

Board Paper 36-5-G Bogota, 8-9 March 2017

Submitted by: Validation Committee on: 22 February 2017

Solomon Islands Validation

For decision For discussion For information

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| The Validation Committee recommends that the EITI Board agrees that Solomon Islands has made inadequate progress in implementing the 2016 EITI Standard. In accordance with requirement 8.3.c.iii, the Solomon Islands will be suspended and will need to take corrective actions. |

SOlomon islands validation

Table of Contents

Background 3

Assessment card 4

Corrective Actions 5

**Supporting documentation**

[Validation Report](https://eiti.org/sites/default/files/validation_report_for_the_solomon_islands.pdf)

[Comments on the Validation Report by the National Secretariat](https://eiti.org/sites/default/files/si_comments_from_the_national_secretariat_on_the_validation_report.pdf)

[Initial assessment by the International Secretariat](https://eiti.org/sites/default/files/secretariats_initial_assessment_of_the_solomon_islands.pdf)

[Comments on the Initial Assessment by the National Secretariat](https://eiti.org/sites/default/files/si_comments_from_the_national_secretariat_on_the_initial_assessment.pdf)

**Has the EITI competence for any proposed actions been considered?**

The Articles of Association mandate the Board to classify implementing countries as candidate countries or compliant countries (Article 5(2)(i)(a)). The EITI Standard ([Requirement 8.3](https://eiti.org/document/standard#r8-3)) addresses [EITI Validation deadlines and the consequences](https://eiti.org/document/standard#r8-3) following Validation.

**Financial implications of any actions**

The recommendation implies a second Validation commencing in early 2018. The cost of second Validations varies depending on the size of the country and the extractive industries and the scope of the corrective actions. In this case, a second Validation is expected to cost circa 25 000 USD, including staff time, travel and the cost of engaging the Independent Validator.

**Document history**

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| Comparison table and supporting documentation reviewed by the Validation Committee | 24 January 2017 |
| Validation Committee agreement on a Board Paper | 7 February 2017 |

# Recommendation

The Validation Committee makes the following recommendation to the EITI Board:

*The Board agrees that Solomon Islands has made inadequate progress overall in implementing the 2016 EITI Standard. The Board’s determination of Solomon Islands’ progress with the EITI’s requirements is outlined in the assessment card, below.*

*The EITI Board agreed that Solomon Islands had not made satisfactory progress on requirements 1.1, 1.2, 1.3, 1.4, 1.5, 2.1, 2.2, 2.3, 2.4, 3.2, 3.3, 4.1, 4.6, 4.7, 4.9, 5.1, 5.2, 6.1, 6.3, 7.3 and 7.4. The major areas of concern relate to government engagement (#1.1), industry engagement (#1.2), civil society engagement (#1.3), MSG governance (#1.4), work plan (#1.5), legal framework (#2.1), license allocation (#2.2), license register (#2.3), contract disclosure (#2.4), production data (#3.2), export data (#3.3), comprehensiveness (#4.1), direct subnational payments (#4.6), disaggregation (#4.7), data quality (#4.9), revenue management and expenditures (#5.1), subnational transfers (#5.2), mandatory social expenditures (#6.1.a), economic contribution (#6.3), follow-up on recommendations (#7.3), outcomes and impact (#7.4).*

*In accordance with requirement 8.3.c.iii, the EITI Board agreed that Solomon Islands will be suspended and will need to take corrective actions outlined below. Progress with the corrective actions will be assessed in the next Validation commencing on <date of Board decision + 10 months>. Failure to achieve meaningful progress with considerable improvements across several individual requirements in the second Validation will result in delisting in accordance with the EITI Standard. In accordance with the EITI Standard, The Solomon Islands’ multi-stakeholder group (SIENSG) may request an extension of this timeframe, or request that Validation commences earlier than scheduled.*

*The Board’s decision followed a Validation that commenced on 1 July 2016. In accordance with the 2016 EITI Standard, an initial assessment was undertaken by the International Secretariat. The findings were reviewed an Independent Validator, who submitted a Validation Report to the EITI Board. The SIENSG was invited to comment on the findings throughout the process. The national secretariat’s comments on the report were taken into consideration. The final decision was taken by the EITI Board.*

## Background

The Solomon Islands Government announced its commitment to implement the EITI in July 2011.

A multi-stakeholder group, the Solomon Islands Extractive Industries National Stakeholder Group (SIEINSG) was formed in January 2012 and the country was accepted as an EITI Candidate in July 2012. The Solomon Islands has subsequently produced three EITI Reports (2012 – 2014).

