

Extractive Industries Transparency Initiative (EITI)

Second Validation of Solomon Islands

Draft assessment by the EITI International Secretariat

11 May 2018

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1. Summary

Solomon Islands' second Validation commenced on 8 March 2018. The EITI International Secretariat has assessed the progress made in addressing the twenty-one corrective actions established by the EITI Board following Solomon Islands' first Validation in 2016¹. The twenty-one corrective actions relate to:

1. Government commitment, stakeholder engagement and MSG oversight (Requirements 1.1, 1.2, 1.3, 1.4 and 1.5)
2. Licenses and contracts (Requirements 2.1, 2.2, 2.3, and 2.4)
3. Monitoring and production (Requirements 3.2 and 3.3)
4. Revenue collection (Requirements 4.1, 4.6, 4.7, and 4.9)
5. Revenue allocation (Requirements 5.1 and 5.2)
6. Socio-economic contribution (Requirements 6.1 and 6.3)
7. Outcomes and impact (Requirements 7.3 and 7.4)

¹ <https://eiti.org/validation/solomon-islands/2016>

The draft assessment was sent to the Solomon Islands Extractive Industries National Stakeholder Group (SIEINSG) on 11 May 2018. On [TBC], the SIEINSG sent comments [...]. The assessment was thus finalised for consideration by the EITI Board.

2. Background

Solomon Islands commenced EITI implementation in July 2012 and has published four EITI Reports. The most recent report, covering data for the 2015 fiscal year, has been published, although there is no evidence that the report was published before the deadline of 31 December 2017. The country is currently suspended after having been assessed to have made inadequate progress by the Board following the first Validation. Minimal activities have taken place since then. A budget cut by the government for the EITI implementation resulted in the national secretariat drafting the 2015 EITI Report. Moreover, as with previous reports, companies continued to refuse to provide data. Four SIEINSG meetings have been conducted in 2017. The SIEINSG does not appear to have engaged on the corrective actions beyond commenting in a letter² to the EITI Board on the findings of the International Secretariat's initial assessment and submitting on 8 June 2017 an Action Plan³ to address the corrective actions. The Action Plan lists down each corrective action and the corresponding activities that the SIEINSG intends to conduct to address them, including engaging with and consulting relevant agencies and companies, assessing the capacity of civil society, revising the work plan and Annual Progress Report, and addressing issues on data quality. It does not appear, however, that these activities have been conducted. The 2016 Annual Progress Report⁴ further shows that EITI activities beyond SIEINSG meetings have been limited.

Mining activities in Solomon Islands are minimal. According to the Central Bank of Solomon Islands statistics, mining and quarrying contributed to less than 1% of total GDP in 2015. While there were several active mines in recent years, all of them have ceased operations either due to revocation of licenses or risks to public safety. Currently, there is one active mine producing bauxite in Rennell Islands. There are, however, several prospecting licenses because of known substantial deposits of nickel and cobalt. Recognizing the potential of the extractive sector to contribute to the economy, the government adopted a new National Minerals Policy in 2017 that aims to strengthen the regulation of the sector by refining the roles of agencies and strengthening inter-agency coordination. The policy also includes principles on revenue transparency, apparently drawing largely from the EITI Standard.

3. Review of corrective actions

As set out in the Board decision on Solomon Islands' first Validation, the EITI Board agreed 21 corrective actions⁵. The Secretariat's assessment below discusses whether the corrective actions have been sufficiently addressed. The assessments are based on minutes of the SIEINSG meetings from January 2017 to July 2018, 2015 EITI Reports, the 2016 annual progress report and the 2017 work plan, alongside various documents submitted by the SIEINSG to the EITI International Secretariat and consultations with the national secretariat.

² https://eiti.org/sites/default/files/documents/solomon_islands_letter_from_undersecretary_mckinnie_dentana.pdf

³ <http://www.sieiti.gov.sb/index.php/publications.html?task=document.viewdoc&id=46>

⁴ <https://eiti.org/document/solomon-islands-2016-annual-progress-report>

⁵ EITI (February 2017), "Board decision on the Validation of Solomon Islands", accessed [here](#)

Commented [VS01]: The report was published on 07 June 2017. See MSG members meeting on 07 June 2017 that endorsed the update report.

Commented [VS02]: This is due to budget cut and new Government priorities.

Commented [VS03]: Four SIEINSG meetings have been conducted in 2017

Commented [VS04]: The MSG did engage on some activities in the corrective actions. Some of the activities progressed include consultations with agencies and companies. See a brief report of consultation attach

Secondly the work plan have been regularly updated/revised.

Commented [VS05]: Assessing capacity of Civil society and issue of data quality appear not been conducted. Because of budget cuts and staff shortage at National Secretariat Office.

3.1 Corrective action 1

In accordance with Requirement 1.1, the government must be fully, actively and effectively engaged in the EITI process (Requirement 1.1.c). The government must also ensure that senior government officials are represented on the SIEINSG (Requirement 1.1.d). In accordance with Requirement 8.3.c, the government constituency is required to disclose a time-bound action plan for addressing the deficiencies in government engagement documented in the initial assessment and the Validator's Report within three months of Board's decision, i.e. by 8 June 2017.

Findings from the first Validation

The Board found that Solomon Islands had made inadequate progress in meeting this requirement. It was observed that government **commitment** has waned over the years, starting from the change of administration in 2014. No statement of commitment to implement the EITI has been issued despite several requests from the SIEINSG. Government participation in the EITI has been limited to SIEINSG meetings. Although there has been some financial support to implementation from the government, senior government representatives have only occasionally intervened to address bottlenecks in implementation. Major barriers to implementation such as confidentiality provisions and lack of company reporting still exist. Moreover, in 2015 Snyder Rini, Minister of Finance and Treasury (MOFT) expressly stated his reservations in implementing the EITI, as he considered transparency as a sensitive **issue**.

