

# Asian Development Bank & Nauru

## FACT SHEET

**Table 1. Nauru: Development Indicators**

<b>Non-MDG</b>	
Population in millions	0.01 (2008)
Annual population growth rate (%)	1.8 (2006–2008)
Adult literacy rate (%)	99 (2002)
Percent of population in urban areas	100 (2007)
<b>MDG</b>	
Percent of population living on less than \$1.25 a day	...
Percent of population living below the national poverty line	...
Under-5 mortality rate per 1,000 live births	30 (2007)
Percent of population using an improved drinking water source	...

... = data not available, MDG = Millennium Development Goal.

Sources: ADB. 2009. *Basic Statistics 2009*. Manila.  
SPC. 2009. Pacific Regional Information System.  
UNPD. 2008. *Urban and Rural Areas 2007*.

The greatest challenge in alleviating poverty in the Republic of Nauru is establishing economic alternatives to phosphate mining and fishing license revenues. Phosphate mining recommenced in 2007 and, by 2008, phosphate exports were the best in some time, with higher exports and significantly increased prices leading to far higher revenues than forecast. Unfortunately, this good news was tempered by a softening of the phosphate market (along with most other commodity markets) as the year drew to a close, when phosphate prices began falling almost as swiftly as they rose. Moreover, studies concluded that it is commercially feasible to commence mining secondary phosphate reserves. There is estimated to be 1 year supply of primary phosphate reserves, and as much as 20 years supply of secondary reserves worth as much as \$700 million. However, Nauru's long-term economic future depends on finding alternative sources of income. Further challenges include the organization and management of a modern state that promotes a performance-oriented public service, an increasingly competitive and productive private sector, the resolution of Nauru's debt position, and good governance to underpin public and private investment.

### Relationship with ADB

Nauru joined the Asian Development Bank (ADB) in 1991 and has since received one loan for \$5 million and seven technical assistance (TA) grants totaling \$1.9 million.

The Government of Nauru's noncompliance with tranche conditions, however, resulted in the closure of the loan and the cancelling of the balance of \$2.7 million on 2 October 2002. Subsequent governments reversed previously agreed reform measures, making it difficult for ADB to proceed with subsequent releases. A reform-minded Government was elected in October 2004, and ADB recommenced assistance in 2005. In June 2008, the Government of Australia paid out the arrears owed by Nauru, and the country is now able to access assistance through the Asian Development Fund (ADF).

With wide community consultation, ADB provided TA in 2005 to support the drafting of a National Sustainable Development Strategy 2005–2025: Partnership for Quality of Life (NSDS) that sets out short-, medium-, and long-term strategies for economic and public sector reforms. Good progress has been made on the NSDS reform agenda. Major initiatives undertaken by the Government include (i) a balanced budget; (ii) restructuring departments and state-owned enterprises (to put them on a more commercial footing); (iii) right-sizing the public service; (iv) developing and implementing a debt management strategy; and (v) enacting and enforcing legislation to abolish offshore banks used by various criminal syndicates for money laundering, resulting in Nauru's removal from the Financial Action Taskforce blacklist. The reformist government was reelected with an enhanced majority in 2007. Between November 2007 and April 2008, there was no clear Parliamentary majority. This issue was resolved by an election in April 2008, and the Government now enjoys a clear majority in Parliament.

In late 2006, ADB began work on the Country Economic Report on Nauru. Finalized in 2007, it estimated revised per capita gross domestic product (GDP) of about \$2,038 for 2006, with an expected increase in 2007 to \$2,566. Increased phosphate mining should continue to support growth in the medium term in Nauru. In 2007, ADB completed the first Country Performance Assessment of Nauru with relatively low ratings in almost all key indicators, a situation repeated in 2008. In September 2006, ADB reviewed its 1998 Graduation Policy governing the access of countries to different types of ADB resources. As part of this review, and in light of Nauru's high level of indebtedness, ADB reclassified Nauru as a Group A country (ADF only) in 2008. The Government of Australia paid out arrears owed by Nauru enabling access to ADF resources.

The Pacific Strategy and Program for 2005–2009 can be found at [www.adb.org/Documents/CSPs/PAC/2004/](http://www.adb.org/Documents/CSPs/PAC/2004/).

