



NAURU FINANCIAL INTELLIGENCE UNIT



STRATEGIC ANALYSIS

2021 - 2023

STRATEGIC ANALYSIS

The FIU has undertaken this strategic analysis in accordance with its functional responsibilities. The legislative requirement under *Section 69(1)(f), (g) and (i)* of the *Anti-Money Laundering and Targeted Financial Sanctions Act 2023* requires the FIU to conduct strategic analysis. The purpose is to identify, analyse and assess financial crime trends, patterns and risks of relevance to the Republic. And to ensure that Reporting Entities (REs), supervisory authorities (SAs) and the public at large are adequately informed about the trends, patterns and risks of financial crime with the appropriate responses.

The strategic Analysis is also a requirement for the FIU under the Recommendation 29 of the FATF standards. Recommendation 29 requires the FIU to conduct “*strategic analysis, which uses available and obtainable information, including data that may be provided by other competent authorities, to identify money laundering and terrorist financing related trends and patterns*”.

The FIU has been involved in the Strategic analysis since 2021 which was conducted using available and obtainable data and data, with the FIU, from competent authorities and open source. This has been ongoing in accordance with the FATF methodology requirements which include:

- (a) analysis financial crime trends;
- (b) patterns of crime;
- (c) risk of relevance to Nauru;
- (d) new technology and business products;
- (e) how it is coordinated with supervisory authorities and other authorities within the Republic;
- (f) how this results in combatting crimes; and
- (g) appropriate responses.

The following method was deployed in the strategic analysis using available and obtainable data.

1. The use of existing sources of data available to the FIU. This included the SARs database, quarterly reporting from the private sector, and data from supervisory and monitoring activities.
2. The FIU requested and received data from relevant stakeholders. This included tax collection data from the Nauru Revenue Office (NRO), Customs data, predicate offence data and data from the Registrar on legal persons.
3. The FIU analysed the data from these various sources, identifying relevant trends regarding potential ML/TF threats. The FIU was engaged with the various stakeholders that had provided information to test assumptions and initial conclusions on risks.
4. The FIU incorporated into the analysis the AML/CFT system in Nauru, including areas where recent reforms have reduced vulnerability levels.
5. The assessment of threats and vulnerabilities was combined to establish an overall view of the ML/TF risk to the Republic.

A. Analysis of Financial Crime Trends – predicate offences

Reference is made to the **Money Laundering and Terrorism Financing National Risk Assessment for Nauru 2023**

The current set of data as at 25th May 2023 for the last 4 years 2019 - 2023 from cases under prosecution (completed and pending) has revealed the following:

- Total criminal cases 151
- Assault and Serious Harm 47
- Sexual Offences 32
- Damaging Property 8
- **Drug related** 7
- Theft 3
- Robbery 1

From the cases above, inference is drawn that drug related offences are becoming prevalent financial crimes. The drug types include Indian Hemp and hard drugs both. Given the nature of the detections, in most cases, the drugs were for personal use. 1 of the cases involved control delivery whereby arrest was made by Police after surveillance and upon exchange of drugs and cash. The matter is pending in court.

The above findings are based on available and obtainable data from the office of the Director of Public Prosecutions. Whilst theft and burglary are potential financial crimes, there is limited offending in these 2 types of crimes to draw a trend or pattern.

Drug-related offences are on the rise and pose a significant risk. The cases appear to be more of personal consumption, as small amounts are detected. The evidence of hard drugs such as methamphetamine is more concerning. This reveals drugs are either being imported into Nauru or manufactured.

The FIU coordinates with its domestic and regional partners in addressing the issue of drugs in the region. Nauru FIU, as a member of the Pacific Islands Intelligence Community (PFIC), sought information from other members about any particular risks the members identified for Nauru, in particular drugs. The members responded with no particular risks identified for Nauru. This is an ongoing mechanism through face-to-face, bimonthly virtual meetings.

It should be noted that whilst there may not be a significant impact on AML/CFT related activities, the Republic faces a greater problem of violence, both personal violence (assault and serious harm) and sexual offences.

Therefore, law enforcement agencies, in collaboration with the government, must pay attention to these 2 types of crimes. This is where resources should be directed.