Commented [VS06]: At political level

Progress since Validation

In March 2017, the Ministry of Finance, through Undersecretary McKinnie Dentana, wrote the EITI Board narrating the efforts exerted by government to meet the EITI requirements. It was mentioned in the [letter](#) that the Solomon Islands Extractives Industries National Stakeholder Group (SIEINSG) has been consulting with government agencies to secure support for EITI and align implementation with national priorities. The letter further pointed out that government will provide funding for the EITI implementation, and that its contribution to the discussions of the National Minerals Policy include ensuring that EITI reporting requirements will be met. This policy was adopted in June 2017 and contains specific policy measures that would enable disclosure of EITI data such as revenues, production, exports, beneficial owners, financial flows, and licenses. Minutes of SIEINSG meetings⁶ made available to the secretariat show that only two or three government representatives regularly attend the meetings. Their contribution to discussions during meetings mostly pertain to procedural matters such as updating the work plan and approving the report. One government representative mentioned in a meeting the need to engage companies and to address legal barriers by making company participation mandatory. It does not appear, however, that further steps were taken to follow up on this **suggestion**.

Commented [VS07]: This statement to be corrected as- In 2015 Hon. Snyder Rini, Minister of Finance and Treasury expressly stated his reservation in implementing EITI as he considered EITI was not the new Government priority.

Secretariat's Assessment

The International Secretariat finds that Solomon Islands' progress in meeting requirement 1.1. remains **inadequate**. Although the letter from the Ministry of Finance outlines several activities to improve government engagement, there is limited evidence that these have been implemented and that the government is fully, actively and effectively engaged in the EITI process. While it appears that the transparency and accountability principles in the National Minerals Policy were largely drawn from the

Commented [VS08]: SI EITI is only work with the responsible Government Ministries reforms to resolve the legal barriers and companies active engagements.

⁶ <http://www.sieiti.gov.sb/index.php/component/edocman/55-10112017-SIENSG-meeting-minutes.html?Itemid=0>, see also <http://www.sieiti.gov.sb/index.php/component/edocman/54-0762017-SIENSG-meeting-minutes.html?Itemid=0>

EITI requirements, it has not been shown how government has taken this policy further to actually address the barriers to implementation such as ensuring company participation. It was also brought to the International Secretariat's attention that government did not provide any funding for the publication of the 2015 EITI Report. Consequently, the SIEINSG tasked the national secretariat to produce the report instead. The International Secretariat is also not aware of any statement of commitment being issued by government to continue implementing the EITI.

Commented [VS09]: The Government plan for policy is to conduct reforms of existing laws/regulations to pave way for smooth implementation of the policy. Currently, reforms of our tax laws being conducted and others like mines, environment, yet to be started. World Bank/ other donors is supporting mineral sector reforms.

3.2 Corrective action 2

In accordance with Requirement 1.2, companies should demonstrate that they are fully, actively and effectively engaged in the EITI process (Requirement 1.2.a). The government must ensure that there is an enabling environment for company participation with regard to relevant laws, regulations, and administrative rules as well as actual practice in implementation of the EITI. The government must ensure that there are no obstacles to company participation in the EITI process (Requirement 1.2.c). In accordance with Requirement 8.3.c, the company constituency s required to disclose a time-bound action plan for addressing the deficiencies in company engagement documented in the initial assessment and the Validator's Report within three months of Board's decision, i.e. by 8 June 2017.

Findings from the first Validation

The Board found that Solomon Islands had made inadequate progress in meeting this requirement. Despite identifying the legal obstacles to government disclosure and company participation in the EITI and recommendations to overcome them, there were still legal and practical barriers to implementation that have prevented comprehensive reporting. As a result, no company had ever provided data for the purpose of the EITI Report. It was thus not possible to conclude that there was an enabling environment for company participation in the EITI especially since it has been shown that government has not exerted additional efforts to require participation. Although stakeholders were participating and increasingly taking an active role in the SIEINSG, the Board found that it was still difficult to conclude that industry was fully, actively and effectively engaged in the design, implementation, monitoring and evaluation of the EITI process.

Commented [VS010]: Significantly on disaggregation reporting of taxes and mining contract due to confidentiality clause in tax law and Mining Act/regulations

Progress since Validation

Minutes of SIEINSG meetings show that company attendance in SIEINSG meetings has remained the same, although there were two additional companies⁷ that participated in the meeting on 15 February 2018. More importantly, the companies still refused to participate in the 2015 EITI reporting process. The International Secretariat is not aware of any activities or initiatives conducted or led by companies that would illustrate their continuous commitment to the EITI. While minutes of SIEINSG meetings⁸ show that securing company participation in EITI Reports has been discussed, it is unclear how those discussions were acted upon by companies outside of the SIEINSG meetings.

Commented [VS011]: The companies agreed in principle to provide data for 2016 and 2017 report.

Secretariat's Assessment

The International Secretariat concludes that Solomon Islands' progress in implementing this requirement remains inadequate in the absence of any indication that company participation has improved since the first Validation. It is not clear to what extent the company representatives in the SIEINSG are exerting

⁷ Gold Ridge and Bintan Mining Ltd attended the meeting. Previously, only SMM Mining was a regular attendee

⁸ SIEINSG meeting minutes, 10 November 2017

efforts to convince their superiors to participate in the EITI or to lobby government to make EITI participation mandatory. Although securing company support has been discussed in SIEINSG meetings, these discussions have not yielded any result beyond sending letters to companies which was done by the national secretariat.

3.3 Corrective action 3

In accordance with Requirement 1.3, the civil society must be fully, actively and effectively engaged in the EITI process. Requirement 1.3.e.ii further requires that stakeholders, including but not limited to members of the SIEINSG must be substantially engaged in the design, implementation monitoring and evaluation of the EITI process, and ensure that it contributes to public debate. In accordance with Requirement 8.3.c, civil society constituency is required to disclose a time-bound action plan for addressing the deficiencies in civil society engagement documented in the initial assessment and the Validator's Report within three months of Board's decision, i.e. by 8 June 2017.

Findings from the first Validation

The Board concluded that Solomon Islands had made meaningful progress in meeting this requirement. The Board recognised that there was an enabling environment for civil society to participate in the EITI but lack of technical capacity and funding constraints limited the CSOs' ability to participate in EITI implementation. In the absence of any evidence that the CSOs have actively sought to address this concern, the Board found it difficult to conclude that CSOs were fully, actively and effectively engaged in the design, implementation, monitoring and evaluation of the EITI.

