

Comparing Mine Site Procurement Spending to Payments to Government

A CASE STUDY USING DATA CREATED BY CANADA'S EXTRACTIVE SECTOR TRANSPARENCY MEASURES ACT



Key Points

- While there has been a merited focus on how much mine sites pay to governments, often these figures are examined and utilised by stakeholders without looking at how they fit into the larger picture of economic impacts, including site spending on procurement and employment.
- In fact, most mine sites spend more money on procurement in-country than payments to governments, in salaries and wages, and for community investment combined. Using company local procurement reporting and data published in accordance with the Extractive Sector Transparency Measures Act (ESTMA), the two case studies of Teranga Gold Corporation's Sabodala mine in Senegal, and SEMAFO's Mana mine in Burkina Faso, show that procurement spending was much higher for both operations.
- Responsible management of mining and other natural resources should look at all economic impacts as a whole, rather than piecemeal to ensure better governance. Looking at only payments to governments from ESTMA-required data or procurement spending on their own, provides an incomplete picture.
- Currently it is very difficult to find data on procurement spending by individual mine sites in the same way ESTMA creates project-specific revenue payments. This is either because mining companies have not provided statistics on their procurement spending disaggregated by individual mine sites like ESTMA (and the Extractive Industries Transparency Initiative - EITI) requires, or because they do not provide figures at all.

This brief was written as part of efforts by member organisations of Publish What You Pay (PWYP) Canada to utilise data created by the [Extractive Sector Transparency Measures Act \(ESTMA\)](#) in their respective work to improve natural resource governance. Mining Shared Value, an initiative of Engineers Without Borders Canada, was part of this successful campaign to push for this legislation. Mining Shared Value is grateful for the feedback provided by the Director of PWYP Canada, Emily Nickerson, in writing this brief. For more information on PWYP Canada, visit: www.pwyp.ca



Comparing Mine Payments to Governments and Procurement Spending

There have been significant transparency gains over the last decade, with numerous reforms to laws, policies, and global reporting frameworks. Some of the most notable gains have been laws requiring oil, gas and mining companies to publish their payments to governments around the world on a project-by-project basis. Adopted in the United States (2010), Norway (2013), the European Union (2013), Canada (2014) and Ukraine (2018), these laws cover approximately 85% of the world's largest oil companies and approximately 60% of the world's largest mining companies.¹

In Canada, the relevant legislation is the Extractive Sector Transparency Measures Act (ESTMA) which came into force on June 1, 2015, and which made available for the very first time hundreds of reports from Canadian extractive industry companies detailing payments to governments both in Canada and abroad. These payments include: taxes (other than consumption taxes and personal income taxes), royalties, fees (including rental fees, entry fees and regulatory charges, as well as fees or other consideration for licences, permits or concessions), production entitlements, bonuses (including signature, discovery and production bonuses), dividends (other than dividends paid as ordinary shares) and infrastructure improvement payments.²

While this increased transparency is a highly positive development allowing citizens to better understand extractive industry revenues received by governments, these payments of various taxes, royalties and fees are often looked at in a siloed manner, without concurrently looking at other types of economic impacts such as procurement by the company or job creation (direct and indirect). The purpose of this case study is to illustrate this point by showing how payments to governments made by two mine sites compare to the spending made

¹ Based on the market capitalisation of the top 100 oil and top 100 mining companies in 2014, from Publish What You Pay United States (2015). "Transparency on the Move: Payment Disclosure by the World's Largest Oil, Gas & Mining Companies", [Retrehttp://www.publishwhatyoupay.org/wp-content/uploads/2015/10/Company_Coverage_Fact_Sheet_Final.pdf](http://www.publishwhatyoupay.org/wp-content/uploads/2015/10/Company_Coverage_Fact_Sheet_Final.pdf)

² Government of Canada (2018). Extractive Sector Transparency Measures Act: Guidance, page 11. Retrieved from: https://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/estma/pdf/ESTMA%20Guidance%20-%20Version%202_1%252C%20July%202018.pdf

by those same sites on the procurement of goods and services in the countries where they operate. If used together, data on payments to government and procurement data can provide a much more complete picture of economic opportunities for countries hosting mining.

