

# **Nauru's New Trust Fund: The Intergenerational Trust Fund for the People of the Republic of Nauru**

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# Introduction

- The Intergenerational Trust Fund for the People of the Republic of Nauru ('Nauru Trust Fund' or 'NTF')
- Legally established in November 2015 (operationalized May 2016)
- Contributing members: governments of Nauru, Australia and Taipei, China
- Already the NTF has received about \$25 million

# NTF basics

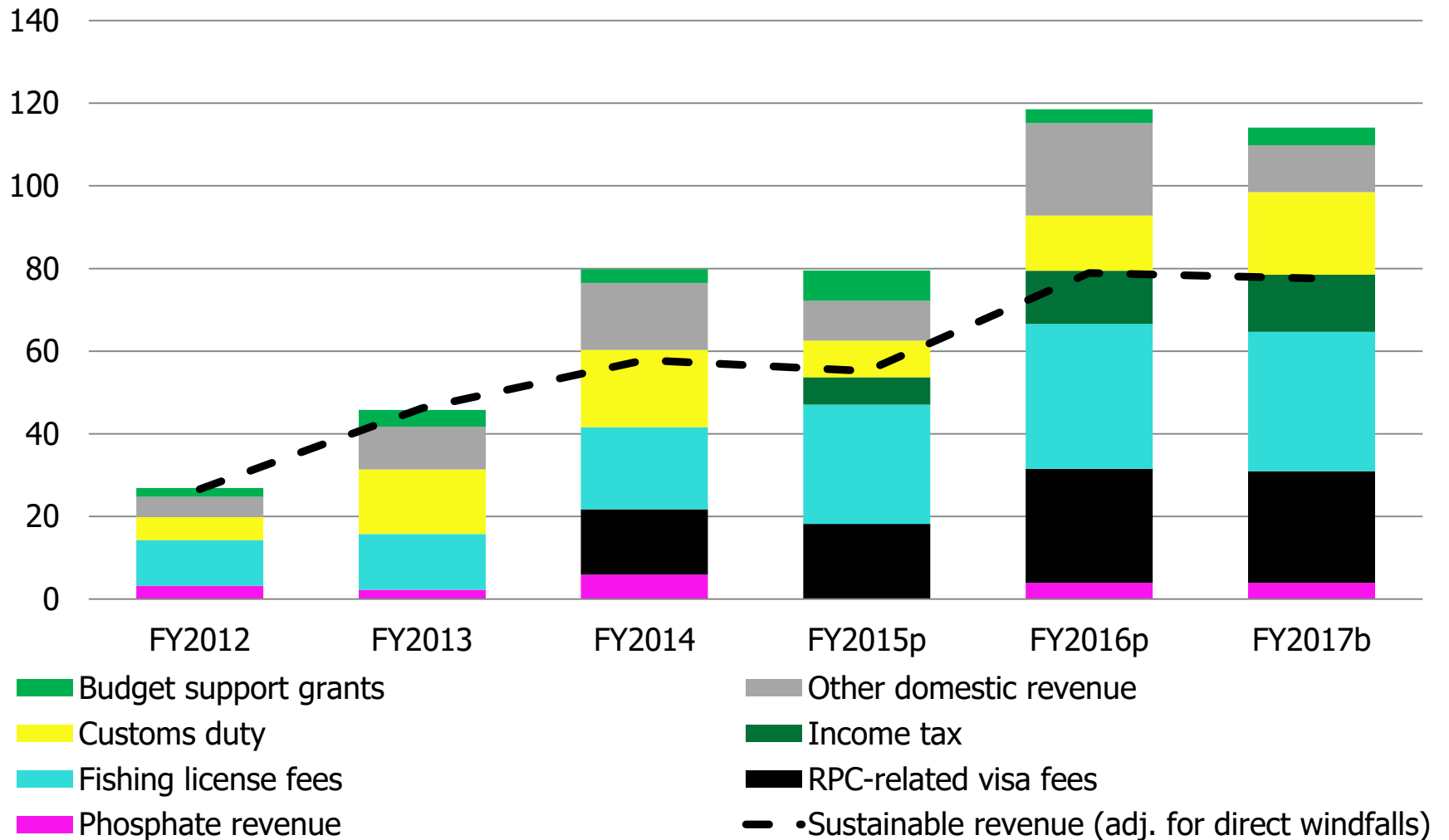
- **Objective:** build-up a sufficient principal value that can provide a future stream of public revenue to support investments in education, health, environment and public infrastructure.
- **Build up phase:** 20 years with annual contributions from government and donors.
- **Distribution phase:** make annual distributions to government budget on a sustainable basis.
- **Governance:** Government and contributing bilateral donor partners make decisions by consensus.