Progress since Validation

CSO representatives continue to attend SIEINSG meetings, but there is no evidence to show that the level of their participation has improved. The International Secretariat is not aware of any capacity building activity conducted by civil society whether among CSO SIEINSG representatives or with the wider constituency aside from a training on beneficial ownership conducted with the entire SIEINSG in June 2017⁹. It does not appear that civil society has exerted any effort to seek technical assistance from external partners. With government decreasing its funding for EITI, it does not appear that other funding options have been made available to civil society to enable their participation. The CSOs discussed during the SIEINSG meeting on 15 February 2018¹⁰ that more funds should be provided by government for CSO activities. The International Secretariat has not found any indication that civil society has stimulated public debate after the report was published, or that it is lobbying the government to strengthen commitment to EITI. It also does not appear that CSO representatives in the SIEINSG are commenting on the continuous non-participation of companies in the EITI Reports and on the non-availability of funds to engage an Independent Administrator.

Secretariat's Assessment

The International Secretariat's assessment is that civil society engagement has regressed from being meaningful to inadequate. While it was evident during the first Validation that the CSOs were to a certain extent engaged in outreach activities and in monitoring the progress of EITI, there is no indication that similar activities have been conducted by civil society after the first Validation was concluded in March 2017. In fact, the Annual Progress Report for 2016 did not mention any outreach or dissemination efforts,

⁹ EITI Implementation Progress Report, 2017, published on the SI-EITI website <http://www.sieiti.gov.sb/>

¹⁰ The minutes from 15 February 2018 are available from the EITI International Secretariat

nor analysis made by CSOs to stimulate public debate in the country. The minutes of SIEINSG meetings also suggest that CSOs hardly participate in technical and policy discussions. Neither has it been shown that civil society is monitoring progress and lobbying for increased government commitment and company participation. All these considerations make it difficult to conclude that civil society has been fully, actively, and effectively engaged in EITI implementation.

Commented [VS012]: CSOs are Government stakeholders and have been participating in number of Government policies, e.g. The Nature Conservancy (TNC) is an active contributor to the National Mineral policy, 2017 and so Voise Blo Mere, Solomon.

3.4 Corrective action 4

In accordance with Requirement 1.4.a, the government should ensure that all constituencies are adequately represented by including in the SIENSG all key government agencies and companies. Requirement 1.4.b.i, further requires that members of SIENSG should ensure that they have the capacity to carry out their duties. SIENSG members should ensure that they are able to perform their duties in accordance with their own Terms of Reference. In accordance with Requirement 1.4.vi, the SIENSG should agree and publish its procedures for nominating and changing representatives. This should include ensuring that there is a process for changing group members that respects the principles set out in Requirement 1.4.a.

Findings from the first Validation

The Board concluded that Solomon Islands had achieved meaningful progress in implementing this requirement. It found that while the current composition of the SIEINSG seems to be representative of relevant stakeholders, it was unclear to what extent government SIEINSG members had access and ability to influence decision-makers within their agencies in order to ensure effective implementation. It was observed that although all stakeholders were participating in SIEINSG meetings, only a few were able to engage in the more technical aspects of EITI implementation and wider issues in the extractive sector. The Board also found that while the MoU for the SIEINSG addressed the requirements of the EITI Standard, it was only partially followed in practice. Specifically, there was a discrepancy between the composition outlined in the MoU and the actual practice in terms of a number of SIEINSG members. Appointments of alternates were also made on ad hoc basis without prior notice and clear selection process. In addition, the procedure for selecting representatives in the SIEINSG was not published. Overall, the Board concluded that there were concerns on the ability of stakeholders to carry out their EITI duties, as shown by the lack of substantial discussions taking place during SIEINSG meetings on matters other than those related to the preparation of the EITI Report.

Progress since Validation

The composition of the SIEINSG has remained the same since the first Validation. The only capacity building activity mentioned in the documents reviewed by the International Secretariat is a training on beneficial ownership conducted in June 2017 which led to the finalization of the beneficial ownership roadmap. Aside from this, there is nothing to suggest that the SIEINSG has adopted measures to enhance its capacity to carry out its duties. Minutes of SIEINSG meetings show that discussions remain limited to the approval of the EITI report or administrative matters and hardly touch on policies and reforms. The procedure for nominating and changing representatives has not been published. There is nothing to suggest that governance practices have substantially changed for one to conclude that the SIEINSG MOU is now being fully adhered to.

Commented [VS013]: MSG is being seen as hardly touching on policies and reforms because it is sole responsibilities of responsible ministries. MSG play support roles to the ministries on policies and reforms agendas which depend on Ministries request. Most instance it is done by National Coordinator or via direct request to MSG member Offices.

Secretariat's Assessment

The International Secretariat concludes that the level of Solomon Islands' progress towards meeting this requirement has regressed from meaningful to inadequate. During the first Validation, it was established that the SIEINSG exercised regular oversight on the EITI process, as seen from its approval of EITI reports, work plans, and annual progress reports. The current situation, however, seems to suggest that the entire EITI process is now more driven by the national secretariat. In fact, it was only the national secretariat that submitted comments on the initial assessment during the first Validation. Minutes of SIEINSG meetings¹¹ also show that it is the national secretariat that is being tasked to engage companies, when this should be the responsibility of the SIEINSG. The SIEINSG discussions during meetings continue to be around processes rather than the more substantive aspects of implementation. There is also no showing of any attempt to determine and publish nomination procedures for each constituency.

3.5 Corrective action 5

In accordance with Requirement 1.5, the SIEINSG is required to maintain a current work plan, fully costed and aligned with the reporting and Validation deadlines established by the EITI Board. The work plan must set implementation objectives that are linked to the EITI principles and reflect national priorities for the extractive industries (Requirement 1.5a) and assess and outline plans to address any potential capacity constraints in government agencies, companies and civil society that may be an obstacle to effective EITI implementation (Requirement 1.5.c.i). It should also address the scope of EITI Reporting, including plans for addressing technical aspects of reporting such as comprehensiveness and data reliability (1.5.c.ii). It is also required that the work plan identify and outline plans to address any potential legal or regulatory obstacles to EITI implementation, including any plans to incorporate the EITI Requirements within national legislation or regulation. (Requirement 1.5.c.iii). Lastly, it should outline the SIEINSG's plans for implementing the recommendations from Validation and EITI Reporting (Requirement 1.5.c.iv).

Findings from the first Validation

The Board concluded that Solomon Islands had made inadequate progress in meeting this requirement. The 2016 work plan lacked details required by the Standard such as a timetable for implementation of activities, costing, funding, sources of funds and technical assistance, and activities related to the scope of EITI reporting. There was also no evidence that the work plan had been widely circulated. Moreover, there was little evidence that the objectives were focused on national priorities for the extractive sector. In the absence of a timetable for each activity, it was difficult to assess which activities were behind schedule although a stocktake with the national secretariat revealed that only three activities have been completely implemented.

