

Validation of SOLOMON ISLANDS
Validation Report
Sustainable Development Strategies Group (SDSG), Independent Validator
12 December 2016

1. BACKGROUND

Solomon Islands became an EITI candidate country in July 2012, following both the government's public statement of commitment and formation of their multi-stakeholder group (MSG), the Solomon Islands Extractive Industries National Stakeholder Group (SIEINSG). The country has since produced three EITI Reports covering 2012, 2013, and 2014, and was one of five countries that underwent the Pilot Validation process in 2015. The EITI Board agreed in June 2016 that Solomon Island's Validation against the 2016 EITI Standard should commence on 1 July 2016. Pursuant to the Validation Guide, the International Secretariat carried out the first phase of validation – initial data collection, stakeholder consultations, and preparation of their initial evaluation of progress against the EITI requirements (the "Initial Assessment"). SDSG was appointed as the independent Validator to evaluate whether the Secretariat's work was carried out in accordance with the Validation Guide. SDSG's principal responsibilities as Validator are to review and amend the Initial Assessment, as needed, and to summarize its independent review in this Validation Report for submission to the Board through the Validation Committee.

- [Work Performed by the Independent Validator](#)

The Secretariat's Initial Assessment was transmitted to SDSG on 10 November 2016. Our Validation Team undertook this phase of the Validation process through: (1) In-depth review and marking up of the EITI Assessment by each team member; (2) Detailed review and comments by the Multi-Stakeholder Specialist of Requirements 1 and 7; (3) Detailed review and comments by the Financial Specialist of Requirements 2 through 6; (4) Overall review and drafting coordination by the Team Leader; (5) Consideration of the comments received from the SIEITI National Secretariat that mainly focused on clarifying a few statements in the Initial Assessment; (6) Consolidation of detailed comments on the mark up of the Initial Assessment; and (8) Consolidation of reviews and finalization of this Validation Report.

- [Comments on the Limitations of the Validation](#)

Compared with previous Validation Reports completed thus far in 2016, more time was provided for the Validation Team to undertake this phase of the process for Solomon Islands. This allowed for more thorough reviews by each team member, for further team discussions, and more opportunities to discuss areas where the Validation Team's assessment diverged from that of the International Secretariat. Nevertheless, the time provided and nature of this phase of the process do not readily accommodate further stakeholder outreach beyond the Secretariat, particularly when no requests for issues to be 'spot-checked' and no MSG comments were received, and given that the Independent Validator is not expected to duplicate data collection and consultation work completed by the Secretariat. Neither is it permitted to consider activities after 1 July 2016, per express directive of the Board. Notwithstanding these limitations, the Validation Team has carefully reviewed the Secretariat's Initial Assessment, the comments of the National Secretariat, and applicable references to determine Solomon Islands' level of progress against the requirements of the 2016 Standard.

- [Comments on the International Secretariat's Initial Assessment](#)

The initial data collection, stakeholder consultations, and drafting of the Initial Assessment were generally undertaken by the International Secretariat in accordance with the 2016 Validation Guide. This entailed a desk review of relevant documents from July 1–11, 2016, a country visit by a three-

person team from the Secretariat that conducted stakeholder consultations exclusively in the capital city of Honiara from 12-16 July 2016, and the production of the Initial Assessment. These consultations thus focused principally on stakeholders in the capital who are already familiar with SIEITI, and outreach beyond them was limited. The Secretariat's team was identified by name, though it would be helpful to also indicate each member's level of familiarity or engagement with EITI in Solomon Islands to confirm the appropriate balance in perspectives and experience.

2. GENERAL COMMENTS

- Progress in EITI Implementation

Solomon Islands has established a functioning MSG, although the participation of members has sometimes been uneven or inconsistent. The MSG has nevertheless shepherded SIEITI through planning and reporting processes, however, it did not provide comments to the Initial Assessment. The National Secretariat is supportive, industrious, and responsive despite funding and staffing constraints. SIEITI has timely produced three EITI Reports that have improved the collection of data on the mining sector and has carried out several impressive public outreach activities that have generated some public debate. There were previous proposals to extend EITI to the forestry and fisheries sectors, an important discussion that can hopefully be revived. It is also important to highlight and commend the prominent involvement in SIEITI of CSOs focused on women's and gender issues.