Beneficiaries within host countries

Local suppliers of goods and services are the biggest recipients of host country investment, accounting for 71% of in-country expenditure of \$37,402m.

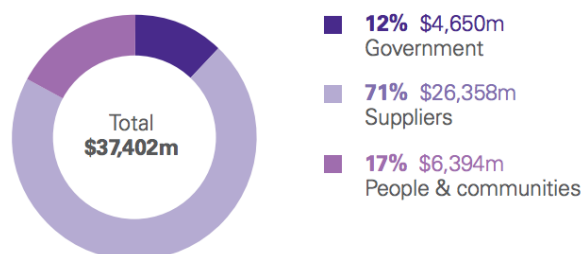


Figure 1: Breakdown of spending by the World Gold Council's mining company members in 2013, World Gold Council (2014), *Responsible gold mining and value distribution, 2013 data*

With the focus on extractive industry payments to government, it is often missed that in most cases mines make more payments to host country suppliers than to the government. In fact, most mine sites spend more on procurement than taxes, employee salaries and wages, and in community investment *combined* (see Figure 1). In 2012 and 2013 for example, the mining company members of the World Gold Council spent 68% and 71% of their in-country payments on suppliers respectively.³⁴ Payments to governments by contrast were 15% in 2012 and 12% in 2013.

These figures provided by the World Gold Council members for procurement of goods and services include both imported goods resold by in-country suppliers, and the provision of services by international firms with in-country branch offices. As such, the purpose of showing how procurement spending is usually much larger than payments to government is not to downplay the importance of those revenues and their prudent use, but rather to show that there are other sizable payments being made during mining activity that should be better managed through transparency and accountability efforts to create host country benefits. For example, the shift of procurement of just 1% from resold imported goods to domestically manufactured products can result in tens of millions of dollars staying in the host country each year.

³ World Gold Council. (2014). *Value Distribution: The Benefits of Gold Mining to Host Countries*. Retrieved from <https://www.gold.org/goldhub/research/value-distribution-benefits-gold-mining-host-countries>

⁴ World Gold Council. (2013). *Responsible gold mining and value distribution: A global assessment of the economic value created and distributed by members of the World Gold Council*. Retrieved from http://www.gold.org/sites/default/files/documents/responsible_gold_mining_and_value.pdf

A note on fiscal regimes

It should be noted that fiscal regimes and operating conditions vary significantly across jurisdictions so it is important to consider where World Gold Council member extraction is concentrated.⁵ For example, average effective tax rates vary significantly between jurisdictions from approximately 20% in select Canadian provinces and territories, 43% in Mongolia, and 74% in Indonesia.⁶ While these payments to governments reflect the non-renewable and context-specific nature of these deposits and contribute to states' ability to develop and diversify beyond extractives activity, procurement is tied to mine site operations and executing daily activities. Capturing procurement opportunities is a function of the local economies ability to provide the required goods and services to a company's operating activities, from exploration to closure.

The following examples explore two specific mine sites and how much they paid each year, as reported in their ESTMA reports, in comparison to reported spend on procurement of goods and services in-country. The aim of these examples is to provide governments, civil society and other practitioners a more complete picture of economic impacts and to better inform efforts at improving natural resource governance. Without a holistic understanding of mine payments – which includes payments like procurement that are generally far larger than taxes – an incomplete picture will emerge that lessens the ability to leverage the broad economic development opportunities that arise from mining projects, as well as to introduce sufficient mechanisms to deter corruption.

Background on ESTMA and Reporting on Local Procurement

Under the provisions of ESTMA, Canadian companies must report all payments to governments in Canada or in a foreign state made in relation to commercial development of oil, gas, or minerals that total (as one or more payments) at least \$100,000 CAD.⁷ Payment categories that must be reported include: taxes (other than consumption taxes and personal income taxes), royalties, fees, production entitlements, bonuses, dividends, and infrastructure improvement payments.