Progress since Validation

Solomon Islands updated its work plan in 2018¹². A copy was shared with the International Secretariat and has been published on the SIEITI website¹³. The work plan lists three national priorities such as: 1) to observe and subscribe to international regulations and standards; 2) to create a framework for transparency and accountability by mandating a set of reporting requirements for companies in line with international transparency standards; and 3) to review current national fiscal and monetary policies to

¹¹ 10 November 2017 <http://www.sieiti.gov.sb/index.php/publications/minutes.html>

¹² SIEINSG meeting minutes, 15 February 2018

¹³ <http://www.sieiti.gov.sb/index.php/publications.html?task=document.viewdoc&id=41>

enhance broad-based economic development to enable the economy to grow, and review and amend the Mines and Minerals Act. There is no evidence that consultations within or outside the SIEINSG were made before these objectives were adopted.

Under these national priorities is a set of objectives and activities that mostly relate to the EITI process such as hiring of an Independent Administrator, agreeing on data credibility & assurance process, meeting stakeholders, conducting an impact assessment, implementing the action plan to address corrective actions, and some administrative tasks. It is unclear whether the activities have been implemented according to the intended schedule given the broad timeframe indicated for most. While the work plan lists as one of the activities the execution of the action plan to address corrective actions, the only activity in the work plan that relates to this is the creation of a monitoring plan for civil society. The work plan also does not include any activity aimed at addressing legal obstacles.

Secretariat's Assessment

The International Secretariat's assessment is that Solomon Islands' progress in meeting this requirement remains inadequate. Almost the same observations on the 2016 work plan can be made on the 2018 work plan, such as lack of details on sources of funds and technical assistance needed. While the work plan purports to list national priorities, only one priority, that is, to review current national fiscal and monetary policies to enhance broad-based economic development to enable the economy to grow, and review and amend the Mines and Minerals Act could be considered as related to wider sector governance. The activities under this, however, have no logical link to the objective. These activities include CSO monitoring, updating of the EITI website and conducting an EITI impact assessment. In the same vein, the other two priorities pertain more to the EITI process as evidenced by the activities listed under them, such as reviewing the reporting template, implementation of beneficial ownership roadmap and Validation. It was mentioned, however, that there will be meetings with stakeholders to ensure that EITI is relevant to each constituency's priorities, although no further details were provided. It also does not contain activities meant to address capacity constraints. Although the 2018 work plan now provides a time frame for implementation and expected outcomes, there is limited evidence that the work plan has been widely circulated or that comments of stakeholders have been sought.

Commented [VSO14]: MSG comments/ feedbacks on WP requested during the MSG meeting, there was no significant comment and so WP was endorsed. The WP was widely circulated via email to MSG members and on website.

3.6 Corrective action 6

In accordance with Requirement 2.1.a, Solomon Islands must disclose a description of the legal framework and fiscal regime governing the extractive industries. This information must include a summary description of the fiscal devolution, an overview of the relevant laws and regulations, and information on the roles and responsibilities of the relevant government agencies.

Findings from the first Validation

The Board concluded that Solomon Islands had made inadequate progress in meeting this requirement. The 2014 Report lacked details pertaining to fiscal devolution and regulatory framework. It only contained a very brief discussion of relevant laws without further elaborating on how the sector is regulated. The roles of government agencies were also omitted.

Progress since Validation

The 2015 EITI Report¹⁴ (p.19) merely mentions the name of relevant laws without providing an overview of how the salient provisions of these laws. There is still no discussion of fiscal devolution, regulatory framework, and the roles of agencies.

Secretariat's Assessment

The International Secretariat's assessment is that Solomon Islands' progress in implementing this requirement remains inadequate. There appears to be no effort to address this particular corrective action as shown by the still limited discussion on legal framework in the 2015 EITI Report.

3.7 Corrective action 7

In accordance with Requirement 2.2, Solomon Islands is required to disclose the (i) the technical and financial criteria used in awarding licenses, (ii) information about the recipient(s) of the license that has been transferred or awarded, including consortium members where applicable, and (iii) any non-trivial deviations from the applicable legal and regulatory framework governing license transfers and awards related to the award or transfer of licenses pertaining to the companies covered in the EITI Report during the accounting period covered by the EITI Report.

Findings from the first Validation

The Board concluded that Solomon Islands had made no progress in meeting this requirement. The identified gaps were lack of review of deviations from the applicable procedure per license award and the failure to disclose the technical and financial criteria used to assess the applications. It was noted, however, that the report included a useful overview of the license application process for each of the types of licenses, as well as a discussion of some of the gaps in the licensing allocation process.

Progress since Validation

The 2015 EITI Report (p.21) shows that only one license was allocated in 2015. There is still no description of the technical and financial criteria for awarding licenses, and no description of non-trivial deviations from the applicable legal and regulatory framework.

Secretariat's Assessment

The International Secretariat's assessment is that Solomon Islands still has made no progress in meeting this requirement. The information disclosed in the 2015 EITI Report reveals that no actions were taken to address this corrective action.

3.8 Corrective action 8

In accordance with Requirement 2.3.b, Solomon Islands is required to maintain a publicly available register or cadastre system(s) with the following timely and comprehensive information regarding each of the licenses pertaining to companies covered in the EITI Report: (i) license holder(s), (ii) where collated, coordinates of the license area, (ii) date of application, date of award and duration of the license, (iv) in the case of production licenses, the commodity being produced. Any significant legal or practical barriers preventing such comprehensive disclosure should be

¹⁴ https://eiti.org/sites/default/files/documents/solomon_islands_eiti_report_2015.pdf

Commented [VS015]: I have found requirement 2.2 challenging. Unless the current legal reforms are conducted successfully, we may have access to disclose possible deviation from process.

documented and explained in the EITI Report, including an account of government plans for seeking to overcome such barriers and the anticipated timescale for achieving them.

Findings from the first Validation

The Board concluded that Solomon Islands had made inadequate progress in meeting this requirement. The 2014 EITI Report did not provide a list of all existing licenses and their corresponding information, which was a regression from the details disclosed in the 2013 EITI Report.