## Impact of Assistance

In 2005, ADB and the Government of Australia cofinanced a TA to the Government and people of Nauru to help the country review future development options and formulate the NSDS. This was a successful exercise that helped the country agree on its priority short-, medium-, and longer-term development objectives.

The NSDS was tabled at Nauru's first donor meeting on 30 November 2005 attended by more than 170 participants from the Government, business, civil society, and the donor community. The country's President presented the NSDS and announced an ongoing reform agenda. Short-term NSDS priorities include reviving phosphate mining, establishing a commercial bank, developing the private sector, and improving returns to commercial fisheries. At a second donor roundtable meeting on 26 July 2007, the Government reported on progress of its reform agenda, including reporting on achievement of objectives under the NSDS, and sought continued support from funding agencies for implementation of the reform agenda. The meeting was attended by high-level delegates from major development partners, members of Parliament, community leaders, heads of foreign mission, heads of government departments, heads of other government agencies, and representatives of the private sector and nongovernment organizations. Since the launch of the NSDS in November 2005, the Government has generally made good progress in the implementation of the NSDS. Development partners praised the Government on governance reforms and progress on implementation of the NSDS and pledged ongoing collective support and commitment to assist the Government in the implementation of NSDS and reforms.

Table 2. Nauru: Economic Indicators, 2004–2008

Economic Indicator	2004	2005	2006	2007	2008
Per capita GNI, Atlas method (\$)	2,929	2,715	3,014	2,468	2,514
GDP growth (% change per year)	...	-14.5	6.3	-27.3	1.0
CPI (% change per year)	2.3	2.7	3.5	2.3	4.5
Unemployment rate (%)	...	...	...	...	...
Fiscal balance (% of GDP)	...	-28.3	-36.3	4.8	0.6
Export growth (% change per year)	...	-81.6	85.6	618.6	...
Import growth (% change per year)	...	-8.2	17.1	11.1	...
Current account balance (% of GDP)	-147.7	-25.5	-18.4	-10.3	...
External debt (% of GNI)	...	...	...	...	...

... = data not available, CPI = consumer price index, GDP = gross domestic product, GNI = gross national income.

Sources: ADB. 2009. *Asian Development Outlook 2009*. Manila. ADB staff estimates.

## Future Directions

The Government of Australia is Nauru's lead donor, with ADB providing support to its assistance program. ADB strategy focuses on helping the Government implement some of the priorities announced in the NSDS, especially in restructuring and improving the operations of essential power and water utilities. Most recently, a TA on utilities reform was completed and formed the basis of the Government's utilities reform strategy, which is still under discussion. The key element of the strategy is a move away from the current practice of supplying free electricity to residential consumers to a cost recovery framework. Until recently, ADB's engagement with Nauru has been restricted to selective TA due to debt service arrears. A country strategy document to be produced in 2009 will identify new areas for ADB engagement with Nauru.

## Operational Challenges

The Nauru economy, which depends heavily on foreign development grants, remains in critical condition. There were some benefits from the Australian Offshore Processing Centre (OPC) for asylum-seekers, which provided significant employment and injected income into Nauru. The Government of Australia closed the OPC in March 2008, which led to job losses and much reduced income for the Government-owned Menen Hotel. Other than through employment in the public service or state-owned enterprises, income-earning opportunities are very few, and a continuing challenge for the Government of Nauru is to facilitate and promote the development of nongovernment employment opportunities in Nauru.

The Nauru Phosphate Royalties Trust (NPRT) was built from phosphate royalties to generate income once mining ceased. However, the combined impact of years of excessive consumption, poor investment advice, and mismanagement culminated in early 2004 with the placement of the asset portfolio of NPRT into receivership. The receivership is expected to be finalized in 2009, with the Government of Nauru planning to transfer remaining landowner trust fund resources into a new trust structure with significantly improved governance and accountability.

In 2009, ADB is providing a TA grant that will help the Government of Nauru establish a Nauru Trust Fund (separate to the landowner trust fund) to accumulate, preserve, grow, and mobilize capital for development. The proposed Nauru Trust Fund will build on success stories from other Pacific trust funds, as well as lessons learned from the failed NPRT. The Nauru Trust Fund will be based on best practice governance arrangements.