Procurement spending by contrast is not a reporting requirement for companies registered or listed in Canada, and is only a reporting requirement in a handful of jurisdictions. While mining legislation in host countries often

⁵ For a list of company members of the World Gold Council, see: <https://www.gold.org/who-we-are/our-members>

⁶ Natural Resources Canada (2011) NRCAN Bulletin, retrieved from: <https://www.nrcan.gc.ca/mining-materials/markets/8358>
Table with effective tax rates: <https://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/mineralsmetals/files/longdesc/4048.html#fig2>

⁷ Government of Canada (2018). Extractive Sector Transparency Measures Act: Guidance, page 11. Retrieved from: https://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/estma/pdf/ESTMA%20Guidance%20-%20Version%202_1%252C%20July%202018.pdf

will require reporting on economic impacts, such as in Zambia where 2016 mining regulations require companies to report “proof of the holder’s compliance with the approved local business development programme”, reporting is often not standardised and is not required to be public.

PART VIII
REPORTS BY MINING RIGHTS AND MINERAL PROCESSING LICENCE HOLDERS

49. (1) The holder of an exploration license shall-

- (b) submit to the Director of Geological Survey and Director of Mines Safety an annual comprehensive report of exploration operations, on or before the end of the first month following the end of the year, which shall include
 - (i) a comprehensive summary of all pertinent geological, geochemical and geophysical data supported by maps, diagrams and sections and including in particular details of mineralization revealed, calculations and estimates of ore reserves and the data on which such calculations and estimates are based;
 - (ii) a brief description of work undertaken; and
 - (iii) proof of the holder’s compliance with the approved local business development programme; and

Figure 2: Requirements for mining rights and mineral processing licence holders to report “proof of the holder’s compliance with the approved local business development programme” (Government of Zambia 2016, 11-12)

In the absence of government regulation requiring reporting on procurement spending, many mine sites voluntarily provide this information as part of corporate social responsibility reporting in line with the Global Reporting Initiative (GRI). Mining companies may choose to use the GRI to report this and other impacts as part of their commitments to being responsible and transparent, and also for the purpose of conveying the economic benefits their activities create. GRI Disclosure 204-1⁸ refers to the proportion of spending on local suppliers and requirements for this disclosure include: (a) percentage of the procurement budget used for significant locations of operation that is spent on suppliers local to that operation (such as percentage of products and services purchased locally); (b) the organization’s geographical definition of ‘local’; and (c) the definition used for ‘significant locations of operation’. The GRI recommends that, when compiling information for this disclosure, the reporting organization calculate the percentages based on invoices or commitments made during the reporting period, i.e., using accruals accounting.

⁸ Global Reporting Initiative (2016), GRI 204: Procurement Practices 2016, p. 7.

In addition to the GRI, there is also the Mining Local Procurement Reporting Mechanism (LPRM), which provides a standardised set of disclosures for mine sites to report on their local procurement efforts and results.⁹ The 300 level disclosures ask for companies to explain how they define their different categories of “local” (for example “local-local” and national suppliers), and how much they spend on each category. If reporting in accordance with the LPRM, a mine site will show how much it spends in country on procurement at site level.

Case Study #1: Teranga Gold Corporation (2016 & 2017)

Teranga Gold Corporation’s Sabodala gold mine is the largest producing gold mine in Senegal.¹⁰ Located approximately 650 km east of the capital city at Dakar, the Sabodala mine is expected to produce over one million ounces of gold. Teranga was founded in 2010 and is headquartered in Toronto, Ontario, Canada.¹¹

In 2016, Teranga paid \$53,289,000 (USD) to the government of Senegal, in taxes (\$27,686,000), royalties (\$21,081,000), fees (\$1,311,000), and infrastructure improvement payments (\$3,231,000).¹²

In 2017, Teranga paid \$48,771,000 to the government, in taxes (\$30,008,000), royalties (\$13,372,000), fees (\$2,983,000), and infrastructure improvement payments (\$2,408,000).¹³ For 2017, less than one percent of Teranga’s payments to the Government of Senegal were associated with exploration work. For 2016 the ESTMA report provided by Teranga does not break down its total spending by project and so it is not possible to see how the tax spending by the operating mine site compares to that of exploration projects (though one can assume the latter is minimal).

