

**PROJECT INFORMATION DOCUMENT (PID)  
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC100512

<b>Project Name</b>	Solomon Islands Mining Governance
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	Solomon Islands
<b>Financing Instrument</b>	IPF
<b>Project ID</b>	P162737
<b>Borrower Name</b>	Ministry of Finance and Treasury
<b>Implementing Agency</b>	Ministry of Mines, Energy and Rural Electrification
<b>Environmental Category</b>	B - Partial Assessment
<b>Date PID Prepared</b>	17-Jul-2017
<b>Estimated Date of Approval</b>	30-Jun-2017
<b>Initiation Note Review Decision</b>	The review did authorize the preparation to continue

## **I. Introduction and Context**

### **Country Context**

The Solomon Islands is a small, remote and widely dispersed archipelago in the South Pacific. It is classified as being low-income and Fragile, Conflict and Violence affected. The population remains predominantly rural-based (80%) and economic activity in the formal sector is narrowly based, heavily concentrated on Guadalcanal, especially in the capital Honiara. The incidence of poverty remains high - an estimated 25.1% of Solomon Islanders live below the global extreme poverty line - and economic opportunity is distributed very unevenly. Plantation, logging and fishery based commercial activities have dominated since Independence in 1978, with very little change observed in the structure of the economy in over four decades. Opportunities for new and diversified sources of growth are limited, with tourism offering some potential, as well as mining.

The country has endured years of fragility, with conflict manifesting itself in periodic civil strife, and the economy has been vulnerable to external shocks, resulting from its dependence on imports of critical commodities and fuel and volatility in the price of its commodity exports. The Solomon Islands has shown some improvement in the quality of governance since the period of civil strife, however, government effectiveness and regulatory quality continue to be problematic. There are especial challenges that derive from the adaptation of traditional Melanesian governance structures to deal with the imperatives of modern commercially driven activities, such logging and mining.

### **Sectoral and Institutional Context**

Development of the Solomon Islands' mineral resources has for over two decades been talked about as a source of growth and economic diversification. Yet today, even after the global mining sector enjoyed several bumper years, the country has failed to take advantage of this opportunity. The Gold Ridge mine, which was the first significant mine to be developed in the country in the late 1990s, has faced repeated social and economic challenges and land and community related disputes have, in

conditions of weak sector oversight, stopped the progress of this and a number of other projects. Such is the mineral potential of the country, however, that even in these times of low mineral prices there continues to be interest in the possibility of evaluating mineral deposits and developing mines. The Court of Appeal verdict on the dispute between Axiom and Sumitomo over nickel prospecting rights on Isabel was published in March 2016, clearing the way for fresh applications (most likely under a competitive tender) for rights to world class nickel deposits. If investors were re-assured about the conditions for launching a long-term mining project, substantial exports, government revenues and local development opportunities could result.

These mineral development prospects, while encouraging, test the ability of the Government to oversee orderly and responsible mineral development. There is an urgent need to get to grips with some of the factors that have inhibited the development of the country's mineral sector on a sustainable basis. The articulation of a National Mining Policy (NMP) and consequential legislative changes at this time has taken on greater importance. A NMP was prepared by an Inter-Ministerial Taskforce chaired by the Permanent Secretary of the Ministry of Mines, Energy and Rural Electrification (MMERE) and during October 2016 underwent consultation at provincial level after its public disclosure. The Minister obtained Cabinet endorsement of the NMP in March 2017 and it was given its public launch in June 2017.

The NMP proposes measures to ensure that only reputable companies can apply to explore and mine in the Solomon Islands (and imposes higher governance standards on existing right holders), so that there is a framework in place to ensure a higher-standard of performance and ultimately company accountability. The Government must nevertheless also address serious weaknesses in the capacity of MMERE, through the Mines Division, to regulate the mining sector. It needs to be more strategically-driven, undertake operationally considered budget planning, develop the skills of its staff and conduct rigorous technical oversight of exploration and mining operations. The NMP also proposes an expanded role for provincial governments (in land identification and registration, and primary responsibility for artisanal mining) for which capacity building will be necessary. Finally, it contains proposals to change the statutory basis on which Ministerial decisions are made concerning the award of mineral rights and negotiation of investment terms so that decision making is more rules-based and transparent.