Progress since Validation

The 2015 EITI Report (pp.22-24) includes a list of all license holders, all of which were prospecting licenses, that were issued from September 2014 to December 2016. The dates of award, expiry date, location and exploration status are provided. The coordinates of the license areas and date of application were not disclosed.

Secretariat's Assessment

The International Secretariat's assessment is that Solomon Islands has made meaningful progress in meeting this requirement. The level of disclosure on license allocations has improved in the 2015 EITI Report with the inclusion of information on license holders, dates of award, expiration date, and location, despite the fact that coordinates and dates of application are still missing.

3.9 Corrective action 9

In accordance with Requirement 2.4.b, EITI Report must document the government's policy on disclosure of contracts and licenses that govern the exploration and exploitation of oil, gas and minerals. This should include relevant legal provisions, actual disclosure practices and any reforms that are planned or underway. The EITI Report should provide an overview of the contracts and licenses that are publicly available, and include a reference or link to the location where these are published.

Findings from the first Validation

The Board concluded that Solomon Islands had made no progress in meeting this requirement. It observed that while the Supplementary 2013 EITI Report included commentary on contracts and other information pertaining to the license, information about disclosure and confidentiality of these documents, both in theory and practice, was not disclosed, nor was there any information about reforms underway related to contract transparency.

Progress since Validation

The 2015 EITI Report (p.24) explains that the government has no specific policy on contract disclosure. It, however, referred to the new Minerals Policy which indeed states that mining agreements, land access agreements, and community development agreements must be available for inspection in hard copy in the relevant provincial government office. There is no description of actual practices on contract disclosure in the 2015 EITI Report.

Secretariat's Assessment

The International Secretariat's assessment is that Solomon Islands has achieved meaningful progress in meeting this requirement. The recent report refers to the Minerals Policy which embodies the

government's policy on contract disclosure. However, this information still falls short of satisfactory progress in the absence of a description of actual practices on contract disclosure and reforms that are underway.

3.10 Corrective action 10

In accordance with Requirement 3.2, Solomon Islands must disclose production data for the fiscal year covered by the EITI Report, including total production volumes and the value of production by commodity, and, when relevant, by state/region. SIEINSG should confirm all existing production for all commodities for the year covered by the report.

Findings from the first Validation

The Board concluded that Solomon Islands had made meaningful progress in meeting this requirement. It observed that there was no production value provided for gold, silver or bauxite, and no production volumes for bauxite even if exports started in late 2014.

Progress since Validation

The 2015 EITI Report (p.26) discloses production data for bauxite which appears to be the only commodity produced in 2015. The data cited refers to export data which, as the report explains is based on the total shipments for the period of 2014 to 2015, implying that the report equated production with exports. Production value is expressed in terms of export proceeds.

Secretariat's Assessment

The International Secretariat's assessment is that the level of Solomon Islands' progress towards meeting this requirement is satisfactory. While the report fails to explain why production data was equated to export data and why export proceeds were used as the basis for production value, the International Secretariat understands that all bauxite production is exported and processed abroad.

3.11 Corrective action 11

In accordance with Requirement 3.3, Solomon Islands must disclose export data for the fiscal year covered by the EITI Report, including total export volumes and the value of exports by commodity, and, when relevant, by state/region of origin. SIEINSG should confirm all existing exports for all commodities for the year covered by the report.

Findings from the first Validation

The Board concluded that Solomon Island had made inadequate progress in meeting this requirement given the lack of export volumes and lack of reporting on Bauxite exports in 2014.

Progress since Validation

The 2015 EITI Report (p. 26) discloses export volumes for 2015 in the aggregate. Export volume and value of Bauxite from the only producing site, the Rennel Bauxite Mining, are disclosed but under the section on production, since the report equates production with export. The EITI Report also provides figures for the volume of gold exports in 2015, but does not provide export value for gold.

Secretariat's Assessment

The International Secretariat's assessment is that Solomon Islands has made meaningful progress in meeting this requirement. Export volume and value for bauxite are now disclosed in the report. However, for gold, only the export volume, not the value, is disclosed.

3.12 Corrective action 12

In accordance with Requirement 4.1.c, Solomon Islands must provide a comprehensive reconciliation of government revenues and company payments, in accordance with the agreed scope. All companies making material payments to the government are required to comprehensively disclose these payments in accordance with the agreed scope. All government entities including provincial governments receiving material revenues are required to comprehensively disclose these revenues in accordance with the agreed scope. In accordance with Requirement 8.3.c, SIEINSG is required to disclose a time-bound action plan for addressing the deficiencies in data comprehensiveness documented in the initial assessment and the Validator's Report within three months of Board's decision, i.e. by 8 June 2017.

Findings from the first Validation

The Board concluded that Solomon Islands had made inadequate progress in meeting this requirement. The SIEINSG had agreed a list of material revenue streams and materiality thresholds, and based on this, a list of companies and government entities for inclusion in the 2014 EITI Report. All revenue streams appeared to be included. However, the 2014 Report did not include disclosures from the two companies that were deemed material by the SIEINSG. Although the government had disclosed revenues received from these two companies, the data was not disaggregated by revenue stream. Six out of seven central government agencies participated, and four out of eight provinces completed the templates. While the report included disclosures from these government agencies, it did not explain whether these disclosures were comprehensive.

Commented [VS016]: Tax law do not allow disaggregate of taxes by companies. Tax Law only permit aggregate discloser.

Progress since Validation

The 2015 EITI Report does still not include disclosures from companies. Even though four companies have been identified as making material payments and therefore part of the scope of the report (p.5 and p.37), none of these companies disclosed any payment. The EITI Report provides a list of revenue streams that should be disclosed (p.41). The government made unilateral disclosures of revenues received from the five companies against these streams but only in the aggregate (p.42). There was no unilateral disclosure by the government of the payments received from each company. It also appears from the list of revenues provided in the report that values for some revenue streams were missing, such as, for example, payments for additional profits tax and goods tax. It is not clear whether these revenues are not disclosed because no payments were made, or because disclosure of the data was omitted from the government templates. With regards to discrepancies, the report includes an amount representing differences, but it is unclear how this difference was calculated considering that companies did not disclose any data. The report explains that the comparison was made between the declarations of the collecting government agencies and the data of the Ministry of Finance (p.12). It should be noted as well that since there was no Independent Administrator hired to produce the report, the national secretariat was responsible for data collection and the calculation of the differences identified.