While these figures are significant, they are much lower than Teranga’s local procurement spend during the same period, reaching totals of \$138,976,000 in 2016 and \$136,294,000 in 2017.¹⁴ Note that local procurement spending in this context includes subsidiaries of foreign companies, as well as suppliers with more than 50%

⁹ The Mining Local Procurement Reporting Mechanism can be downloaded here: <http://miningsharedvalue.org/mininglprm/>

¹⁰ Teranga Gold Corporation. Sabodala Gold Mine. Accessed on 2019-04-05. Retrieved from: <https://www.terangagold.com/sabodala/default.aspx>

¹¹ Teranga Gold Corporation. Contact. Accessed on 2019-04-05. Retrieved from: <https://www.terangagold.com/investors/contact/default.aspx>

¹² Teranga 2016 ESTMA Report. Accessed on 2019-04-09. Retrieved from: http://s1.q4cdn.com/851853033/files/doc_downloads/2017/05-30-2017-Teranga-ESTMA-Consolidated-Report-FINAL.pdf

¹³ Teranga Gold Corporation, 2017 ESTMA Report. Accessed on 2019-04-09. Retrieved from: http://s1.q4cdn.com/851853033/files/doc_downloads/2018/05/2017-ESTMA-Consolidated-report-FINAL-ROUNDED-FOR-FILING.pdf

¹⁴ 2017 Sustainability Report. Teranga Gold Corporation. Accessed on 2019-04-09. Retrieved from https://s2.q4cdn.com/949220588/files/doc_downloads/responsibility_governance/responsibilityReports/Teranga_Gold_2017_Responsibility_Report_ENGLISH.pdf

capital from Senegal. The chart below compares in-country spending for 2016 and 2017 by Teranga, showing this large difference. Again it should be stressed that much of this spending on local procurement is for imported goods resold by in-country suppliers, but these large figures show the scale of additional revenue that can potentially stay in country if products are produced locally.

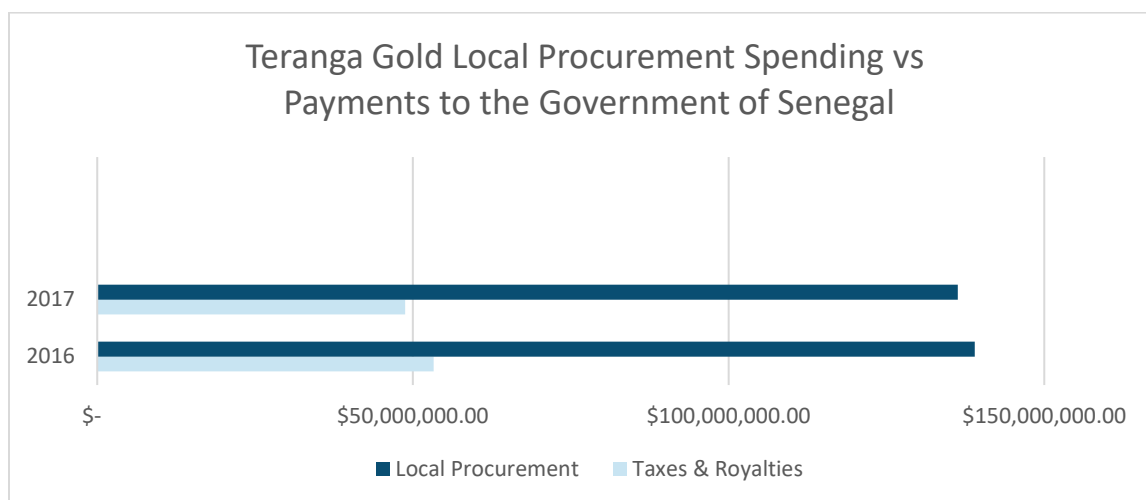


Figure 3: A Comparison of payments made in Senegal by Teranga Gold for 2016 and 2017