Such legislative and institutional strengthening is a major challenge and one for which MMERE has repeatedly sought support both internally through requests for budget appropriations (in the last year the appropriation was one-fifth of the request), and externally. Moreover, communities confronted by formal and informal mineral operations seek clarity as to the roles and responsibilities of government agencies and miners, while demanding outreach and support-mechanisms so that their participation in mineral development is more consensual and less prone to conflict. Finally, reputable mining companies seek a level playing field and assurance that investment can proceed with minimal delay and predictable legal and commercial terms.

By focusing on orderly mining by reputable companies, support-mechanisms for community engagement and participation in benefit sharing arrangements and a coherent and implementable regulatory framework, the NMP foresees mineral sector development that is more likely to spread economic opportunity outside Honiara, diversify the economic base and thereby contribute to reducing poverty and shared prosperity.

### **Relationship to CAS/CPS/CPF**

SIMGov will build on the existing World Bank executed (DFAT-funded) Catalytic Support for the Mining Sector Development Project. This project (\$324,000) was launched in April 2015 with a focus on i) facilitating stakeholder consultation leading to the finalization of a NMP and ii) identifying measures needed to implement the NMP, including legislative and institutional reforms. The funds were fully committed to enable two advisers hired by the World Bank to continue to support achievement of these objectives up to December 2016. The NMP is informed by broader engagement

of the World Bank's governance and social development practices, especially in terms of landowner and community engagement and benefit-sharing. During preparation of SIMGov, the participation of country team experts in these areas will be essential.

A formal request for support through SIMGov was received in August 2016 from MMERE. The CMU supported the program financed by DFAT through the Catalytic Fund and has worked with the GP team in seeking funding to sustain this support into 2017 and beyond. No other donor has existing commitments to support the Government specifically on mining sector development, other than the above-mentioned support of DFAT.

This proposal supports the objectives of the World Bank Country Partnership Strategy (CPS 2013-2017), which specifically pledges to support the Solomon Islands to develop programs to maximize sustainable growth and returns in the mining sector, and support opportunities for new economic activities around mining, while addressing key constraints to inclusive growth. (Outcome # 2 of the CPS is "Enhanced regulatory framework, public sector capacity and community benefits in the mining sector"). The Systematic Country Diagnostic underpinning preparation of the next CPS is being prepared. Mining governance reform is identified as a Tier 1 priority.

## II. Project Development Objective(s)

### Proposed Development Objective(s)

The objective of the project is to provide key strategic support to strengthen governance, the legislative framework, and community engagement in the mining sector in the Solomon Islands

### Key Results

Indicator 1: Mining sector legislation submitted by MMERE for approval of the competent body in line with the National Mining Policy [Yes/No - Act]

Indicator 2: Inspection guidelines and procedures conforming to good regulatory practices employed by MMERE to conduct site visits to prospecting and mining licenses [% of licenses – 100% by closing]

Indicator 3: Landowners and mining-affected communities able to obtain useful information and advice in relation to their engagement in mineral development in at least one Province [Yes/no – qualifying measure TBD] Gender disaggregated monitoring and suitable indicator TBD

Indicator 4: Numbers of training sessions or workshops carried out as part of MMERE staff development program and numbers of persons trained by target groups, including gender disaggregated [escalating targets by closing]

## III. Preliminary Description

### Concept Description

## IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	X		
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	

Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	

## V. Financing (in USD Million)

Total Project Cost:	0.4	Total Bank Financing:	0
Financing Gap:	0		
<b>Financing Source</b>			<b>Amount</b>
Extractives Global Programmatic Support			0.4

## VI. Contact point

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