# Policy rationale

- Intergenerational equity
- Original focus on saving income from phosphate
- Now a need to save broader revenue 'windfalls'
  - Asylum seeker and refugee program
  - High fishing license fees

# Arrival of revenue windfalls

A\$ millions



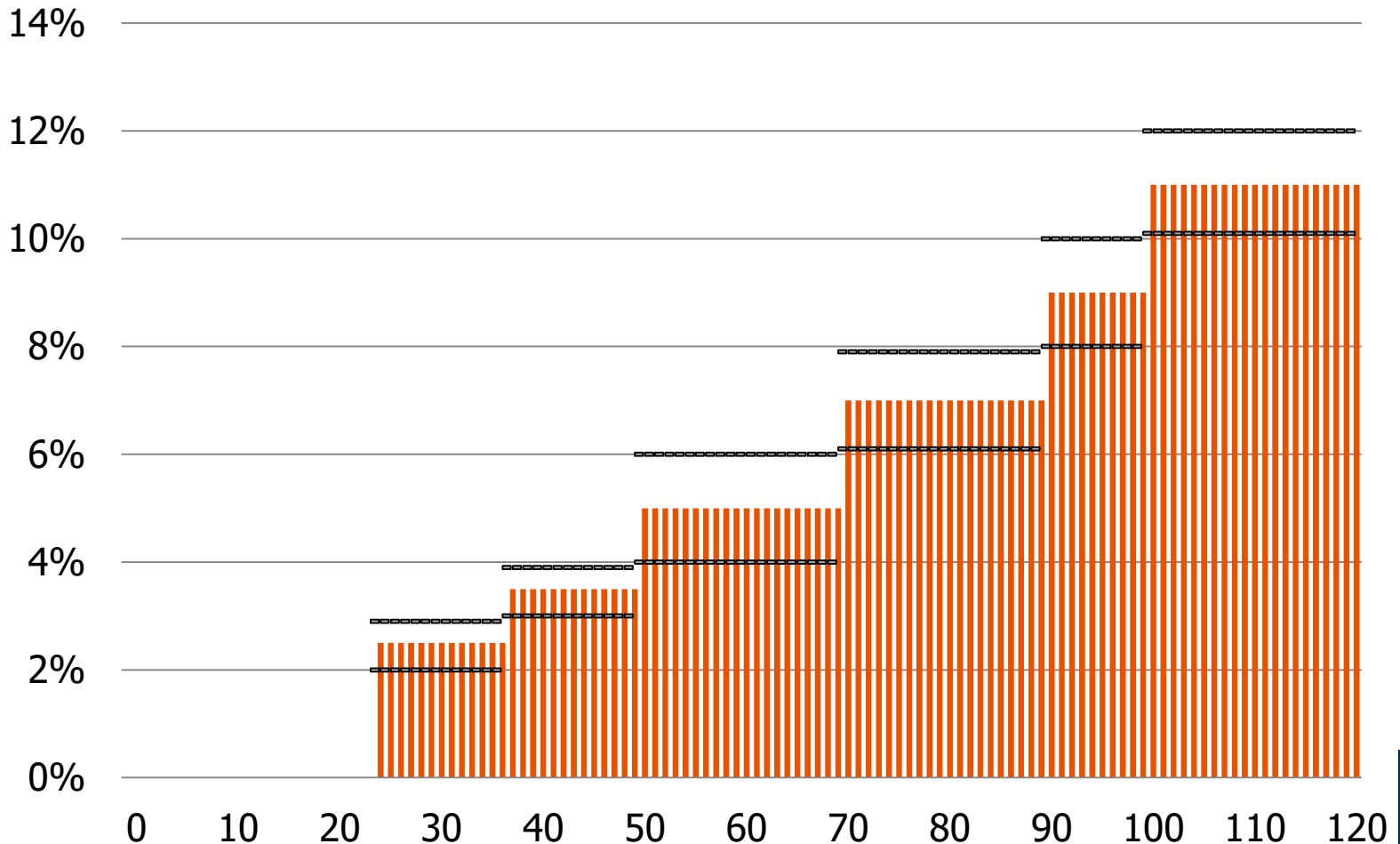
Source: ADB estimates, government authorities