Constraints in funding and human resources have, however, continuously plagued SIEITI implementation. Participation of industry remains weak and inconsistent. Commitment and leadership by the government are now questionable, reflected by the fact that the government lead official declined to participate in this Validation process. There appears to be a disconnect between the acceptance of transparency and accountability as principles, and their internalization and operationalization, as evidenced by continued resistance to full disclosure by some in industry and government, and the Independent Administrator's payment of 'facilitation fees' to obtain data that should be freely accessible. These challenges in SIEITI implementation are reflected in the Assessment Card that shows satisfactory compliance with only three requirements (3.1, 4.8, and 7.1). Parts 3 and 4 hereof discuss and consolidate ways forward to help improve SIEITI implementation. These include addressing funding constraints, outreach beyond urban areas, greater focus on subnational payments particularly involving landowner groups and provincial governments, and addressing language and other barriers to the effective dissemination of EITI Reports and data.

- Impact of EITI Implementation

There is little consensus among the stakeholder groups regarding the impacts of EITI in the country. EITI has certainly contributed to the notional acceptance of transparency and accountability as principles of good governance, and it has generally helped improve data on, and raise awareness about, the mining sector. This data includes mining revenues paid and collected, the sector's economic contributions, and the legislative or regulatory gaps that need to be addressed. Improved information and heightened awareness do not appear to have led, however, beyond policy recommendations to more rigorous data analysis nor to the enactment of concrete reforms.

The most significant impact of EITI in Solomon Islands around which there is broader consensus is that it has provided both the foundation and springboard for collaboration and the building of trust among the stakeholder groups through the SIEINSG and its work on planning, reporting, and information dissemination. This a very important and positive impact, even if it applies mainly to those directly involved with the SIEINSG and even if the broader and structural impacts of EITI implementation are, as yet, less discernible. The benefits of stakeholder dialogue, public debate, and increased understanding and trust can be further strengthened through more innovative and consistent outreach strategies, both within and among stakeholder groups, groups beyond those directly involved in SIEITI, with greater focus on engaging stakeholders outside of Honiara.

- The Independent Validator's Assessment of Compliance

Figure 1 – Validator's assessment

EITI Requirements		LEVEL OF PROGRESS					Note
		No Progress	Inadequate	Meaningful	Satisfactory	Beyond	
Categories	Requirements						
1MSG oversight	Government engagement (#1.1)						
	Industry engagement (#1.2)						
	Civil society engagement (#1.3)						
	MSG governance (#1.4)						
	Work plan (#1.5)						
Licenses and contracts	Legal framework (#2.1)						1
	License allocations (#2.2)						2
	License register (#2.3)						
	Policy on contract disclosure (#2.4)						
	Beneficial ownership (#2.5)						
	State participation (#2.6)						
Monitoring production	Exploration data (#3.1)						
	Production data (#3.2)						
	Export data (#3.3)						
Revenue collection	Comprehensiveness (#4.1)						
	In-kind revenues (#4.2)						
	Barter agreements (#4.3)						
	Transportation revenues (#4.4)						
	SOE transactions (#4.5)						
	Direct subnational payments (#4.6)						3
	Disaggregation (#4.7)						
	Data timeliness (#4.8)						
	Data quality (#4.9)						
Revenue allocation	Revenue management & expenditures (#5.1)						4
	Subnational transfers (#5.2)						
	Distribution of revenues (#5.3)						
Socio-economic contribution	Mandatory social expenditures (#6.1.a)						
	Discretionary social expenditures (#6.1.b)						
	SOE quasi-fiscal expenditures (#6.2)						
	Economic contribution (#6.3)						
Outcomes and impact	Public debate (#7.1)						
	Data accessibility (#7.2)						
	Follow up on recommendations (#7.3)						
	Outcomes & impact of implementation (#7.4)						