Case Study 1

Domestic & International Coordination facilitated by Nauru FIU in relation to Illicit Drug Investigation

A request was received by the Nauru FIU from Nauru Police Force on Person A, a 54-year-old unemployed Asian national whose house was raided and hard drugs was seized from the premises. The request was channelled by the Nauru Police Force to Nauru FIU for a financial background check and was channelled via a request form on 14 June 2022. Person A was suspected of being involved in illicit drug activities. The FIU was able to ascertain that there were no bank accounts held after conducting checks with Bendigo Bank which was facilitated through AUSTRAC. The FIU also established that Person A had arrived to Nauru from Fiji in March 2016. The FIU Supervisor introduced the Nauru Police Force (TCU) to Fiji Transnational Crime Unit (TCU) to liaise further on the background on Person A who had reportedly transited via Fiji from Hong Kong.

The above case shows FIU is prioritising/facilitating illicit drug related investigation which is a demonstration of Strategic Analysis.

Suspicious Activity Reporting

Furthermore, *Republic of Nauru, Department of Justice and Border Control Annual Report 2021-2022, Page 35* includes a table capturing Suspicious Matter Reports (SMRs) received from AUSTRAC. The table also shows a breakdown of SMRs.

The FIU has categorised the SMRs received from AUSTRAC between 2017-2021 as follows:

- Avoiding reporting obligations: 27
- Suspected Scam: 3
- Country jurisdiction risk: 9
- Unusual transactions: 128
- Suspicious Behaviour: 51
- Unusually large transfer: 95
- Unusual account activity: 119
- Inconsistent Customer Profile: 88

AUSTRAC SMR RECEIVED - UPDATED				
Total	Finalised	Disseminated	Closed	Pending
141	14	3	17	124

Nauru FIU receives SMR's from AUSTRAC. These SMR's contain the minimum information that is usually captured in suspicious activity reports (SAR's). The SMR's are clustered as well and therefore actual amounts cannot be determined for each SMR. A single SMR contains information from several SAR's.

The FIU analyses these SMR's using available and accessible information from other data bases and makes additional information requests to AUSTRAC for information where necessary.

Based on the analysis of the suspicions identified in the SMR's, unusual transactions and unusual account activity are most prevalent and a focus of the FIU. However, determining why most of the reports fall under unusual transactions or unusual account activity is difficult.

Given the low number of predicate offending and low number of transactions from the Western Union Agency, suspicious matter reporting is low in Nauru. There is nothing suspicious about this as there is a low risk of money laundering.

The FIU has been successful in analysing a number of these SMR's and has disseminated them to LEA's for further investigation.

Cash Smuggling and Border Control Measures

The NRA 2018 identified that the weak border control measures created a risk for the illegal exportation of cash. The border control measures were ineffective. This was identified as a vulnerability for Nauru and required legislative amendments as well as internal mechanisms to mitigate the risk.

As a result, the FIU initiated consultations with the stakeholders, including Customs, NRO, Finance Department, Bendigo Agency and the Department of Justice and Border Control to address the issue. The consultations resulted in amendments to legislation and internal procedures.

Amendments were made to the Proceeds of Crime Act 2004 (POCA 2004) to reduce the threshold for declaring cash and bearer negotiable instruments at the border from \$10,000 to \$5,000. In addition, the 2023 amendment introduced the requirement to declare precious metals or stones of the value of more than \$5,000. The POCA 2004 amendments further capture the declaration of cash being transported through cargo and mail.

Further, the Customs Proclamation No. 2 1999 was revoked and replaced by the Customs (Prohibited Exports) Order 2023 ('Order'). The Order requires a person exporting cash of \$5,000 or more to obtain approval from the Chief Collector of Customs and must make a declaration to Customs at the border. Failure to do so carries sanctions in the form of financial penalties, an imprisonment term, and asset forfeiture.

The internal procedures for obtaining approval to export cash of more than AUD \$5,000 further require a justifiable reason to carry cash, as electronic banking services are widely available to transfer funds. The internal procedures involve the National Revenue Office advising the Collector of Customs as to whether or not to grant approval to export cash above the threshold set out in the 2023 Order.

