

Understanding resource revenue flows: a case study of the Yukon

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Objectives:

The primary purpose of this paper was to examine the monetary flows from resource development in the Yukon. The paper provides a test of staple theory as a means of identifying the impact mining on the Yukon economy. Estimating the linkages between spending by the mining industry and the economy provides a mechanism for answering one of the key questions identified in the Resource Revenue Regimes Gap Analysis, “Where does the money go in Arctic resource development?”

Research Findings:

The paper looked at the Yukon mining cycle from 2000 to 2012. This cycle was placed in the context of the development history of the Yukon. We used a series of assumptions along with information on production and public revenues to estimate both the distribution of economic rent and the fiscal, final demand and backward linkages for mining activity during this period. The sensitivity of the results to important assumptions about operating costs and financing rates was examined.

Yukon government resource revenues were estimated to be one-tenth of the total economic rent generated, but this result was highly sensitive to reasonable variation of key assumption. However, during this period the economic rent was small compared to flows of funds into the Yukon through the three linkages.

These results reflect the mix of mining activities during the period and will be influenced by the stage of development, the scale of development and types of minerals produced.

Policy Implications:

The paper presents the staples approach as an alternative to the resource curse as a mechanism for thinking about resource production. The staples approach provides a practical way to examine the effects of mining activity on a local economy. Policies can be designed and evaluated by the effect they have on the leakage of funds along the three paths.

Future Requirements:

- Improve the estimates using more specific parameters and longer time periods.
- Compare the staple linkages across regions with different resource revenue regimes.
- Staples linkages allow an estimate of current flows from resource production. The long term effects of resource production needs to be incorporated in the model.

Dissemination and Outreach:

[“That’s where my money goes”: resource production and financial flows in the Yukon economy
Huskey, L. and C. Southcott, Polar Journal, 2016, Vol. 6, No. 1, (11-29)]

Resource Royalties Distribution and Community Development

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Objectives: The main objective of this project is to analyze the different methods used by indigenous communities and organisations to distribute royalties and profit shares paid by resource companies. Furthermore, we wish to document the benefits and negative impacts of distribution strategies in order to identify the most sustainable practices and those that allow communities to benefit economically and socially from the royalties. This project thus relates to ReSDA broader objective, which is to get a better understanding of how Northern communities can get a larger share of the benefits of resource development. Moreover, the project is being conducted closely with indigenous organisations and local stakeholders and knowledge transfer is a key aspect of the study.

Research Findings: The methodology employed for this project involved a literature review on the modes of distribution of royalties and profit shares in aboriginal communities, in Canada and abroad, and a phone survey that targeted aboriginal communities in Canada who signed an IBA with a mining company. Additionally, three case studies were carried out in northern mining communities in order to get more direct information on the impacts of the modes of distribution.

The literature review allowed the distinction of three main modes of distribution: Direct payments (short term investments), investments in community development (community infrastructures and community programs: short, middle and long term investments) and putting away the revenue in a trust fund (long term investments). In the phone surveys and the case studies, all respondents said that mining revenues had been beneficial for the communities. The phone survey participants were however divided on the best way to use the revenues: about half of them said that investments in trust funds or long-term projects like education, housing or infrastructures was the best way to maximize benefits while others considered that giving individual payments was more efficient. The lack of transparency in the distribution process was stressed as an important issue, sometimes causing distrust and a sense of inequality.

The three case studies (Red Dog mine, Raglan mine and Musselwhite mine) presented different institutional and governance contexts and revenue distribution strategies. NANA Corporation for example, distributes almost half of the revenues from Red Dog in dividends among its 14 000 shareholders. The First Nation of Kingfisher Lake, on the other hand, makes no direct payments and invests a large proportion of the revenues from the Musselwhite mine in community projects. In the Raglan case, Salluit has generally opted for individual revenue distribution and Kangiqsujuaq has mostly invested these revenues in community infrastructures and projects. The data shows that even if Kangiqsujuaq receives less revenues from the mine, the community well-being indicators are higher than in Salluit. In all cases, local stakeholders exposed the difficulties encountered in finding a balance in distributing revenues for both urgent needs and for long-lasting benefits.

