



▲ Aiwo boat harbor, Nauru.

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PACIFIC FINANCE SECTOR BRIEFS

ADB PACIFIC LIAISON AND COORDINATION OFFICE

NAURU AT A GLANCE

NAURU

Nauru is among the Asian Development Bank's smallest developing member countries and one of the most remote islands in the world. The country has little potential for agriculture and is heavily dependent on imports for basic necessities. While Nauru possesses two significant natural resources—phosphate deposits and the oceanic resources of its exclusive economic zone—opportunities for diversification are limited. Opportunities for the country to exploit its oceanic resources beyond foreign fishing licenses have been constrained by inadequate port facilities. In addition, Nauru's primary phosphate deposits are almost exhausted and below surface mining will require significant investment. The public sector dominates the economy and employment. Nauru's institutions are thinly resourced and relatively weak in capacity, with a high dependence on foreign advisors.

Successive governments have been dealing with the legacy of years of economic mismanagement.

This includes the mismanagement of the Nauru Phosphate Royalties Trust, which led to the trust being placed into receivership in early 2004. There has also been mismanagement across an overwhelmingly dominant public enterprise sector. From 2004, the Government of Nauru undertook a number of reforms that enabled it to capitalize on the resumption of phosphate mining and high levels of development assistance. The reforms included the elimination of retail fuel subsidies, the corporatization of state-owned utilities, and changes to public procurement policies. The government also established the Nauru Trust Fund, with the aim of saving windfall income over the medium term in order to generate revenue streams over the long term. Recent sources of windfall income include the commercialization of the country's fish stocks, and the re-opening of Australia's Regional Processing Centre. The Regional Processing Centre currently accounts for around 35% of Nauru's gross domestic product (International Monetary Fund [IMF] 2017).

Despite this progress, Nauru continues to face daunting challenges. The country's overarching issue is to manage windfall income effectively to build a sustainable economic future and reduce economic vulnerability. Reforms to ensure significant new investments in infrastructure are sustainable, and to promote greater fiscal sustainability in the national budget, are the critical policy issues.

Population

13,300 (2017)^a

GDP (current \$)

\$117 million (2018)^b

GDP per capita

\$9,000 (2018)^b

GNI per capita

\$10,220 (2017)^a

GDP = gross domestic product,
GNI = gross national income.

^a Source: Asian Development Bank.
2018. *Key Indicators for Asia and
the Pacific*. Manila.

^b Source: Asian Development Bank.

FINANCE SECTOR OVERVIEW

Nauru once had an offshore banking industry. The country was a tax haven, and attracted offshore banks to register in its finance sector. However, its lenient banking regulatory framework exposed the industry to money-laundering activities and, in June 2000, the intergovernmental Financial Action Task Force identified Nauru as one of the “noncooperative” countries in the fight against international money laundering. The Government of Nauru revoked licenses for hundreds of banks registered in the country, and closed the Bank of Nauru in 2006. The country then operated as a cash economy for many years, with residents essentially relying on personal storage for the safekeeping of their savings.

The government has now reestablished banking services in the country, after more than a decade of absence. Bendigo and Adelaide Bank Limited of Australia (Bendigo Bank) entered into a special project with Nauru’s Ministry of Finance to open a branch in Nauru in June 2015. This allowed Nauruans access to basic financial services such as ATMs, checking and savings accounts, and term deposits. However, the bank does not offer loans or asset management products in Nauru (IMF 2017). Within 18 months of Bendigo Bank opening its branch, the IMF (2017) reported that the number of accounts had reached 7,600, while deposits totaled A\$67 million by the end of 2016.

Despite the resumption of banking services in Nauru, serious financial limitations remain a challenge. Although Bendigo Bank is able to offer basic financial services to the people of Nauru, it is able to transfer funds to and from Australia only, with restrictions imposed by correspondent banks preventing the flow of funds to and from other countries. Such restrictions hamper the flow of remittances to Nauru and force some trade-related payments to be processed through informal financial channels, which creates a challenge for customs verification (IMF 2017). Nauru needs to continue its efforts to strengthen its framework on anti-money laundering and combating the financing of terrorism, so that the country can reconnect to the international financial system.

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