Commented [VS017]: Companies do not granted their consent for SI EITI to obtain their individual tax data at the IRD. Our Tax law allows aggregate reporting by IRD.

Secretariat's Assessment

The International Secretariat's assessment is that the level of Solomon Islands' progress towards meeting this requirement has regressed from inadequate to no progress. Company disclosures are still missing, making the reconciliation process uncomprehensive. To aggravate the deficiencies during the first Validation, the purported reconciliation process for the 2015 EITI Report was not undertaken by an Independent Administrator. The SIEINSG also did not submit a time-bound action plan to address the deficiencies on data comprehensiveness, apart from the national action plan for Validation which did not contain enough details specific to this requirement.

Commented [VS018]: Reason is due to limited availability of funds to meet the cost of an IA.

Commented [VS019]: SI EITI did submit a plan. Please re-check.

3.13 Corrective action 13

In accordance with Requirement 4.6, it is required that SIEINSG establish whether direct payments, within the scope of the agreed benefit streams, from companies to subnational government entities are material. Where material, SIEINSG is required to ensure that company payments to subnational government entities and the receipt of these payments are disclosed and reconciled in the EITI Report.

Findings from the first Validation

The Board concluded that Solomon Islands had made meaningful progress in meeting this requirement. It had been confirmed that extractive companies made direct payments to provinces in the Solomon Islands. However, the 2014 EITI Report did not clarify the materiality of direct subnational payments. Outreach activities were conducted to fully understand the scope of direct subnational payments.

Progress since Validation

The 2015 EITI Report (p.27) disclosed subnational payments received by Isabel province, stating that the other three provinces reported that no payments were received from extractive companies in 2015. There is no discussion on the materiality of direct subnational payments, but the amounts paid to the Isabel province shows that the payments represent 1.5% of total revenues received from mining.

Secretariat's Assessment

The International Secretariat's assessment is that Solomon Islands' progress in meeting this requirement is satisfactory. While there is still no determination of the materiality of these payments, it can be seen from the total revenues that direct subnational payments account for only 1.5% of revenues. Under the circumstances, a unilateral disclosure by government could be deemed sufficient.

3.14 Corrective action 14

In accordance with Requirement 4.7, SIEINSG is required to agree the level of disaggregation for the publication of data. It is required that EITI data is presented by individual company, government entity and revenue stream.

Findings from the first Validation

The Board concluded that Solomon Islands had made inadequate progress in meeting this requirement. The 2014 EITI Report contained disclosures from each government agency disaggregated by company but it did not show how much each company paid for each revenue stream. The 2014 EITI Report had government disclosures for each revenue stream but there was no data from companies due to the failure of Axiom Mining Limited and SSM Solomon Limited to participate.

Progress since Validation

The 2015 EITI Report discloses payments collected by each government agency for each revenue stream (p.27 and p.42). However, unlike the 2014 EITI Report, there is no more disclosure of government collection from each company. Company disclosures are still missing.

Secretariat's Assessment

The International Secretariat's assessment is that the level of Solomon Islands' progress towards meeting this requirement has regressed from inadequate to no progress. While the previous EITI Report disclosed government revenues for each company and each individual revenue stream, the current report only discloses government figures by revenue stream such that there is no more disclosure, even on a unilateral and aggregate basis, of how much government collects from each company.

3.15 Corrective action 15

In accordance with Requirement 4.9.a, the EITI requires an assessment of whether the payments and revenues are subject to credible, independent audit, applying international auditing standards. SIEINSG should comply with the following:

- a. Payments and revenues should be reconciled by a credible, independent administrator, applying international auditing standards, and with publication of the administrator's opinion regarding the reconciliation including discrepancies, should any be identified (#4.9.b)
- b. The reconciliation of company payments and government revenues must be undertaken by an Independent Administrator applying international professional standards (#4.9.b.1)

In accordance with Requirement 8.3.c, SIEINSG is required to disclose a time-bound action plan for addressing the deficiencies in data quality documented in the initial assessment and the Validator's Report within three months of Board's decision, i.e. by 8 June 2017.

Findings from the first Validation

The Board concluded that Solomon Islands had made inadequate progress in meeting this requirement. The 2013 EITI Report outlined assurance procedures for government data and company data but these procedures did not appear to have been followed. The 2014 EITI Report contained no commentary on auditing requirements for companies, nor any broader summary of prevailing audit and assurance practices. There was no confirmation that the financial statements of companies had been audited according to international auditing standards and whether these were publicly available. Since the two companies did not disclose information, there was no company data to assess. In addition, the Independent Administrator expressed concern over the data collection process and quality of data provided to him.

Progress since Validation

The 2015 EITI Report was not prepared by an Independent Administrator. The report (pp.11-12) explains that prior to data collection, a "reconciliation process analysis" was conducted with reporting entities and consultations were done with SIEINSG members. This was followed by an agreement on the scope of the report and the approval of the reporting template. All of these processes were conducted by the national secretariat. Based on minutes of the meeting on 21 March 2017, it appears that the national secretariat was tasked by the SIEINSG to collect data for the purpose of drafting the EITI Report. The EITI Report

Commented [VSO20]: Reporting aggregate against Individual companies may not possible due to companies do not granted consent for that release.

included setting out procedures for assurance of government data by stating that all government templates must be signed by a government official. There was, however, no evaluation of whether this has been complied with.

Solomon Islands have not submitted a time-bound action plan to address deficiencies in data quality as directed by the Board during the first Validation apart from the action plan on Validation which does not contain enough details to address the corrective action.

Secretariat's Assessment

The International Secretariat's assessment is that the level of Solomon Islands' progress towards meeting this requirement has regressed from inadequate to no progress. While the 2013-2014 EITI Reports had gaps in the veracity of the collected data and concerns about the credibility of the Independent Administrator, the 2015 EITI Report has serious gaps not only with the data itself, but also with the data collection and reconciliation process due to the absence of an Independent Administrator. Regardless of the competence and capacity of the national secretariat to carry out the functions of the Independent Administrator, this should be considered as a serious deviation from EITI's agreed upon procedures. Solomon Islands also failed to submit a time-bound action plan to address concerns on data quality suggesting that no efforts were made to address this corrective action.