Potential Policy Implications: This project provides evidence on resource revenue impacts on Arctic and Subarctic communities. Policies need to take into account that strategies have to be developed to maximize the benefits from resource revenue in term of local development and sustainability. The research also shows that strong local and regional institutions are able to mitigate the negative impact of resource revenues distribution.

Future Research: The research is based on limited case studies that should be expanded to more cases, for instance studies could focus on the role of local and regional institutions and on the criteria that are necessary for a local appropriation of the development projects, which appears as a key element for positive community development.

Sovereign Wealth Funds for Aboriginal and Northern Local Communities

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Objectives: Sovereign wealth funds (SWFs), most notably, Norway’s Norwegian Government Fund Global, are powerful fiscal instruments, that can dampen the boom and bust effects resource-based economies and foster intergenerational equity by protecting benefits from natural resource wealth are passed from generation to generation through a perpetual investment fund. Successful management of resource wealth is essential for sustainable development in Northern Canada, especially where devolution and land claims agreements are creating greater opportunities for territories and communities to obtain revenue streams from natural resources. In the past many of these communities bore most of the impacts from resource development, but often accrued little of the benefits. With new governance arrangements and resource revenue opportunities, SWFs present a fiscal tool that communities may use to help capture a larger share of resource benefits. This research project examines how Indigenous and Northern communities might consider the potential use local-level sovereign wealth funds (SWF), as well as the current legal and policy barriers to fully realizing their potential.

Research Findings: This research found that regional and local governments are starting to develop resource funds that focus on long-term investments despite barriers like taxation, and government control of band funds and resource revenues.

Potential Policy Implications: We offer policy recommendations, such as eliminating income tax on Indigenous trust funds that would maximize the benefits that SWF could provide, particularly for Indigenous communities.

We suggest continued research on this topic and engagement with communities to develop evidence based guidelines for Indigenous and Northern communities interested in creating local-level SWFs.

Further research We suggest continued research on this topic and engagement with communities to develop evidence based guidelines for Indigenous and Northern communities interested in creating local-level SWFs.

Measuring resource development impacts: The Inuvialuit Indicators Project

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Objectives: The goal of the Inuvialuit Baseline Indicators (IBI) project is to develop a set of measurable, reliable and accessible indicators to monitor socio-economic conditions in the Inuvialuit Settlement Region (ISR) with an emphasis on tracking impacts of resource development. This effort is focused on creating a framework to be used by local actors to collect, manage and analyze community-based data. The Inuvialuit region has been affected by a number of resource boom cycles associated with the resource activities in the Mackenzie Delta and more recently in the Beaufort Sea. The IRC created as a result of the Inuvialuit Comprehensive Land Claim Agreement has been collecting and publishing selected socio-economic data to aid in decision-making process and provide public access to IRC members. Given a growing interest in Arctic resources within the ISR, IRC engaged in collaboration with a social impacts monitoring team of polar scientists to develop a system of indicators based on past experiences in ISR and across the Arctic, local relevance and data availability. The objectives of the IBI project include (1) using ASI circumpolar framework of social indicators provide a background baseline analysis of IRC socioeconomic characteristics in comparison with Northwest Territories (NWT), Inuit regions of Canada/USA, and other circumpolar jurisdictions; (2) using ASI experience and community consultations identify more relevant domains that are to be included in to the socioeconomic monitoring system (3) define baseline indicators suitable for monitoring socio-economic conditions and impacts of resource development in ISR

Research Findings: The analysis of Inuvialuit Baseline Indicators for the ISR utilized the ASI-based set of measures to provide an overview and regional comparison of social well-being in the ISR. We conclude that ISR experiences some considerable internal differences in ISR (Inuvik vs. other communities), is generally better off than other non-capital NWT regions and Nunavut settlements, except for language retention. ISR made significant gains in well-being since the settlement of the CLCA, however many socio-economic problems persist. The upward trend in both indicators of wage economy and traditional economy is a sign of positive economic changes in the ISR. At the same time, the well-being gap between ISR and southern Canada has not been closed. Future work is necessary to further improve the baseline indicators system and integrate community-proposed factors and variables in the Inuvialuit well-being monitoring system. This study also developed and implemented as set of Resource Development Impact Indicators (ReDIS). These indicators and monitoring system is be based on the guiding principles established by as ASI/IBI, but include “fast” social variables, which are sensitive to short-term economic events and, at the same time, representative of the different elements of well-being. It is also well-aligned with available data and utilizes various measures continuously collected by NWT Bureau of Statistics and IRC. It is, however, important to remember that most of these indicators do not measure impacts directly, and thus should be interpreted with this limitation in mind.