Table 3. ADB Assistance to DMCs, 2007–2008<sup>a</sup>

	2007 (\$ million)	2008 (\$ million)	Change (%)
Lending	9,965.59	10,494.27	5.3
ADF Sovereign	1,892.84	1,789.56	(5.5)
OCR Sovereign	7,347.48	6,924.48	(5.8)
OCR Nonsovereign	725.27	1,780.23	145.5
Public Sector	10.00	300.00	2,900.0
Private Sector	715.27	1,480.23	106.9
Equity Investments	79.75	123.08	54.3
Grants	672.71	811.37	20.6
Technical Assistance	252.84	274.50	8.6

ADF = Asian Development Fund, OCR = ordinary capital resources.

<sup>a</sup> Excludes terminated loans, equity investments, technical assistance, and grants.

Table 4. Nauru: Cumulative ADB Lending as of 31 December 2008

Sector	Loans (no.)	Amount (\$ million)	%
Finance	1	5.00	100.00
<b>Total</b>	<b>1</b>	<b>5.00</b>	<b>100.00</b>

Nauru is heavily indebted. An Australian Agency for International Development (AusAID)-funded review in 2006 found external debts of about A\$237 million, with another A\$265 million of internal debts owed, mainly to depositors in the insolvent Bank of Nauru. There are also debts of about \$368 million owed between and among state-owned enterprises and the Government of Nauru. The Government has established a debt management strategy to deal with this enormous debt burden, commencing with the external debts. All creditors have been contacted, and debt forgiveness or write down arrangements have been negotiated with some.

In the absence of phosphate and trust fund revenues, the economy has been reliant on income from licensing fishing in Nauru's exclusive economic zone, and foreign aid. In 2007, phosphate exports from Nauru recommenced following a program of infrastructure refurbishment undertaken through joint venture with an Australian fertilizer company. Phosphate exports are currently averaging 40,000 tons per month, and exploitation of new, subsurface phosphate reserves is about to begin, combined with a rehabilitation program for mined out land. There are estimated to be economic reserves of at least 20 million tons of secondary phosphate—enough to continue mining for more than 20 years. This provides Nauru with hope of a sustained medium-term income stream, with the challenge of ensuring that this income is used productively and not squandered, as was the practice before. The low levels of phosphate and trust income in recent years have necessitated fiscal reform and increased widespread financial hardship. However, the social safety net of joint families and a close-knit supportive culture has prevented abject poverty from emerging.

For many years, Nauru ran chronic budget deficits to maintain the expenditure levels of its high income-earning years. Fiscal deficits were largely financed by offshore borrowings against the assets of the Nauru Trust Funds, which led to unsustainable levels of public debt. With the introduction of medium-term fiscal policy in its first budget in 2004, the Government has achieved a budget surplus since 2005, but these have been generated through reliance on capital repayments of earlier investments or, in recent years, through budget support from Taipei, China. In fiscal year 2008–2009, the Government has again budgeted for a small surplus. It will be critical for the Government to gradually reduce its reliance on donor support by continuing to rationalize expenditure and by building up alternative long-term streams.

**Table 5. Nauru: 2008 Loan and TA Approvals (\$ million)**

Loans				
Sovereign	Nonsovereign	TA	Grants	Total
–	–	0.2	–	0.2

– = nil.

Cumulative Lending (as of 31 Dec 2008) : \$5.0 million  
 Cumulative Disbursements (as of 31 Dec 2008) : \$2.3 million

**Table 6. Nauru: Project Success Rates**

By Sector	Percentage <sup>a</sup>	No. of Rated Projects/Programs
Finance	0.0	1
By Year of Approval		
1990s	0.0	1

<sup>a</sup> Based on aggregate results of project/program completion reports (PCRs), PCR validation reports (PCRVRs), and project/program evaluation reports (PPERs) using PCRVR or PPER ratings in all cases where PCR and PCRVR/PPER ratings are available.

Sources: PCRs, PCRVRs, and PPERs containing a rating circulated as of 31 December 2008.

## Partnership

ADB closely coordinates its program of assistance with that of the Government of Australia.

ADB cooperates with civil society organizations in Nauru to strengthen the effectiveness, quality, and sustainability of the services it provides. For example, the Nauru Islands Association of Nongovernment Organizations participated in a regional consultation on the development of ADB's medium-term action plan for cooperation with governments and NGOs, 2002–2005.