The Customs border clearance process for travelling passengers is also strict. All baggage or hand-carried luggage are scanned. In that process, any attempts to transfer money are foiled. Training is continued to ensure the Border Agencies (Customs, Police, Immigration, Quarantine and Aviation) are aware of the new laws, procedures and powers.

The FIU and Customs introduced Standard Operating Procedures to ensure their respective AML/CFT responsibilities are understood and implemented. This includes Customs responsibilities to submit declaration reports (Border Currency Report) to the FIU.

Tax System and Tax Evasion

Reference is made to the NRA 2018 in regards to Tax Evasion as a risk to Nauru.

The NRA 2018 identified tax evasion as a major source of money laundering. Although the NRA 2018 may be obsolete, the information has been used by the FIU to monitor and conduct strategic analysis. The NRA 2023 provides a better understanding of the tax evasion risk in the context of Nauru and the mitigations around the risk.

At the time of the NRA 2018, Nauru did not have a robust tax collection and monitoring system in place, with significant reliance on the Regional Processing Centre for tax collection. The data used in the NRA 2018 could not be verified either. However, after 2018, Nauru has now implemented a tax compliance mechanism to address the threat of tax evasion.

Under the current tax compliance regime, the Nauru Revenue Office has a focus on different tax types and a compliance programme in place to ensure tax compliance in Nauru. The table below shows the tax collection from different tax types now in force.

	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Telecom Tax	2,161,281	2,588,686	3,340,938	2,662,854	2,340,894	13,094,653
Employment/Non-Resident withholding Tax	17,307,077	19,946,797	19,533,185	15,572,949	11,338,275	83,698,283
Business profit Tax	26,151,297	42,990,371	43,950,090	39,846,201	34,738,970	187,676,929
Total	45,619,655	65,525,854	66,824,213	58,082,004	48,418,139	284,469,865

Nauru has significantly improved its tax system and mechanisms. Nauru has undergone the OECD peer review process for compliance and received a largely compliant rating. Nauru has implemented the automatic exchange of tax-related information (AEOI) and has in place the *Automatic Exchange of Financial Account Information Act 2016*. In 2021, Nauru was found to be compliant with the OECD standard, including the domestic framework requiring financial institutions to conduct due diligence and implement reporting procedures and its legal framework to exchange information with foreign counterparts. Nauru went through a recent review in 2023 with no adverse findings.

The FIU and NRO have an existing Memorandum of Understanding in place and have increased collaboration to share more information the FIU has access to. The commencement of reports being disseminated to the NRO by the FIU is evidence itself of the efforts to address the threats of tax evasion in Nauru.

One of the areas of concern for the NRO is the undeclared income by large businesses, which the NRO and the FIU are currently looking at. At the same time, there is no evidence of the same from the smaller business tax group. The FIU and NRO will continue their joint efforts to address tax evasion vulnerabilities.

Whilst tax evasion remains a vulnerability, the strategies put in place by NRO, mitigate the threat of tax evasion.

Financial sector and the cash economy

There is no bank on Nauru. It operates under an agreement with the Nauru Government to provide financial services in Nauru. The Agency offers services where all transactions are conducted on an Australia-based platform for Bendigo Bank. No records are kept in Nauru. The Government sought to facilitate access on Nauru to financial services in Australia. Many Nauruans have bank accounts with banks in Australia other than Bendigo Bank, over which they freely transact and have done so over many years without there being concerns from those banks or AUSTRAC. Nauru is and always has been, since at least 2012, low risk for AML and CFT.

The only financial services conducted are deposits, withdrawals, TT's, online payment transactions, and the purchase of goods and services both on Nauru and elsewhere. There are no longer Refugees or Asylum Seekers on Nauru, and as such, there is no evidence of the informal movement of funds. In fact, to the contrary, after 2017 the Bendigo Bank has itself allowed direct TT transfers of funds from Nauru to other countries via Bendigo. This service was not available in the beginning when the Agency bank opened in 2015. Further, the Agency has introduced electronic EFTPOS since 2020. Debit cards were introduced in 2016, which has allowed Nauruan's to make payments and purchases online. This has resulted in a reduction in the movement of cash in the economy. The data provided by the NRA 2018,

although it cannot be verified retrospectively, did provide a guide for the Republic to introduce more formal payment systems, largely through electronic payments, which creates a record of the data itself.

