

The contents of this document are preliminary and subject to change.

GRAY/17/653

March 22, 2017

**Statement by Mr. Gokarn and Mrs. Gunaratne on Republic of Nauru
(Preliminary)
Executive Board Meeting
March 24, 2017**

1. We thank staff for the comprehensive report and Mr. Choi and Ms. Preston for their useful Buff statement.
2. Nauru is a small island economy with 12,500 people and very limited sources of growth and income. The country is characterized by a narrow production base, remote location, high cost of public goods, insufficient infrastructure and climate change. The main challenges that the country is facing are sustaining growth and maintaining fiscal sustainability given its large dependence on the income from Australian Regional Processing Center (RPC) to process asylum seekers which is expected to be scaled down within a short period of time. Given the country's limited access to borrowing, continuous donor support by way of grants to address infrastructure bottlenecks is important for generating new sources of income. Also technical assistance by the Fund and other donors such as the World Bank and AsDB is required for SOE reforms, tax and public financial management reforms, rebuilding the seaport and energy infrastructure, developing the financial and the health sectors and improving the quality of data.
3. The establishment of a trust fund with the support of development partners and with the contribution from the government budget is a timely measure given the Nauru's limited sources of income to meet growing needs of the economy in the future. However, it is important managing the Trust effectively enabling to make it a good source of income for the country. *We would like to know from the staff whether the utilizing of future income streams of the Trust is limited for education, health, environment and infrastructure needs as mentioned in Box 2.*
4. We support the staff recommendation for maintaining fiscal buffers of at least 2 months of non-RPC current spending. This is urgent when the deterioration of non-RPC current balance in 2016 and the expected scale down of RPC revenues are taken into consideration. While a considerable progress has been made in building the tax system since 2014, fully implementation of the tax system, broadening the tax base and improving tax administration are necessary to enhance tax revenue. Similarly, prudent expenditure

management by cutting unnecessary expenditures is required to maintain cash buffers as targeted. Also, significant improvements are required in public financial management in the areas of fiscal forecasts, debt management, external auditing and legislations. We welcome the initiatives taken by the development partners to give technical support to develop these areas.

5. State Owned Enterprises contribute to about half of GDP and one third of employment. However, as the staff report reveals, SOE governance and monitoring have deficiencies which need to be addressed urgently given the strategic importance of these enterprises. We welcome the recommendations for TA by AsDB and urge authorities to take actions accordingly to address the existing deficiencies.

6. We note that Nauru has taken measures to develop the financial sector by setting up a Bendigo Bank Agency to provide basic deposit taking services. Further measures for improving financial inclusion, meet the requirements of the Australian Financial supervision authorities for strengthening financial stability and improving AML/CFT frameworks are important. Currently, Nauru is facing constraints on making international fund transfers except with Australia which is a burden for financial sector development. *Could staff elaborate the reasons behind these constraints despite the fact that the Bendigo Agency adheres to the Australian – standard AML/CFT and other requirements?*

7. With these comments, we wish the authorities all success in their future endeavors.