so that perceptions and aspirations of the local people regarding the issue being investigated could be understood properly.

## **Findings Discussion**

Discussion in this section follows the pattern of the proposition. It is because the findings of the study are intended to confirm the proposition. Three possible outcomes have been anticipated. First, the findings confirm the proposition exactly. In this regard, this study will be more "theory testing" so that lessons learned are more practical. The second alternative is the study findings only confirm some parts of the proposition without any addition. If this is the case, in addition to contributing practically, this research would provide meaningful learning for the development of the theory of equity-based development (EBD) for participatory oil governance. Certain characteristics of the Cepu Block governance may make the EBD model unable to be applied completely. The particular characteristics are certainly important for the improvement of the EBD model.

Third, the study findings not only confirm all the points of the proposition but additional research findings as well. It will also refine the EBD model. However, modifications to the operationalization of the model will be an extra, not a reduction or simplification.

As apparent later on, this study has resulted in a fourth alternative. The findings have confirmed some parts of the proposition. However, there are also additional new things that can

be inferred. This becomes very interesting and useful not only in enriching the urban and regional development practices in relation to oil governance but also in refining the EBD model operationally, especially with regard to the current issues.

### *Equity Failures in the Benefit Distribution to Local People*

The quantitative results analyzed from the questionnaires have confirmed that the equity failures on the issue Ia (the system of income and employment) are severe and on the Ib issue (access to facilities and services) are moderate (see Table 1). On a scale of one to ten, the classification of the equity failure, the trend, and the priority level refers to Sugiri and Nuraini (2013), namely:

Equity failure:

- Severe:  $\leq 5.00$
- Moderate:  $5.01-6.99$
- Low:  $7.00-9.99$
- Equitable:  $10$

Trend of the last five years (d):

- Not good:  $d \leq -0.50$
- Fair:  $-0.50 < d < 0.50$
- Not bad:  $0.50 \leq d \leq 2.00$
- Good:  $d > 2.00$

Priority Level:

- It is defined according to the score of inequity combined with the trend of the last five years.

Table 1: Equity Failures in the Benefit Distribution in the Cepu Block Region

Equity Issue	Policy Aspect	Existing Situation (Inequity Level)	Trend of the Last Five Years	Priority Level
Ia Existing overall score: <b>4.1</b>	Job Opportunity	<b>severe</b> (3.8)	fair (3.4)	1
	Taxation	<b>severe</b> (4.2)	not good (6.1)	2
	Minimum Wage	N/A	N/A	N/A
	Social Security	<b>severe</b> (4.4)	fair (3.4)	3
Ib Existing overall score: <b>5.2</b>	Education Services	<b>moderate</b> (6.3)	not good (7.0)	5
	Health Services	<b>moderate</b> (5.3)	good (3.6)	7
	Basic Infrastructure	<b>severe</b> (3.7)	not bad (2.1)	4
	Sheltering	<b>moderate</b> (5.3)	fair (4.9)	6

Source: Questionnaire Results 2015

In the system of income and employment (Ia), the equity failure is considered severe (4.1) while it is moderate (5.2) in the access to facilities and services (Ib), although it is still near enough to severe. It is worth noting that those average figures are counted with an assumption that every aspect has the same weight while in real life it may be not. Keeping this in mind, it can be said that the public policies in these two areas need reformulation to ensure more equitable benefits for the local people.

If seen in each aspect, it turns out that the aspect of minimum wage is not relevant to the condition of the worse-off communities in the Cepu Block. This is because most of the communities have a main occupation as farmer and therefore the minimum wage requirement is beyond their attention.

Meanwhile, from the four aspects with severe failures, the aspects of job opportunity and basic infrastructure have the lowest scores but the trends of the past five years are different. Job opportunities for local people in the Cepu Block area have been relatively stagnant in the last five years, while the basic infrastructure has increased.

### ***Job Opportunity***

For this aspect, all respondents agreed that all working-age people are supposed to work. Seventy-nine percent of respondents think there should be no gender priority, while the rest (21 percent) think males should be prioritized. Regarding employment, people perceive the current situation to be slightly better than five years ago, though they think the current situation is still far from ideal.

According to the community, the factors of this improvement are the activity in the Cepu Block (53 percent) and other factors (47 percent). It appears that the exploitation of the Cepu Block is instrumental in providing employment opportunities. Although not too dominant, it can even be said as quite far from the expectation. This is confirmed by the severe level of inequity in this aspect.

### ***Taxation***

All respondents agree that taxation is necessary, and if managed properly it will be able to improve equity. The tax on land and building is at the top rank as it is paid by 95 percent of respondents. In second place is vehicle tax (63 percent). As for the average amount of tax to be paid, 53 percent of respondents perceive it too great, while the rest say it is enough.