The overall analysis of ReDIS produces a complicated, ‘mixed’ picture of socio-economic conditions in ISR. Some trends reflect possible positive derivatives of (resource) development, while others suggest that development benefits have not led to improving social conditions or even caused negative externalities. Generally the ISR has been moving towards improving key social-economic conditions. However, it is possible to conclude that resource development has not resulted in substantial and equitable social and economic improvements in the ISR communities. Below we focus on most concerning findings. Resource-related development did not result in commensurable improvement of material well-being. The percentage of workers with part-time appointments has declined indicating that proportionally more

wage sector employees are now working full time. At the same time, more than 25% of the ISR labor force remained outside the wage sector. Despite growing nominal incomes, we observe the rapid rise in consumer prices in the late 2000s the average relative ('real') income of IRS residents declined. Intensive resource development periods were associated with growing income inequality: the highest income inequality was observed in the early 2000s, 2003 and 2008. The ISR has more low income families than Yellowknife, and the gap slightly increased over recent years. Although the overall dependency of the ISR residents on support income diminished, the reliance of the most needy community members on income transfers may have in fact increased. This evidence suggests that despite the influx of jobs at certain points of the resource exploration cycle, the benefits to local community remain modest at best and largely confined to the early 2000s. Negative externalities of resource development, such as income inequality and rising costs of living, however, are clearly seen. In essence, the ISR was unable to capitalize on development opportunities in the long term. Typical characteristics of the resource curse, including the leakage of capital, labor force turnover, lack of institutionalized channels to secure economic benefits and dependency on external market forces were likely at play. This said, it is important to reiterate that in comparison to other NWT non-capital regions, the level of material well-being of the ISR residents is mostly higher. Fewer ISR families depend on traditional country food in their diets, which indicates a possible drowning dependency on imported foods. This, however, may not be an indicator of declined participation in hunting and fishing, but may suggest a changing nature of these activities (i.e., shift to more recreational). Declining part-time employment may also be detrimental for the traditional sector. Language retention has declined, especially for the younger population with only 8.2% of 15-24 year olds speaking the Aboriginal language in 2009. It is difficult to attribute this change directly to resource development impacts. However, with growing employment in the wage economy the relevance and use of the native language tends to decline.

Finally, we do not see improvement in human capital: although 70-75% of population graduated from high school, in the 2000s we observe a slight downward trend. Human capital is likely leaking from the ISR communities to other regions and/or schooling could be affected by resource development itself (students drop out of school to pursue employment). The general upward trend in STI also is concerning, although other regions of NWT also experienced such growth. Finally, although the difference in premature deaths in the ISR and Yellowknife seems to be closing mostly due to improvements in the Inuvialuit region, the difference is still considerable.

Potential policy implications: (1) While a direct attribution of an economic effect remains a problem, resource-related activities generate variable impacts on local communities and create a mixed picture of socio-economic conditions; (2) there is an acute need for consistent monitoring of community social and economic indicators both using standardized indicators and community-based methodologies; (3) negative externalities of resource development, such as income inequality and rising costs of living, need to receive more attention from a policy perspective; (4) since ISR was generally unable to capitalize on development opportunities in the long term, it is important to design and implement multiyear strategies that would allow utilizing economic benefits of resource-related activities in a more sustainable, long-term manner; (5) the relationships between traditional activities and resource-related wage economy are not straightforward and must be clearly understood and incorporated in policy responses to resource development in Indigenous communities.

Future Research: (1) develop procedures that will enable community-based collection, management, and analysis of data by local actors; (2) collect necessary data and expand IRC database; (3) develop and disseminate Inuvialuit Baseline Indicators data and analysis to inform region's stakeholders and aid in IRC's decision making and ensure community awareness.