1-4: Please see Detailed Findings

3. DETAILED FINDINGS

- 1.1 Government engagement. We agree that Solomon Islands has made INADEQUATE progress. While the government has contributed some financial support to EITI implementation, there are serious concerns around government commitment. These concerns are due principally to the uneven participation of government members on the MSG, the non-involvement of the designated EITI ministerial lead in the Validation process, and the lack - over the last two years - of official public statements of support for SIEITI.
- 1.2 Company engagement. We agree that Solomon Islands' progress in implementing this provision is INADEQUATE given the legal and practical barriers to company engagement.
- 1.3 Civil society engagement. We agree that Solomon Islands has made MEANINGFUL progress. National, international, and some regional CSOs are involved in SIEITI and there are no legal barriers to their participation. Funding and capacity constraints remain, however, that need to be addressed to allow for more effective participation.
- 1.4 MSG Governance. We agree with the International Secretariat's finding that Solomon Islands has made MEANINGFUL progress in meeting this requirement.
- 1.5 Work Plan. We agree with the International Secretariat's finding that Solomon Islands' progress has been INADEQUATE in meeting this requirement.
- 2.1 Legal Framework and Fiscal Regime. We disagree that Solomon Islands has made inadequate progress in meeting this requirement and find instead that its progress is MEANINGFUL. Given that this Validation process covers SIEITI progress thus far which includes the three EITI Reports produced for 2012 to 2014, we find that their 2013 EITI Report discloses most of the information required under 2.1. The SIEINSG is strongly encouraged, however, to document the required disclosures in its latest EITI Report so that the information will be more readily accessible to the public.
- 2.2 License Allocations. We disagree with the finding of the International Secretariat that Solomon Islands has made no progress in meeting this requirement, and find instead that its progress is INADEQUATE. Based on the 2014 EITI Report (including the updated 2014 report), at least a few of the requirements under 2.2 have been met. No doubt serious gaps remain, but they have disclosed a description of the process for transferring and awarding licenses as well as information on license holders.
- 2.3 Register of Licenses. We agree with the International Secretariat's finding that Solomon Islands has made INADEQUATE progress in meeting this requirement. In addition to the International Secretariat's comments, the 2014 EITI Report does not document efforts to strengthen the registry system, nor has the MSG documented its consideration of whether the registry can include the required information regarding non-reporting companies.
- 2.4 Contract Disclosures. We agree with the International Secretariat that Solomon Islands has made NO PROGRESS in meeting this requirement.
- 2.5 Beneficial Ownership. Disclosure under this provision is NOT YET APPLICABLE.
- 2.6 State Participation in EI. Given that there are no SOEs in Solomon Islands, we agree with the finding of the International Secretariat that this requirement is NOT APPLICABLE.

- 3.1 Exploration. We agree that Solomon Islands has made SATISFACTORY progress.
- 3.2 Production Data. We agree with the International Secretariat that Solomon Islands' progress in meeting this requirement is MEANINGFUL.
- 3.3 Export Data. We agree that Solomon Islands' progress has been INADEQUATE in implementing this provision.
- 4.1 Comprehensiveness. We agree with the International Secretariat's Initial Assessment that Solomon Islands' progress is INADEQUATE.
- 4.2 In-Kind Revenues. We agree that this provision is NOT APPLICABLE to Solomon Islands as there have been no in-kind revenues.
- 4.3 Infrastructure Provisions and Barter Arrangements. We agree that this provision is NOT APPLICABLE to Solomon Islands as there have been no infrastructure and barter arrangements.
- 4.4 Transportation Revenues. We agree that this provision is NOT APPLICABLE to Solomon Islands as there have been no transportation revenues. We note, however, that this issue was considered and discussed in the EITI Report.
- 4.5 Transactions Related to SOEs. Given that there are no SOEs in Solomon Islands, we agree that this provision is NOT APPLICABLE.
- 4.6 Subnational Payments. We disagree that Solomon Islands has made meaningful progress and believe its progress has been INADEQUATE in meeting this requirement. Despite the groundwork that is being laid for future reporting, significant aspects of this requirement have not been implemented and the broader objective of the requirement is far from fulfilled.
- 4.7 Level of Disaggregation. We agree that Solomon Islands' progress has been INADEQUATE.
- 4.8 Data timeliness. We agree that Solomon Islands' progress has been SATISFACTORY.
- 4.9 Data Quality and Assurance. We agree that Solomon Islands' progress in implementing this provision has been INADEQUATE.
- 5.1 Distribution of Extractive Industry Revenues. We disagree that Solomon Islands has made meaningful progress and believe its progress has been INADEQUATE in meeting this requirement. There is too much uncertainty (or lack of clarity) with respect to these disclosures. Revenues mandated under the Mines and Minerals Act "and other laws" are recorded in the national budget, but "revenues not covered by these laws" are not recorded, including social payments. Their allocation thus needs to be explained per 5.1(a). There also appears to be significant uncertainty and even serious concerns around royalty agreements and payments to landowners.
- 5.2 Subnational Transfers. We agree with the International Secretariat's finding that Solomon Islands progress in meeting this requirement is INADEQUATE.