Case Study #2: SEMAFO Inc. (2016 & 2017)

SEMAFO Inc.'s Mana gold mine is located in Burkina Faso, approximately 260 kilometers southwest of the capital at Ouagadougou. Mana is the third-largest mine in Burkina Faso and has produced some 2.0 million ounces since its first gold pour in 2008. Since then, SEMAFO has expanded their plant four times to reach a current processing rate of over 7,200 tonnes per day. In 2018, Mana gold production totaled 181,000 ounces.¹⁵ SEMAFO is headquartered in Montreal, Canada.

In 2016, SEMAFO contributed \$26,410,000 (Canadian dollars) across all projects to the Government of Burkina Faso in taxes (\$10,070,000) and royalties (\$16,340,000).¹⁶ They contributed another \$33,790,000 in taxes (\$20,150,000) and royalties (\$13,640,000) in 2017.¹⁷

¹⁵ Semafo Inc. Operations and Exploration. Accessed on 2019-04-09. Retrieved from <https://www.semafo.com/English/operations-and-exploration/operations/default.aspx>

¹⁶ Semafo Inc., 2016 ESTMA Report. Accessed on 2019-04-09. Retrieved from: http://s2.q4cdn.com/795832262/files/doc_downloads/ESTMA-Reporting-Semafo-2016-EN.pdf

¹⁷ Semafo Inc., 2017 ESTMA Report. Accessed on 2019-04-09. Retrieved from: https://s2.q4cdn.com/795832262/files/doc_downloads/ESTMA_EN_2017.pdf

While these figures are significant, they are much smaller than SEMAFO's local procurement spending in Burkina Faso over the same period, reaching totals of \$101,000,000 and \$180,000,000 in 2016¹⁸ and 2017¹⁹, respectively. Note that local procurement spending in this context refers to total in-country purchases, and so includes imported goods and potentially services provided by international firms with registered branches in-country. The bar chart below compares SEMAFO's local procurement spending and payments to the Government of Burkina Faso for 2016 and 2017.

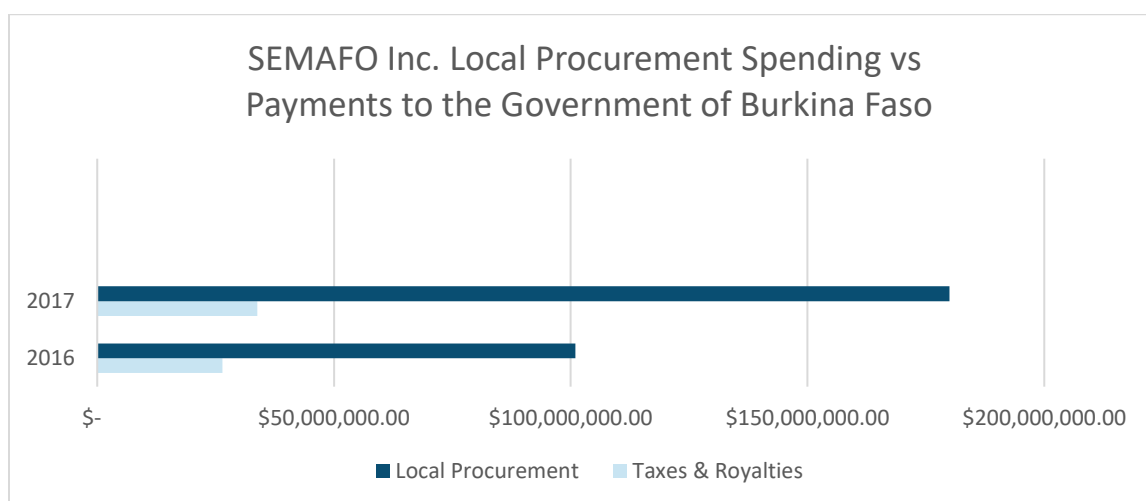


Figure 4: A Comparison of payments made in Burkina Faso by SEMAFO Inc. for 2016 and 2017