Whilst the NRA 2018 identified the highest risk sector for Nauru as Australian commercial banks, this should be seen in the context of the overall low risk levels in the economy. In addition, the limited products offered by BBNA and the stringent customer due diligence applied by the Agency limit risk exposure. The low numbers of suspicious matter reports (SMRs) being submitted by Bendigo Bank to the Australian FIU (AUSTRAC) support this assessment.

In recent years, the FIU has worked very closely with AUSTRAC to ensure any risks in relation to BBNA are monitored and addressed. In particular, the FIU has entered into a bilateral arrangement with AUSTRAC under which it receives SMRs and International Fund Transfer Instructions (IFTI's). The NFIU uses the information provided to conduct analysis as per this strategic analysis.

The other financial institution that operates in Nauru – an agent of the money remitter Western Union (WU Agency) – is subject to the *AML-TFS Act 2023*, meaning that it is required to implement its AML/CFT obligations and report to the FIU. In addition, the Western Union agent applies the Western Union (WU) New Zealand group-wide AML/CFT compliance program, since it is subject to a similar arrangement to BBNA (except that the host jurisdiction is New Zealand). The Agency is not caught under the requirements of the *Banking Act 1975* and therefore is registered as a Corporation.

The FIU has conducted 2 onsite supervisory activities with the WU Agency in 2018 and 2023. The general findings reveal that the WU Agency has a good understanding of its sector related risk and is largely compliant with its obligations in relation to the *AML-TFS Act 2023*. An area of concern is that the WU Agency has yet to file a SAR. The FIU in its recent onsite training, conducted further training on reporting of SAR's. The WU Agency confirmed that they also received training on 21.09.23 from the WU main office in New Zealand.

Given the limited nature of the financial sector in Nauru, the restrictive set of products on offer, and the robust AML/CFT controls that are in place in the jurisdiction, the assessment of risk is low for both BBNA and WU Agency.

Open Source information – Reputational Risk

The FIU remains on the alert for potential scams which the citizens of the Republic may fall victim to. The FIU identified potential scams in Nauru and addressed them.

Evidence

Case Study 2

First Proactive Alert Notice issued by the FIU

During the COVID-19 pandemic, the Nauru FIU remained on the alert and was closely monitoring the surrounding jurisdictions for criminal developments. The FIU noticed through open source intelligence and through counterparts that criminals had started using the pandemic to their advantage, and scams commenced to surface.

The FIU immediately issued an alert notice advising all citizens of the Republic to remain vigilant and beware of online scams. They should exercise caution and not fall victim to the scammers. In particular:

- Attempts to solicit donations, steal personal information (identity theft) or distribute malware (viruses causing damage to computer systems) by impersonating government agencies or health care organisations.
- Investment scams – calling for investments, promoting products and services, and falsely claiming that the said products and services of publicly traded companies can prevent, detect and cure coronavirus.
- Product scams – companies selling unapproved or misbranded products that make false health claims relating to COVID-19.

The public was advised to exercise great caution when trading using online services, including social media, conduct due diligence checks when engaged in any transaction with new suppliers, and consult the Government of the Republic of Nauru or the Nauru Financial Intelligence Unit to verify if the supplier or request for charity is genuine or not before conducting any funds transfers. They must not respond to any unsolicited emails, do not click on any links, do not to open files and emails or share bank account details if they are suspicious or you do not know the source of such emails and links.

Reference is made to the Republic of Nauru, Department of Justice and Border Control Annual Report 2021-2022, Page 35. The commentary around Advance Fee Fraud Investigations (Case Study)

Case Study 3

Nauru FIU issued FIU Alert No. 02/2021 in relation to online scams: Advance Fee Fraud scam to the public to remain vigilant and aware of online scams. This online scam was brought to the attention of the FIU via an email from a member of the public who was a victim of the advance fee fraud scam. The victim had sent AUD2,500 via a bank transfer using the services of Bendigo Bank to the Commonwealth Bank of Australia account of the beneficiary, namely, Juan Martinez. The scheme involved the creation of a fake Facebook profile under the name of a prominent person and member of parliament, Hon. Charmaine Scotty. The victim was sent a friend request on Facebook by the alleged perpetrator and lured to apply for a grant in which the alleged suspect claimed to be a United Nations representative offering a funded scheme.