3.16 Corrective action 16

In accordance with Requirement 5.1.a, Solomon Islands should indicate which extractive industry revenues, whether cash or in kind, are recorded in the national budget. Where revenues are not recorded in the national budget, the allocation of these revenues must be explained, with links provided to relevant financial reports as applicable, e.g., sovereign wealth and development funds, subnational governments, state-owned enterprises, and other extra-budgetary entities.

Findings from the first Validation

The Board concluded that Solomon Islands had made meaningful progress in meeting this requirement. The 2014 EITI Report barely explained the process of revenue distribution aside from a general statement that revenues under mining laws and other laws are recorded in the national budget. The updated 2014 EITI Report, however, clarified that only revenues mandated under the Mining Act and other laws are recorded in the national budget. Thus, revenues not covered by these laws such as social payments, NPF and payments to provincial governments are not recorded in the national budget (p.33). It further explained the allocations of royalties pursuant to the Agreement between Gold Ridge Mines and the government.

Progress since Validation

The 2015 EITI Report is silent on how extractive sector revenues are recorded in the national budget. What was only provided was an illustration of what payments are paid and which government agency collects them.

Secretariat's Assessment

The International Secretariat's assessment is that the level of Solomon Islands' progress in meeting this requirement has regressed from meaningful to no progress in the absence of any discussion in the 2015 EITI Report regarding how revenues are recorded in the national budget. The 2014 EITI Report provided

more discussion on this matter, suggesting that there were no efforts exerted to address this corrective action.

3.17 Corrective action 17

In accordance with Requirement 5.2.a, Solomon Islands should disclose material transfers between national and subnational government entities, as well as any discrepancies between the transfer amount calculated in accordance with the relevant sharing formula and the actual amount transferred. between the central government and each relevant subnational entity. Furthermore, SIEINSG should disaggregate between payments made to landowners and provincial governments.

Findings from the first Validation

The Board concluded that Solomon Islands had made inadequate progress in meeting this requirement. The 2014 EITI Report disclosed the revenue sharing formula for both government and landowners, and the actual payments deposited to and payments made out of the special trust account where these transfers were deposited. It did not disaggregate, however, between payments made to landowners and to the provincial government.

Progress since Validation

The 2015 EITI Report (pp.9-10) explains the revenue sharing mechanism for royalty payments between the national government, provincial government and landowners. It provides data on royalty distribution for payments made by Bintan Mining. The report only discloses the shares pertaining to landowners in the aggregate, and that of the provincial government in the aggregate. It should also be noted that the report is inconsistent in its explanation of the revenue sharing formula. While pp.9-10 of the report states that 10% of royalties are paid to provincial governments and 40% is paid to landowners, p.29 states that provincial governments are entitled to 20% while landowners are entitled to 80%. There is no explanation for this inconsistency. Moreover, it does not show whether there are discrepancies between actual transfers and what should have been transferred according to the revenue sharing formula.

Secretariat's Assessment

The International Secretariat's assessment is that Solomon Islands' progress in meeting this requirement remains inadequate. While it appears that only one province received subnational transfers, the explanation of the revenue sharing formula is unclear, and there is no disclosure of discrepancies between what was actually received by the province and what should have been received based on the revenue-sharing formula as required under Requirement 5.2.

3.18 Corrective action 18

In accordance with Requirement 6.1.a, Solomon Islands must disclose and, where possible, reconcile social expenditures. Where such benefits are provided in-kind, it is required that Solomon Islands disclose the nature and the deemed value of the in-kind transaction. Where the beneficiary of the mandated social expenditure is a third party, i.e. not a government agency, it is required that the name and function of the beneficiary be disclosed. Where reconciliation is not feasible, SIEINSG should provide unilateral company and/or government disclosures of these transactions.

Findings from the first Validation

Commented [VSO21]: Gold ridge agreement. The included in the law the 2014 and corrected one is use for the Bauxite in Rennell.

The Board concluded that Solomon Islands had made inadequate progress in meeting this requirement. The 2014 EITI Report did not clarify whether mandatory social expenditures exist in the Solomon Islands. However, stakeholder consultations confirmed that these exist. There was no indication that the SIEINSG had agreed an approach to mandatory versus discretionary social expenditures. The social expenditures disclosed by two companies appeared to be discretionary, but this was not confirmed.

Progress since Validation

The 2015 EITI Report (p.30) merely states that social expenditures were not relevant without explaining why. The minutes of SIEINSG meetings during the period relevant to the preparation of the 2015 EITI Report do not reflect any discussion on social expenditures.

Secretariat's Assessment

The International Secretariat's assessment is that the level of Solomon Islands' progress in meeting this requirement has regressed from inadequate to no progress. While the 2014 EITI Report disclosed some figures for social expenditures, the 2015 EITI Report concluded that this requirement was not relevant without mentioning how this conclusion was arrived at despite indications that social expenditures were paid in previous years. In the absence of any proof in the minutes of meetings that this issue was considered by the SIEINSG, it cannot be said that efforts were made to address this corrective action.

Commented [VS022]: Companies claimed they were only doing prospecting. Until they do mining production, social payment may be paid to landowners or community. SI EITI is aware of the scholarships offered by Sumitomo, however, Sumitomo decide not participate on EITI reporting and so data was not collected.

3.19 Corrective action 19

In accordance with Requirement 6.3, Solomon Islands must disclose information about the contribution of the extractive industries to the economy for the fiscal year covered by the EITI Report, particularly an estimate of informal sector activity (Requirement 6.3.a) and key regions/areas where production is concentrated (Requirement 6.3.e).

Findings from the first Validation

The Board concluded that Solomon Islands had made meaningful progress in meeting this requirement. The 2014 EITI Report disclosed most of the information required by the EITI Standard except an estimate of the informal sector and names of the areas where production is concentrated.

Progress since Validation

The 2015 EITI Report discloses the mining sector's contribution to GDP in real terms (p.30) but not as a percentage of total GDP. It further discloses total taxes, both in real terms and as a percentage of total government revenues (p.7). Contribution to employment is also disclosed, both in real terms and a percentage of total employment in the country (p.8). There is still no estimate of the informal sector.

Secretariat's Assessment

The International Secretariat's assessment is that Solomon Islands' progress in meeting this requirement remains meaningful. The same level of disclosure is found in the 2014 and 2015 EITI Reports. The estimate of the informal sector is still lacking, suggesting that there were no efforts exerted to address this corrective action.