Analysis

The two case studies above, as well as aggregated data such as that of the World Gold Council, show that revenue payments to governments are not likely to be the largest expenditure by mine sites. This means that looking at only look at taxes and other payments to governments provides an incomplete picture of how mining activity can potentially be harnessed by host countries to create economic and social development.

In addition, while stakeholders are often rightly concerned about the potential for corruption related to the payment and use of tax revenues, these two case studies show that payments to governments are not the only major spend that should be viewed as a potential corruption risk. As outlined in the OECD's *Corruption in the Extractive Value Chain: Typology of Risks, Mitigation Measures and Incentives*, there are many potential risks of corruption during procurement by mine sites. The fact that mine site payments in procurement are normally

¹⁸ 2016 Sustainable Development Achievements. Semafo Inc. Accessed on 2019-04-09. Retrieved from: https://s2.q4cdn.com/795832262/files/reports%20_CSR_EN/2016/2016-SD-Report-FINAL.pdf

¹⁹ 2017 Sustainable Development Achievements. Semafo Inc. Accessed on 2019-04-09. Retrieved from: https://s2.q4cdn.com/795832262/files/reports%20_CSR_EN/2017/2017-SDR_SMF-site.pdf

larger than those in taxes shows that anti-corruption practitioners should not overlook procurement processes in their attempts to prevent corruption during the mine life cycle.

None of the above suggests civil society and other stakeholders should devote any less time to focusing on mining company revenue payments to government. However, regarding efforts to improve mining governance, these case studies demonstrate that revenue payments should be looked at alongside procurement figures, as well as other in-country payments (payments in salaries and wages, and community investment for example).

Challenges in Finding Procurement Data by Mine Site

Local procurement reporting from mine sites and ESTMA data, when available together, can help governments, civil society, and industry organisations better work together to harness mining activity for economic and social development. However, it is important to note that it is often very difficult to find data on project level procurement spending from mine sites. This limits the ability to compare procurement spend with other project level disclosures, such as payments reported through ESTMA.

While reporting on local procurement by mine sites has been steadily increasing in detail over the last five years²⁰, it remains a challenge to find the precise figures on procurement spending on a project by project basis, for individual mine sites. While the GRI does request this information and many companies state they are reporting in accordance with indicator 204-1, few actually provide the information disaggregated by site. Some, for example, will aggregate procurement spending across one country, even if they have more than one mine site. When aggregated, it is impossible to understand how procurement spending compares to payments to government for an individual mine site, resulting in an incomplete picture for stakeholders.

By contrast, ESTMA reporting is disaggregated and allows for truly informed analysis as all the types of payments to government must be provided by each site. As seen in the ESTMA reporting example from another Canadian company, Teck Resources, it is very easy to understand the exact figures for each government payment type, for each mine site.

²⁰ See our analysis of public reporting on local procurement by Canadian and global mining companies in studies released 2014, 2015 and 2017, available at <http://miningsharedvalue.org/publications>