The Nauru FIU conducted checks on its STR database as well as checked the Western Union transactions database but established no matches. Nauru FIU contacted AUSTRAC and established that a Juan Martinez was subject to a law enforcement action in Australia for an advance fee fraud scam. The case was referred to the Nauru Police Force. Nauru FIU was informed that the Transnational Crime Unit and the Cybercrime Unit within the Nauru Police Force were investigating the matter.

Due to the nature of the scam as well as the involvement of a high-level official of the Nauru government's reputational risk, the FIU took the proactive stance of issuing the Alert Notice as an advisory to prevent any further victims from being lured into the scam.

Case Study 4

Nauru FIU had proactively issued FIU Alert No. 01/2022 in relation to Online Scams related to Digicel (telecommunications provider) lottery winners. Nauru FIU issued FIU Alert No. 01/2022 in light of alleged victims being contacted via an international telephone call via Digicel Nauru or via WhatsApp. The Nauru FIU had received three referrals from the members of the public, checked its STR database, and established no matches on the beneficiaries. Therefore, it took a proactive approach to advise all members of the public to immediately contact the Nauru FIU, the Cybercrime Unit, the Nauru Police Force, Digicel Nauru, or the Bendigo Bank Agency should they enter or be coerced to enter into such a transaction. The coordination mechanism and the role of the FIU in taking a proactive stance by issuing

the alert notice demonstrate that the Nauru FIU has prioritised cases related to advance fee frauds and accordingly taken a proactive stance.

The 'Alert Notices' issued by the FIU are made public through the Government Information Office, Government Facebook page, text blasts through the Digicel platform and the FIU website.

The above examples show Strategic Analysis using available and obtainable information around the handling of potential scams and pro-active measures undertaken by the Nauru FIU.

Nauru Elections 2022

The FIU remained alert and vigilant during the preparation and leading up to the Republic's 2022 elections for any potential financial crime. In any jurisdiction, crimes such as bribery, corruption, collusion and other financial crimes are likely threats arising from election related activities.

The FIU received information on a potential Person of Interest (POI) moving around with large sums of money. The POI was identified as a known person by the law enforcement agencies. The FIU conducted further inquiries and monitoring, including financial information checks with its foreign counterparts.

The FIU, upon the conclusion of its analysis and investigations, ruled out any connection to the elections. Instead, it appeared more like a case of tax evasion and involvement of dealings with the Asian community. The matter was subsequently disseminated to tax authorities for possible tax evasion investigations.

B. Patterns of crime

Based on the analysis of available and obtainable data, it is difficult to predict a particular pattern of crime in Nauru. Apart from drugs, for financial crime, there is low offending. This makes it difficult to identify any particular crime patterns and trends.

But there is concern for Nauru in terms of assault cases and sexual offending. In this regard, the amendments to law has been done with the increase in the imprisonment terms.

C. Risk of Relevance to Nauru

The strategic analysis reveals that the current risk that Nauru is exposed to is in relation to drug offences. Drug cases are on the rise and needs to be addressed. As a matter of intelligence, this appears to be a growing concern in the region and not only Nauru alone.

Financial Sector risks are relatively low, as the home jurisdictions of both agencies apply strict internal controls to mitigate any risks and vulnerabilities.

D. New technology and business products

The strategic analysis has also looked at threats and vulnerabilities arising from new technologies and business products.

Nauru has now included Virtual Assets (VA) and Virtual Asset Service Providers (VASP) in the AML-TFS Act 2023. This is a requirement under the FATF Recommendations that countries should regulate AV and VASP since they pose significant risks of money laundering, terrorism financing and proliferation financing.

VA and VASP are technology driven and challenging for small island countries to implement proper legislation to regulate them. Nauru has taken this into consideration and has issued a Policy document outlining the international and domestic requirements. This information is vital for the public, reporting entities, the FIU and related supervisors.

Any VASP intending to operate in Nauru must therefore comply with the required laws of Nauru, including the *AML-TFS Act 2023*, *Business Names Registration Act 2018*, *Business Licence Act 2017*, *Beneficial Ownership Act 2017*, *Trusts Act 2018* and *the Corporations Act 1972*.