The Validation process commenced on 1 July 2016. In accordance with the Validation procedures, an [initial assessment](https://eiti.org/sites/default/files/secretariats_initial_assessment_of_the_solomon_islands.pdf) was prepared by the International Secretariat. The MSG were invited to comment. [Comments](https://eiti.org/sites/default/files/si_comments_from_the_national_secretariat_on_the_initial_assessment.pdf) were received from the national secretariat. The assessment was then reviewed by the Independent Validator, who prepared the [Validation Report](https://eiti.org/sites/default/files/validation_report_for_the_solomon_islands.pdf). The MSG were invited to comment on the Report. Again, [comments](https://eiti.org/sites/default/files/si_comments_from_the_national_secretariat_on_the_validation_report.pdf) were received from the national secretariat.

The Validation Committee reviewed the case on 24 January 2017. Based on the findings above, the Validation Committee agreed to recommend the assessment card and corrective actions outlined below. As per Requirement 8.3.c. this includes a requirement that the MSG agrees and discloses a time-bound action plans for addressing weaknesses in data reliability and comprehensiveness within 3 months.

The Committee also agreed to recommend an overall assessment of “inadequate progress” in implementing the 2016 EITI Standard. Requirement 8.3.c. of the EITI Standard states that:

ii. Overall assessments. Pursuant to the Validation Process, the EITI Board will make an assessment of overall compliance with all requirements in the EITI Standard.

…

iii (c) **Inadequate progress**. The country will be suspended and requested to undertake corrective actions until the second Validation. For the suspension to be lifted, the country must in its second Validation demonstrate at least meaningful progress.

The Validation Committee agreed to recommend a period of 10 months to undertake the corrective actions. This recommendation takes into account that the mining sector is small, and seeks to align the Validation deadline with the deadline for the next (2015) EITI Report.

## Assessment card

The Validation Committee recommends the following assessment:

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| **EITI Requirements** | | | | | **LEVEL OF PROGRESS** | | | | |
|  | |  |  |  | No progress | Inadequate | Meaningful | Satisfactory | Beyond |
| **Categories** | **Requirements** | | | |  |  |  |  |  |
| **MSG 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) | | | |  |  |  |  |  |
| License allocations (#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) | | | |  |  |  |  |  |
| Disaggregation (#4.7) | | | |  |  |  |  |  |
| Data timeliness (#4.8) | | | |  |  |  |  |  |
| Data quality (#4.9) | | | |  |  |  |  |  |
| **Revenue allocation** | Distribution of revenues (#5.1) (#5.1) | | | |  |  |  |  |  |
| Subnational transfers (#5.2) | | | |  |  |  |  |  |
| Revenue management and expenditures (#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 and impact of implementation (#7.4) | | | |  |  |  |  |  |
| **Overall assessment** | **Inadequate progress** | | | |  |  |  |  |  |



## Corrective Actions

The EITI Board agreed the following corrective actions tobe undertaken by Solomon Islands. Progress in addressing these corrective actions will be assessedin a second Validation commencing on <date of Board decision + 10 months>:

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 should must also ensure that senior government officials are represented on the SIENSG (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 <from Board decision date + 3 months>.
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 < from Board decision date + 3 months >.
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 SIENSG 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 < from Board decision date + 3 months >.
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.
5. In accordance with Requirement 1.5, the SIENSG 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 SIESNG’s plans for implementing the recommendations from Validation and EITI Reporting (Requirement 1.5.c.iv).
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.
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.
8. In accordance with Requirement 2.3.b, Solomon Islands is required to maintain a publically 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 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.
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 publically available, and include a reference or link to the location where these are published.
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. SIESNG should confirm all existing production for all commodities for the year covered by the report.
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. SIESNG should confirm all existing exports for all commodities for the year covered by the report.
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, SIENSG 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 < from Board decision date + 3 months >.
13. In accordance with Requirement 4.6, it is required that SIENSG establish whether direct payments, within the scope of the agreed benefit streams, from companies to subnational government entities are material. Where material, SIENSG 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.
14. In accordance with Requirement 4.7, SIENSG 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.
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. SIESNG should comply with the following:
    1. 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 (#4.9b)
    2. 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, SIENSG 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 <from Board decision date + 3 months >.

1. 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.
2. 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, SIESNG should disaggregate between payments made to landowners and provincial governments.
3. 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, SIESNG should provide unilateral company and/or government disclosures of these transactions.
4. 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).
5. 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.
6. In accordance with Requirement 7.4.a.iii, SIENSG’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. SIENSG 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 SIENSG has decided not to implement a recommendation, it is required that the SIENSG 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).

The SIENSG is encouraged to consider the other recommendations in the Validator’s Report and the International Secretariat’s initial assessment, and to document the MSG’s responses to these recommendations in the next annual progress report.