Payments by Project										
Country	Project Name	Taxes	Royalties	Fees	Production Entitlements	Bonuses	Dividends	Infrastructure Improvement Payments	Total Amount paid by Project	Notes
Canada	Fording River	\$ 106,860,000	\$ -	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ 106,870,000	
Canada	Elkview	\$ 86,980,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,980,000	
Canada	Greenhills	\$ 75,990,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,990,000	
Canada	Line Creek	\$ 46,170,000	\$ -	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ 46,270,000	
Canada	Coal Mountain	\$ 34,410,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,410,000	
Canada	Highland Valley Copper	\$ 27,400,000	\$ -	\$ 3,080,000	\$ -	\$ -	\$ -	\$ -	\$ 30,480,000	
Canada	Cardinal River	\$ 26,390,000	\$ -	\$ 790,000	\$ -	\$ -	\$ -	\$ -	\$ 27,180,000	
Canada	Corporate Office - Coal	\$ 12,480,000	\$ -	\$ 6,880,000	\$ -	\$ -	\$ -	\$ -	\$ 19,360,000	Note 2
Canada	Frontier	\$ 370,000	\$ -	\$ 2,960,000	\$ -	\$ -	\$ -	\$ -	\$ 3,330,000	
Canada	Galore Creek	\$ 50,000	\$ -	\$ 460,000	\$ -	\$ -	\$ -	\$ -	\$ 510,000	Note 9
Canada	Quintette	\$ -	\$ -	\$ 360,000	\$ -	\$ -	\$ -	\$ -	\$ 360,000	
Canada	Duck Pond	\$ 210,000	\$ -	\$ 40,000	\$ -	\$ -	\$ -	\$ -	\$ 250,000	
Canada	Head Office - Canada	\$ 100,000	\$ -	\$ 140,000	\$ -	\$ -	\$ -	\$ -	\$ 240,000	
Canada	Bullmoose	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,000	
Canada	Sullivan	\$ 190,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 190,000	
Canada	Lease 421	\$ 20,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,000	
United States of America	Corporate Office - US	\$ 232,910,000	\$ -	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ 232,920,000	Note 1
United States of America	Red Dog	\$ 88,870,000	\$ -	\$ 1,680,000	\$ -	\$ -	\$ -	\$ -	\$ 90,550,000	Note 1
United States of America	Pend Oreille	\$ 380,000	\$ 360,000	\$ 60,000	\$ -	\$ -	\$ -	\$ -	\$ 800,000	Note 1
United States of America	Noatak Project	\$ -	\$ -	\$ 700,000	\$ -	\$ -	\$ -	\$ -	\$ 700,000	Note 1
United States of America	Mesaba	\$ -	\$ -	\$ 180,000	\$ -	\$ -	\$ -	\$ -	\$ 180,000	Note 1
United States of America	US Exploration Property	\$ -	\$ -	\$ 40,000	\$ -	\$ -	\$ -	\$ -	\$ 40,000	Note 1, Note 8
Peru	Antamina	\$ 134,410,000	\$ -	\$ 5,550,000	\$ -	\$ -	\$ -	\$ -	\$ 139,960,000	Note 1, Note 9
Peru	Peru Exploration Properties	\$ 40,000	\$ -	\$ 2,670,000	\$ -	\$ -	\$ -	\$ -	\$ 2,710,000	Note 1, Note 5
Peru	Corporate Office - Peru	\$ -	\$ -	\$ 60,000	\$ -	\$ -	\$ -	\$ -	\$ 60,000	Note 1
Peru	Zafrañal	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000	Note 1

Figure 5: Example of ESTMA project-by-project reporting: Excerpt from Teck Resources ESTMA Report for 2017, where payments to government are broken down by each project across multiple countries, allowing stakeholders to fully understand the payments associated with each location.

Conclusion

These two case studies demonstrate the value in project level reporting to examine the economic impacts of mining activity. Recent project level disclosure gains regarding payment to governments available through ESTMA (and equivalent legislation outside of Canada) provide critical data, but similar levels of disclosure for procurement spending data have not yet been met. Being able to see project by project level spending on payments to governments, procurement, and a multitude of other impacts at the same time, allows stakeholders to have more informed discussions about the potential benefits and challenges for these projects.

It is hoped that by showing that procurement spending is actually far larger than payments to governments in these two mine site case studies, that civil society, government, and other practitioners recognise the danger in looking at particular impacts in a siloed manner. Sustained attention should continue to be given to mining company payments to governments, but other economic impacts merit focus as well. Ultimately looking at all of these impacts in a more holistic manner can only result in better policy outcomes.