Estimating the Value of Benefits in Benefit-Sharing Agreements

E. Adebayo[1] *and E. Werker*[2]

1.
Ph.D. student, Department of Economics at Simon Fraser University, Burnaby BC Canada V5A 1S6. Email: eadebayo@sfu.ca

2.
William Saywell Professor of International Business, Beedie School of Business at Simon Fraser University, Vancouver BC Canada V6C 1W6. Email: ewerker@sfu.ca

ABSTRACT

Benefit-Sharing Agreements (BSAs) determine how resource extraction companies and stakeholder communities share the economic rents created by extractive activities. Each host community, in negotiating a BSA with a mining company, must make tradeoffs between various potential benefit streams. Such benefit streams can include preferential access to sub-contracting opportunities for local firms, guarantees of direct employment for local individuals, and financial payments to the community. This paper seeks to estimate the expected size of benefits from two BSAs: the Newmont Ahafo gold mine in Ghana, and the Baffinland iron mine in Nunavut, Canada. Using a discounted cash flow methodology, we quantitatively model the expected returns to the host community signatories by estimating financial transfers, employment and wages, and contracting profits, taking into account the parameters of the mine and price expectations for the resource at the time of the signing of the BSA. When figures are unavailable, we use estimates from comparable projects or previous studies. We compare the levels of expected BSA benefits to plausible business-as-usual scenarios in which we imagine the companies carried out their extractive activities in the absence of signing a BSA with the relevant community. We find that in the Ahafo case the impacted community's total discounted benefits derived from their BSA amount to 0.9% of the total estimated life-of-mine revenue. We find that the same measure in the Mary River case amounts to 4.5% of total life-of-mine revenue, and discuss potential reasons for the divergence of value capture between the two sites. Finally, we explore how undertaking such an exercise at the time of negotiation can have practical value for future BSA negotiations and for monitoring the implementation of agreements.