## Cofinancing and Procurement

Cofinancing operations enable ADB's financing partners—government or their agencies, multilateral financing institutions, and commercial organizations—to participate in financing of ADB projects. The additional funds are provided in the form of grants, official loans, or credit enhancement products.

As of year-end 2008, cumulative direct value-added cofinancing for the Republic of Nauru amounted to \$0.58 million for three TA projects.

From 1 January 1985 to 31 December 2008, 18,104 consultant contracts were awarded under ADB technical assistance projects worth \$2.33 billion, of which two contracts were awarded to consultants from Nauru worth \$0.01 million.

A summary of procurement contracts awarded to companies and consultants from Nauru for goods and works, and consulting services can be found at [www.adb.org/Documents/Fact\\_Sheets/Nauru/procurement.asp](http://www.adb.org/Documents/Fact_Sheets/Nauru/procurement.asp).

**Table 7. Nauru: Top individual consultants involved in ADB technical assistance projects, 1 January 2004–31 December 2008**

Consultant	Number of Times Contracted	Contract Amount (\$ million)
Individual Consultants from Nauru*	2	0.01

\* Consultant may have one or more contracts within the period covered.

**Table 8. Cumulative Nonsovereign Operations Portfolio Distribution by Top Countries, 1983–2008<sup>a,b</sup>**

Country	No. of Projects	Total ADB Approvals (\$ million)
India	37	2,268
People's Republic of China	21	1,694
Indonesia	15	879
Philippines	28	768
Pakistan	27	721
Kazakhstan	5	550
Thailand	10	319
Viet Nam	8	305
Sri Lanka	13	280
Bangladesh	8	242
Afghanistan	6	208
Lao PDR	1	100
Other DMCs	13	87
Azerbaijan	4	66
Nepal	4	59
Regional	36	930

DMC = developing member country.

<sup>a</sup> Includes nonsovereign projects processed by the Private Sector Operations Department and various regional operations departments of ADB. Regional operations departments started nonsovereign operations in 2007.

<sup>b</sup> Net of facilities cancelled in full before signing.

Source: Private Sector Operations Department.

## About Nauru and ADB

Nauru is the 37<sup>th</sup> largest shareholder among regional members and the 45<sup>th</sup> largest shareholder overall. It shares both positions with Kiribati, Maldives, Federated States of Micronesia, and Tonga.

### ADB Membership

Joined	1991
Shares held	142 (0.004%)
Votes	13,374 (0.30%)

**Phil Bowen** is the Executive Director and **Dereck Rooker-Smith** is the Alternate Executive Director representing Nauru on the ADB Board of Directors.

The Pacific Liaison and Coordination Office (PLCO) was opened in 2005 and provides the primary operational link between ADB and the government, private-sector, and civil-society stakeholders in its activities. PLCO engages in policy dialogue and acts as a knowledge base on development issues in Nauru, Solomon Islands, and Vanuatu.

**Eugene Zhukov** is the Regional Director of PLCO.

The Nauru government agency handling ADB affairs is the Department of Finance.

## About the Asian Development Bank

ADB is a multilateral development bank owned by 67 members, 48 from the region and 19 from other parts of the world. ADB's main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance (TA). In 2008, lending volume was \$10.49 billion (86 projects), with TA at \$274.5 million (299 projects) and grant-financed projects at \$811.4 million (49 projects). This also generated \$1.65 billion in direct value-added cofinancing from financing partnerships operations. Over the last 5 years (2004–2008), ADB's annual lending volume averaged \$7.70 billion, with TA averaging \$231.5 million and grant-financed projects \$655.1 million. As of 31 December 2008, the cumulative totals were \$143.53 billion in loans for 2,147 projects in 41 countries, \$4.08 billion for 263 grant projects, and \$3.55 billion for 6,599 TA projects.

## Contacts

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### Useful ADB websites

Asian Development Bank  
[www.adb.org](http://www.adb.org)

Country website

[www.adb.org/nauru](http://www.adb.org/nauru)

Asian Development Outlook

[www.adb.org/Documents/Books/ADO/2009/  
SMALL-PAC.pdf](http://www.adb.org/Documents/Books/ADO/2009/SMALL-PAC.pdf)

Annual Report

[www.adb.org/Documents/reports/annual\\_report/  
2008/](http://www.adb.org/Documents/reports/annual_report/2008/)

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