The people are aware that paying taxes is helpful, especially when considering that they are disadvantaged communities. That more than half of the people believe that taxes are overcharged may be an indication that they are not satisfied with the use of tax in financing public facilities and infrastructure. It is not surprising then that the equity failure is considered severe and worse than five years ago.

### ***Minimum Wage***

All respondents have agreed that local governments and communities should participate in determining the minimum wage. It should not be left to the market mechanism alone. However, the respondents did not comment on whether the current situation is better or worse than five years ago. This is because the majority of the worse-off people are farmers. Thus, the existence of inequity in this aspect is not provable.

### ***Social Security***

Many respondents (74 percent) believe that all residents should obtain social welfare, especially in the aspect of health (79 percent) and free education up to high school (74 percent). Regarding this aspect, the respondents argue that the current situation is just slightly better than five years ago.

It is interesting that none of the respondents agreed that social benefits for the unemployed should be given. This shows that they actually have a good work ethic. Unfortunately, severe inequity is still there on this aspect.

### ***Education Services***

All respondents agree that good access to educational services must be given to all citizens (equal opportunity). Among 73 percent of respondents who have children of school age, 5 percent of them could not send their children to schools due to the high cost of education. As for the school facilities, 63 percent of respondents say they are enough while the rest of respondents think the facilities are inadequate. Even this current state is said to be worse than five years ago with a moderate level of equity failure.

### ***Health Services***

Ninety-five percent of respondents perceive that good health care should be available for all residents, which supports the principle of equal opportunity in applying equity to this aspect. The perception that health services are generally better with an increase of 1.7 points (out of ten) compared to five years ago and that there are fewer families who struggle to obtain and pay for health care than five years ago showed that although there is still moderate inequity in this aspect, the trend is improving significantly.

### ***Basic Infrastructure***

In terms of basic infrastructure (roads, electricity, clean water, telecommunications, sanitation), the respondents have also agreed with the principle of equal opportunity. Performance of the current infrastructure has improved significantly (1.9 on a scale of ten), although adequate infrastructure is perceived by 37 percent of respondents only. Even though the inequity is still severe, the trend is not bad.

### ***Sheltering (Public Housing) for Low Income People***

It is quite interesting to know that many respondents (84 percent) consider the provision of decent and affordable housing as a role for government. This is on the contrary to the current paradigm that the government merely facilitates it. While all respondents think that people should be able to have their own houses, 37 percent of them have financial difficulties, and it is worse than five years ago (21 percent). Thus, the respondents feel the inequity in this aspect is moderate with a fair trend.

In short, equity failures in the Cepu Block area are still perceived by the worse-off local people in at least seven aspects (namely job opportunity, taxation, social security, education services, health services, basic infrastructure, and public housing) with varying levels between moderate to severe. Therefore, reformulation of the seven aspects of policy is needed with the order of priority as follows: (1) job opportunity; (2) taxation; (3) social security; (4) basic infrastructure; (5) education services; (6) public housing; and (7) health services.

## **Toward Equitable Oil Governance**

The discussion in this section starts with associating the quantitative results as described above and the qualitative findings with the proposition regarding the current state of the oil and gas governance (see Figure 3). The severe equity failure in job opportunity (with a fair trend in the last five years) confirms the proposition, with some improvement as can be seen later in the discussion.

### ***Confirmation of the Existing Oil Governance***

Results of the interview and focus group discussion also confirm the proposition. The Head of Cepu District (Camat Cepu), for example, complained that very few workers from Kecamatan Cepu particularly and Kabupaten Blora generally can work in the Cepu Block oil and gas sector. Meanwhile in Kabupaten Bojonegoro itself—where the area of exploitation of the Cepu Block in this early stage is located—most of the additional jobs that can be entered by local people is through local companies (PL) activity, which is the lowest in productivity. This is perhaps what has triggered the “policy” of Kabupaten Bojonegoro to only accept workers who have Bojonegoro ID cards.

Nevertheless, it is recognized that many workers have chosen to reside in the Cepu District while they work in the Bojonegoro part of the Cepu Block. This certainly raises the multiplier

effect for the economic development of Blora Regency. This phenomenon could improve the proposition, namely that local people can be involved in exploitation-related services (JE activities) through the provision of accommodation services to workers.

Unfortunately, the involvement of the local community in general is still at the lowest productivity. This is confirmed for instance by one of the FGD participants from Balung Village, Cepu, who says that the “owners of the boarding houses in the Cepu District are mostly middle-to high-class people, so that a lot of benefit is for the rich only.” Lower-class people can only be involved in low productive activities, such as selling gado-gado (hodgepodge vegetable meal) and other petty goods/services.

