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Nauru in the news again!

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The smallest republic in the world (area: 8 square miles; and population: 10,000), once lauded as the Kuwait of the Pacific with the highest per capita income, but as of today one of the most the debt-ridden nations, is in the news again.

That is for wrong and right reasons.

First, the wrong reason

We hear the much awaited opening of a bank branch, which would have been the first bank branch in Nauru, after eight long years would not materialize.

Nauru has no currency of its own. It uses the Australian dollar as legal tender. It has no bank, foreign or domestic owned, since 2006. That was when the Bank of Nauru was closed due to a huge debt problem.

Since residents have no banking facilities, cash is regularly flown from Australia to Nauru for meeting the cash needs of government, payment of pensions to the retired and salaries to serving public employees. The government was negotiating for some time with the Australia based Bendigo and Adelaide Bank (BAB) to start a branch.

A legal crisis since January this year, following the deportation of the nation's only magistrate and the banning of the Australian chief justice from returning to Nauru, seems to have influenced the BAB to drop its plan. The BAB decided not to set up a branch. That has disappointed Nauru.

What did go wrong?

The once richest Pacific island country is presently in deep debt.

The economy was based on phosphate mining until very recently. Interestingly, this mining is of 1000 years' worth of fossilized bird droppings!

Phosphate revenues gave the country a relatively high per capita income, much out of proportion to its size and endowments. The royalty income sustained the economy, which has no soil for growing agricultural crops. Nauru imports everything ranging from food and water to fuel.

Soon after independence from Australia, in 1970 Nauru purchased the phosphate mining rights for Aus \$21 million. The royalties brought in Aus \$110 million each year. With annual government expenditures of Aus \$30 million, the surplus of Aus \$80 million each year went into the now defunct Nauru Phosphate Royalties Trust Fund (NPRTF), which was set up to provide income once the mining resources run out.

At one time, NPRT's overseas investments were Aus \$1 billion. They included Grand Pacific Hotel (Fiji), Manila Pacific Star Hotel (Philippines), Nauru Hotel in Hawaii and Nauru House in Melbourne.

When Nauru went on a spending spree with huge annual budget deficits and poor investment decisions, the government had to borrow overseas mortgaging its own real estate properties. With primary deposits of phosphate resource nearing exhaustion in early 2000, and the already bulging deficits rendering debt servicing impossible, international creditors seized rights to Nauru's entire real estate portfolio.

And the sole aircraft of Air Nauru too!

End of NPRTF

Nauru knows avenues such as fishing and tourism have limited potential. The offshore financial centre services offered were frowned upon by the advanced countries, as they were serving as conduits of mafia money evading taxes elsewhere.

Nauru had to switch on to other ways of creating revenues, including agreeing to Australia's Pacific Solution: camp for processing asylum-seekers. That brought in sizeable revenues, amounting to a fifth of the country's GDP. The camp was closed in 2008. Australia provided aid to the tune of US\$ 32 million in 2012.

In September 2012, Australia re-opened its camp in Nauru for processing asylum-seekers which was to accommodate up to 1500 detainees.

Thanks to the resumption of phosphate mining as the secondary deposits of phosphate have been reported to have an estimated remaining life of about 30 years, Nauru's hopes of recovery are revived.

The government knows it cannot afford another fiasco. It should conserve the revenues. It should not allow any abuse of the revenues from phosphate mining royalties.

Now, the right reason

The latest development is the completion of an Asian Development Bank technical assistance project, under which it has been proposed to establish a new Nauru Trust Fund (NTF). It will have contributions from donor countries, possibly Australia and the emerging China. With a build-up period of 20 years, NTF will focus mainly on capital appreciation with no distributions made until the 21st year of the fund.

This timing is based on the likely period over which the secondary phosphate deposits will be fully exploited. The NTF would of course incorporate lessons from the failed NPRTF. Soon, a donor group will gather under the auspices of ADB to decide on the NTF.

Here, we go again.

This time, we trust good governance would prevail!