- 5.3 Revenue management and expenditures. Disclosure under this requirement is encouraged and is thus not taken into account in the overall assessment of compliance.
- 6.1 Social Expenditures by Extractive Companies. We agree that Solomon Islands' progress in implementing this provision has been INADEQUATE.
- 6.2 Quasi-fiscal expenditures. We agree that this requirement is NOT APPLICABLE given that there is currently no state participation in the extractives sector in Solomon Islands.
- 6.3 Contribution of the Extractive Sector to the Economy. We agree that Solomon Islands' progress in implementing this provision has been MEANINGFUL.
- 7.1 Public Debate. We agree that Solomon Islands' progress has been SATISFACTORY.
- 7.2 Data Accessibility. Disclosure under this requirement is encouraged and is thus not taken into account in the overall assessment of compliance.
- 7.3 Discrepancies and Recommendations from EITI Reports. We agree that Solomon Islands has made MEANINGFUL progress in complying with this requirement.
- 7.4 Outcomes and Impact of EITI Implementation on NR Governance. We agree that Solomon Islands' progress has been MEANINGFUL.

4. RECOMMENDATIONS

Following are the Secretariat's overarching recommendations for improving EITI implementation in Solomon Islands, with the Validation Team's modifications and supplements in italics.

- 4.1 The government should reaffirm its commitment to the EITI and put in place necessary measures to ensure that all barriers to implementation are removed, including ensuring that companies comply with the EITI Reporting requirements. *Given the apparent lack of understanding expressed by some stakeholders with respect to the value of EITI, and apparent lack of their shared commitment around common goals, a major 'reset' would be in order, i.e. it would be helpful for the stakeholder groups to come together and level out their understanding, aspirations, goals, and level of engagement in EITI.*
- 4.2 SIEITI should undertake a needs assessment and implement a capacity building plan for SIEINSG members.
- 4.3 SIEITI should agree objectives for implementation that are linked to national priorities and ensure that these are reflected in the SIEITI work plan. This would help set the strategic direction for SIEITI for the coming years.
- 4.4 The government should establish a disclosure mechanism for license allocations, showing the technical and financial criteria used to evaluate each application and any deviations from the applicable legal and regulatory framework governing license awards. A post-award audit could be considered. The license register should also be made public, including coordinates and dates of the license applications.
- 4.5 SIEITI should discuss and consider beneficial ownership disclosure for the companies operating in

the mining sector incrementally before 2020 and develop a roadmap by the end of 2016.

- 4.6 SIEITI should undertake work to establish the materiality of direct payments to provincial governments. Where material, SIEITI should ensure that these payments are disclosed in the next EITI Report and build on its early work to engage provincial governments in EITI implementation.
- 4.7 *The MSG should ensure that appropriate and sustained outreach is carried out with provincial governments with the goal of improving disclosures of subnational payments.*
- 4.8 *The MSG should examine in detail the matter of facilitation fees that were paid to extract data from reporting entities, with the goal of establishing procedures and mechanisms to prevent such transactions.*
- 4.9 SIEITI should review the assessment of prevailing auditing and assurance practices among companies and government entities and, together with the Independent Administrator, agree on assurances that both enable a credible reporting process and do not create an unreasonable burden for the companies and government entities participating in the reporting process.
- 4.10 SIEITI should establish a reporting process for disclosing social expenditures mandated by the government or by contracts to be paid by companies to local communities, including the nature and deemed value of such expenditures and the beneficiaries.
- 4.11 SIEISNG is encouraged to provide EITI data in open data formats.
- 4.12 SIEITI should consider the recommendations from the Independent Administrators, including the shortcomings in government systems identified in the 2012 and 2013 EITI Reports, and ensure that actions are taken to consider and potentially implement measures to address these shortcomings.
- 4.13 SIEITI should include in future reports a more detailed discussion on transfers of royalties from companies to landowners through the MMERE and Ministry of Finance and Treasury (MoFT). SIEITI could consider highlighting the gaps in the process and disclosing actual payments to landowners including assessing whether the correct amounts have been paid based on the agreed formula.
- 4.14 *The SIEISNG should discuss approaches and mechanisms to address funding constraints and to insulate the EITI process from political changes.*