The highest productivity through JE activities remains inaccessible to the majority of local communities. This kind of activities is only for medium and big investors. This was confirmed by the Camat Cepu and the FGD participants who recognized that the highly rated hotels, which have been growing since 2012 and which includes a four-star hotel in the Cepu District, are owned by big investors from outside of the Cepu Block region. Local communities can only join the much less productive jobs such as office boys, waiters/waitresses, and cleaning staff.

### ***Short, Medium, and Long Terms of Oil Governance***

The first major aspect to be noted by all who are concerned with better oil governance of the Cepu Block is the local governmental ego that has resulted in the worsening equity failures. This was revealed in the interview with Camat Cepu and the FGD with local community representatives.

The proposition of this study states that in the short term, i.e., up to five years into the future, what needs to be done is to facilitate local communities (ML) for more equitable involvement in local companies (PL), which should be equitable with that of the general public or nonlocals (MU), in order to begin to engage in subcontract-related services (JSK) that are more productive (see Figure 4).

For that purpose, it is clearly necessary to facilitate capacity buildings to improve local people’s skills. According to the perception of the FGD participants, relevant trainings are available for Bojonegoro local communities. However, for the people of Blora, it is not easy for the people of Blora to join the trainings due to some kind of discriminative policy of Bojonegoro Regency. Many jobs at JSK companies can only be entered by workers who have Bojonegoro ID cards. Also, many skill trainings can only be attended by those with Bojonegoro ID cards.

Every successful participant of the trainings will get a certificate that is needed as a compulsory requirement to get a job in subcontractors (SK) and JSK companies. Local community leaders of Blora who participated in the FGD complained that this policy limits the improvement of the skills of the Blora local youth to get involved in high-productive activities related to the Cepu Block oil and gas exploitation. According to them, the certification policy should be reformulated based on the principle of equal rights for all segments of the local community in the Cepu Block region.

The decision to prioritize the Bojonegoro part of the Cepu Block to be exploited first seems to have triggered a regional ego. This was not anticipated well by the related national stakeholders, especially the BPH/SKK Migas. Supposedly, as voiced by the Blora local representatives in the FGD, the Cepu Block region should be treated as a whole as far as job opportunity is concerned. This means that equal opportunity should be given to local communities, no matter whether they reside in Bojonegoro or Blora Regency. Reformulation of this policy should be followed by improvement of vocational education facilities, not only for the people of Bojonegoro but also for those who live in Blora.

The second note is that it turned out to be compounded with other problems that increasingly make the local communities of Blora Regency feel they are being treated unfairly. For example, there has been no significant improvement on basic facilities and infrastructure since the

exploitation of the Cepu Block was started in 2012. Local leaders from Mulyorejo Village, Cepu and from the Sambong District expressed this issue in the FGD, highlighting particularly the roads and street lighting. It also fits with the perception of the equity failure in the aspect of basic infrastructure which is still at a severe level although the trend in the last five years is not bad. Meanwhile, they see that the situation in Bojonegoro Regency is the opposite. Basic facilities and infrastructure have been developing better, especially through the help of CSR.

Third, the community leaders of Kabupaten Bora also complained about environmental problems. A public figure from the Sambong District, Bora and a local government officer of Bora Regency expressed this in the FGD, especially regarding what was feared as an oblique drilling (the drilling location is in Bojonegoro but the drill reaches the Cepu area) and the underground waste as a consequence. They feel that the “people of Cepu (and it also includes the District of Sambong) have received waste from the oil drilling activities in Bojonegoro” and that “it has often been reported but received no response and BLH (environmental agency) of Bora is not able to handle it.” The main impact is that the fertility of the agricultural land is reduced. Although this would require a study to confirm, the people’s perception cannot be ignored.

Thus, it can be said that the local people confirm the proposition that improvement is needed toward more equitable governance for the short, medium, and long terms. However, they also realize that the obstacles must be removed first. This is certainly not an easy job because it involves the complexity of oil governance, including the governments (national, interregencies, and interprovinces), SKK Migas, Exxon Mobil Company, and the local communities.

## Concluding Remarks

The findings of the study lead to the conclusion that in order to be more participatory to be able to distribute the benefits more equitably for the local people of the Cepu Block region, the oil (and gas) governance should be reformulated gradually for the short, medium, and long terms. The most important factor is to ensure equitable capacity building for all potential local workforces so that they are able to join the highly productive activities in the oil and gas chains. The recent practices of discrimination by local authorities in both job opportunities and skill improvement trainings should be resolved by defining better, more equitable compensation arrangements.

However, whether the authorities of the Cepu Block exploitation—from the governments (including the SKK Migas) to the private agencies—agree with the above people’s proposal should be confirmed carefully so that the model of more equitable oil governance can be applicable. For this, continuation of this research is necessary.

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