3.20 Corrective action 20

In accordance with Requirement 7.3, the multi-stakeholder group is required to take steps to act

upon lessons learnt; to identify, investigate and address the causes of any discrepancies; and to consider the recommendations resulting from EITI reporting.

Findings from the first Validation

The Board concluded that Solomon Islands had made meaningful progress in meeting this requirement. The SIEINSG's actions on considering recommendations from previous EITI Reports had been limited. The only activities conducted were the national conference, the creation of the website, and providing inputs to the Mineral Policy. It was recommended that more time was allocated to consider the recommendations from the EITI Reports, including gaps identified in the Supplementary 2013 EITI Report and the 2014 EITI Report.

Progress since Validation

Based on the description of progress on each recommendation as listed in the 2016 Annual Progress Report, it appears that there was no significant development since the first Validation. Previous EITI Reports contained four recommendations, namely: creation of database for extractives data; making company participation in the EITI mandatory; conduct workshops to increase the stakeholders' understanding of the EITI; and establishment of a website that will serve as a repository of all relevant documents and information on the EITI process in the country. The steps undertaken by the SIEINSG that were mentioned in the APR were conducted prior to the first Validation and therefore were already considered in the previous assessment. The SIEINSG's action plan for Validation did not include any concrete measures to consider or act on recommendations from previous reports.

Secretariat's Assessment

The International Secretariat's assessment is that the level of Solomon Islands' progress in meeting this requirement has regressed from meaningful to inadequate. It appears that no concrete steps were taken to address this corrective action and act on recommendations from previous reports. It can also be observed that the recommendations in the 2015 EITI Report were a repetition of recommendations from previous years.

3.21 Corrective action 21

In accordance with Requirement 7.4.a.iii, SIEINSG's annual activity reports (APR) should include an Overview of their responses to and progress made in addressing the recommendations from reconciliation and Validation in accordance with Requirement 7.3. SIEINSG is required to list each recommendation and the corresponding activities that have been undertaken to address the recommendations and the level of progress in implementing each recommendation. Where the government or SIEINSG has decided not to implement a recommendation, it is required that the SIEINSG documents the rationale in the annual progress report. The APR should also include an assessment of progress with achieving the objectives set out in its work plan, including the impact and outcomes of the stated objectives (Requirement 7.4.a.iv).

Findings from the first Validation

The Board concluded that Solomon Islands had made meaningful progress in addressing this requirement. The SIEINSG had reviewed progress and outcomes of implementation on a regular basis, including by publishing annual progress reports. Although these reports provided a useful snapshot of annual activities, it was lacking responses from the SIEINSG to the recommendations made by the Independents

Administrator. It also lacked an assessment of progress against work plan objectives, including an assessment of the impact and outcomes of the stated objectives.

Progress since Validation

The 2016 Annual Progress Report describes the responses made by the SIEINSG and the progress or lack of progress against each recommendation from the EITI Reports. It should be noted, however, that most of the responses or actions mentioned are outdated or pertaining to previous years that should not be covered by the 2016 Annual Progress Report. For example, it refers to outreach activities conducted in 2015 and to SIEINSG decisions made in 2015. The APR describes progress against objectives stated in the work plan. It mentions that the National Mineral Policy is expected to address one objective, which is making company participation mandatory. The other objectives, such as meeting the EITI requirements and ensuring a cohesive implementation of the EITI have been challenging, according to the APR. There is also no evidence that the SIEINSG acted on the recommendations from Validation aside from sending correspondences to the Board and drafting an action plan. While the work plan mentions that the action plan on corrective actions should be implemented, the International Secretariat is not aware of any activity actually conducted in relation to this.

Secretariat's Assessment

The International Secretariat's assessment is that the level of Solomon Islands' progress in meeting this requirement has regressed from meaningful to inadequate. While previous annual progress reports contained more details on activities undertaken and decisions made by the SIEINSG to implement recommendations, the 2016 APR appears to merely repeat the same information from previous APRs. The discussion of progress against work plan objectives is also limited. In view of this, it is difficult to conclude that the APR reflects the latest developments in EITI implementation in the country. Moreover, there is nothing to suggest that recommendations from previous Validation were considered or acted upon.

4. Other observations

During the course of this second Validation, the International Secretariat also observed a deficiency in requirement 4.8, against which Solomon Islands achieved satisfactory progress in its first Validation. While an EITI Report covering the 2015 fiscal year was published, there is no evidence that it was published by the deadline on 31 December 2017¹⁵. The International Secretariat had been unable to obtain confirmation from the SIEINSG and the national secretariat of the date when the actual publication was made. There are no SIEINSG minutes or other documents confirming the publication of the report. In view of this, the International Secretariat further assesses that the level of Solomon Islands' progress in meeting requirement 4.8 on data timeliness had regressed from satisfactory to inadequate.

Commented [VS023]: The report was published on 07 June 2017. Its published after that. See MSG meeting June page 2 (2.4)

5. Conclusion

Having reviewed the steps taken by Solomon Islands to address the twenty-one corrective actions requested by the EITI Board, **the International Secretariat's overall assessment after the second**

¹⁵ At its meeting in February 2018, the EITI Board took note of the delayed publication of Solomon Islands' 2015 EITI Report and called upon the government to "ensure progress with the corrective actions, including the publication of an EITI Report that meets requirement 4.8 on timely EITI Reporting (i.e. a 2016 EITI Report), by the time of the second Validation commencing 8 March 2018". See <https://eiti.org/BD/2018-9-1>.

Validation is that Solomon Islands has made inadequate progress in implementing the EITI Standard. In general, no significant and positive developments could be seen in addressing the corrective actions aside from requirements 2.3 (license register), 2.4 (policy on contract disclosure) 3.2 (production data) 3.3 (export data), and 4.6 (direct subnational transfers). It should be also noted that there was a negative direction of travel for requirements 1.3 (civil society engagement), 1.4 (MSG governance) 4.1 (comprehensiveness), 4.7 (disaggregation), 4.8 (data timeliness), 4.9 (data quality assurance), 5.1 (distribution of revenues), 6.1 (mandatory social expenditures), 7.3 (follow-up on recommendations) and 7.4 (outcomes and impact of implementation). Consequently, and in accordance with Requirement 8.3.c.iv.3 in relation to Requirement 8.3.c.ii of the EITI Standard, Solomon Islands should be delisted.