Currently the FIU has not identified any VASP to be operational in Nauru. Nauru has issued a VASP Policy so that stakeholders and the Public has a clear understanding on Virtual Assets. One of the main objectives of this policy is to ensure that *“the same transparency and accountability requirements applying to traditional and conventional financial institutes, also apply to VASPs. It is vital that this is done to ensure Nauru is protected from the abuse of electronic systems for laundering money for the financing of terrorism or proliferation financing”*.

E. Coordination with supervisory authorities and other authorities within the Republic

The FIU works in close collaboration with the Nauruan Supervisory Authorities and law enforcement authorities to identify specific risks and vulnerabilities and how to mitigate those risks and vulnerabilities.

Nauru FIU introduced the National Strategy for Anti-Money Money Laundering and Combatting the Financing of Terrorism 2022-2025. (Strategy). The purpose of the document is to formalise the Republic’s strategy in dealing with money laundering, combatting the financing of terrorism, proliferation financing and other financial crimes.

The Strategy sets out specific goals and objectives. It further introduces 3 committees with specific roles. The AML Governance Committee (AMLGC) has the overall responsibility for the oversight of the AML/CFT Framework in Nauru. The Secretary for Justice and Border Control is the chair of the Committee. The AML Officials Committee (AMLOC) includes members from law enforcement authorities, competent authorities and supervisory authorities. The role of the AMLOC is to meet regularly to share information, identify risks and vulnerabilities and find mitigating strategies. The Private Partners Committee (PPC) includes members of the Private sector.

Together the AMLOC and Private Partners committees form the Public Private Partnership (PP) a concept promoted by FATF as a collaborative mechanism to combat money laundering, combatting the financing of terrorism, proliferation financing and other financial crimes.

The FIU publishes all important laws, regulations, policies, guidelines and notices on the FIU Website to ensure that stakeholders and the general public are aware of these important documents. Where necessary, stakeholders including reporting entities are sent these important documents directly.

The link to the FIU webpage is: [Financial Intelligence Unit - The Government of the Republic of Nauru](#)

Case Study 5

The FIU has conducted 2 joint supervisory exercise with the Registrar of Business Licence. In the first case a joint supervision was undertaken for the Associations in Nauru under *Registration of Associations Act 2020*. The second case involved Spot check at a gaming venue for compliance of *Gaming Act 2011* and *Business Licence Act 2017*.

In both cases, the reports were compiled and submitted to the Registrar to act on any identified breaches. The FIU's role was to ensure compliance with AML/CFT obligations, whilst the Registrar's role included compliance with the respective laws, which are the *Registration of Associations Act 2020* and *Business Licences Act 2017*.

In the first case (associations), 2 joint awareness sessions have been conducted by the FIU and the Registrar to ensure that the associations in Nauru are properly registered and understand their obligations under the Nauruan laws.

Case Study 6

FIU Case Dissemination to Nauru Police Force related to Alleged Forgery

A request was channelled to the Nauru FIU in April 2023 from the Secretary of Justice in relation to alleged forgery at the Passport office involving an unemployed Nauru national, Person C, who approached the Passport office to renew passports and attempted to avoid payment for the renewal of 2 passports. Person C provided a Bendigo payment receipt which appeared to be forged.

The FIU Supervisor conducted checks and established that, in comparison to an original payment receipt, it was found to have anomalies. It was also established by Nauru FIU via enquiries with Nauru Police Force that the person was previously known to the police for such behaviour. The Nauru FIU disseminated a report to Police in a span of 2 weeks and an investigation is underway into the matter.

The above case shows the coordination with a law enforcement authority, the Immigration Section under the Department of Justice and Border Control.

F. Nauru's Approach in combatting crimes

The FIU works closely with all the stakeholders through the AMLOC and PPC committees to ensure there is a contribution from all stakeholders in identifying risks and vulnerabilities in Nauru and finding appropriate solutions.

The approach by Nauru is to ensure all stakeholders are informed of the current crime trends and patterns in Nauru by the FIU, AMLOC and PPC. The strategic analysis findings, including the NRA 2023 and any other relevant reports, are shared with all stake holders to ensure they are aware of the findings.

Equally, they must all contribute to finding appropriate means to combat the relevant crimes and find mitigating strategies to address any threats and vulnerabilities. The collaborative approach in combatting crime ensures the involvement of all sectors of the Nauruan community.

Overall risk assessment

Drug related offences are identified as the current major risk for Nauru in terms of AML/CFT activities.

The overall findings confirm a low risk of money laundering, terrorism financing and other financial crimes in Nauru. This is consistent with the 2012 Mutual Evaluation Report of Nauru published by the Asia Pacific Group on Money Laundering (APG) and the NRA 2018.

G. Appropriate Response

The strategic analysis has revealed that Nauru maintains an overall finding of low risk. It has further identified drug offences as the current AML/CFT threat. The revelation of hard drugs in the Republic is a matter of national concern.

Nauru has in fact amended its legislative framework in regards to the above threat. One obstacle that the Nauru Police faced was the lack of ability to conduct tests to confirm suspected drugs were in fact drugs. Previously, the drugs had to be escorted to Fiji or Australia for testing. In 2021, Nauru introduced the presumptive test regulations, *Illicit Drugs Control (Drug Testing Kit) regulations 2021*. The regulations now allow authorised officers to conduct and confirm the identity of the drug and possible prosecution.

Additionally, the Nauru Police Force (NPF) has a specialised unit, namely the Transnational Crime Unit (TCU) which is trained and specialised to handle drug related cases using special techniques. The unit is supported and funded by the Australian Federal Police and works closely with other Pacific TCU's and the PTCCC. The FIU under the memorandum of understanding with the NPF, has close collaboration with the TCU to share information.

Nauru has, since 2014, undergone a major legislative reform in addressing the AML/CFT Framework. New Acts, amendments to laws, regulations, policies, guidelines and related mechanisms have been introduced to address the risks and vulnerabilities identified above. Some of these legislations are the AML-TFS Act 2023 and related regulations, the Beneficial Ownership Act 2017, Business Licence Act 2017, Business Names Registrations Act 2018, Proceeds of Crime Act 2004, Counter Terrorism and Organised Crime Act 2004, Crimes Act 2016 to name some.

The legislative amendments to the Proceeds of Crime Act 2004 and the standard operating procedures for Customs in relation to cash smuggling further reduce the risk of cash smuggling. The implementation of the tax compliance regime reduces the vulnerability to tax evasion, supported by increased information sharing between NRO and the FIU.

The introduction of the strategy and the recent National Risk Assessment 2023 are testimony to the effort of the Nauruan authorities and the Government to put in a collaborative effort to address AML/CFT contravening activities in Nauru.

Data is critical to this analysis and the FIU through its partnership with AUSTRAC has commenced the launch of the TAIPAN database to boost the analysis capabilities of the FIU and its ability to store data. The secure system will now allow AUSTRAC to directly ingest AUSTRAC related information into the TAIPAN database once it is operational.

CONCLUSION

The strategic analysis has revealed that the current risk faced by Nauru is the increase in drug offences in terms of AML/CFT contravening activities. It is anticipated that this will continue and all stakeholders need to focus on this predicate offence.

Countermeasures need to be put into place with the current mitigating factors. Enhanced measures are required in the form of data collection, tactical intelligence gathering, use of informants and a collaborative approach.

Engagement with regional counterparts in sharing information and mechanisms to counter drug offences can be useful for Nauru. The FIU should be alerted and engaged more often to identify likely sources of funds.

The analysis has further revealed that financial crimes do not show any continued trend or pattern and are low risk. This is based on the current set of data obtained for cases under prosecution or completed over a 4-year period.

Appropriate mitigating strategies have been put in place by Nauruan authorities to address the vulnerabilities of cash smuggling, tax evasion and the financial sector.

The Stakeholders together with the FIU must increase awareness and outreach activities on AML/CFT related crimes and in particular the requirement to report suspicious activities will certainly have an impact on the detection and prevention of crimes.

Nauru remains a low risk jurisdiction for money laundering and terrorism related activities, which is consistent with the findings of the 2012 Mutual Evaluation report and the NRA 2018.

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