# Additional considerations

- Limits to efficiently raising public spending quickly
- Limited scope to grow domestic revenue base
- Budget stability
- Avoid mistakes of the past

# Saving for the future

NTF Contribution Rule - % of domestic revenue (range)

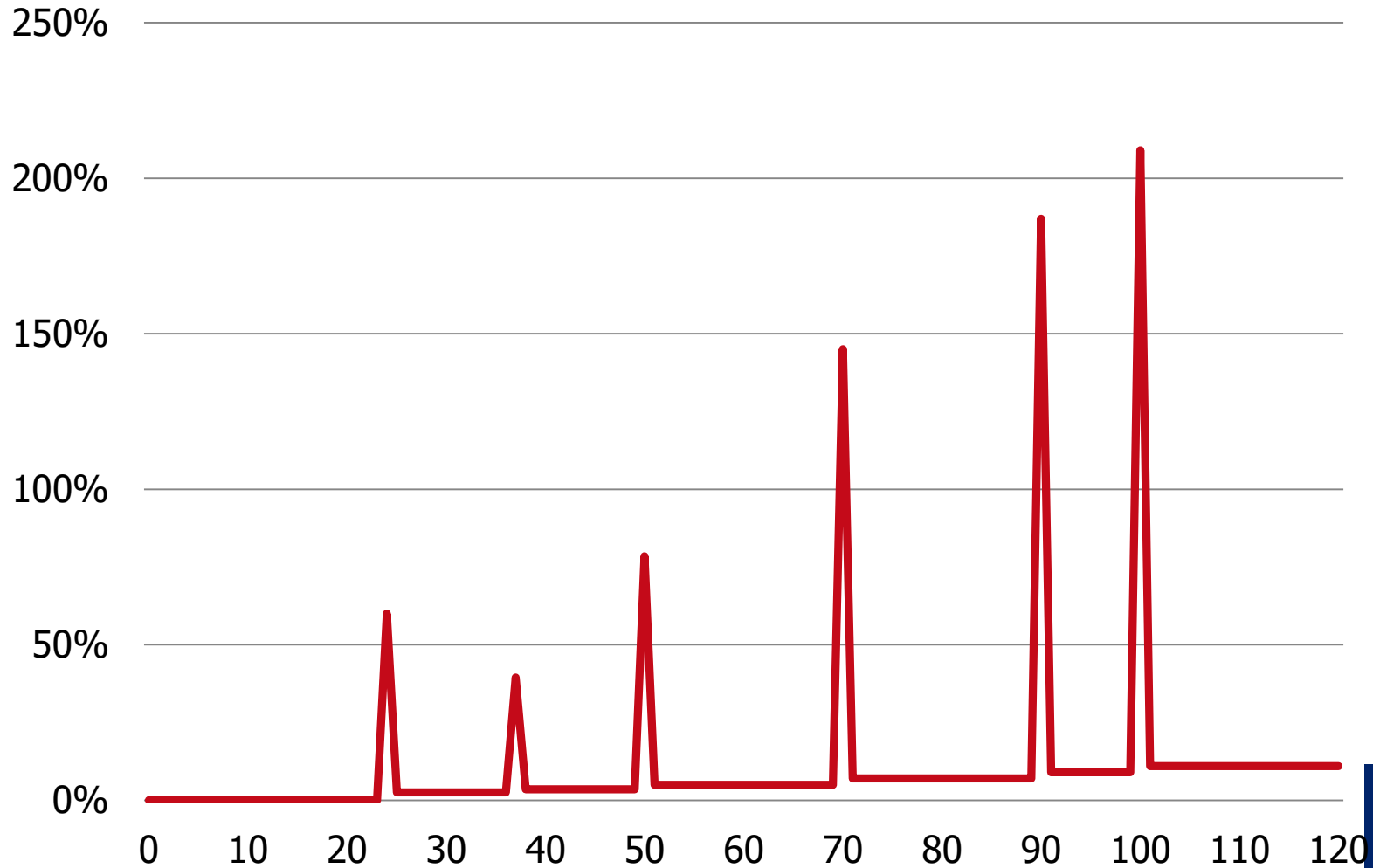


Source: ADB, government authorities



# Saving for the future

Marginal NTF Contribution Rate



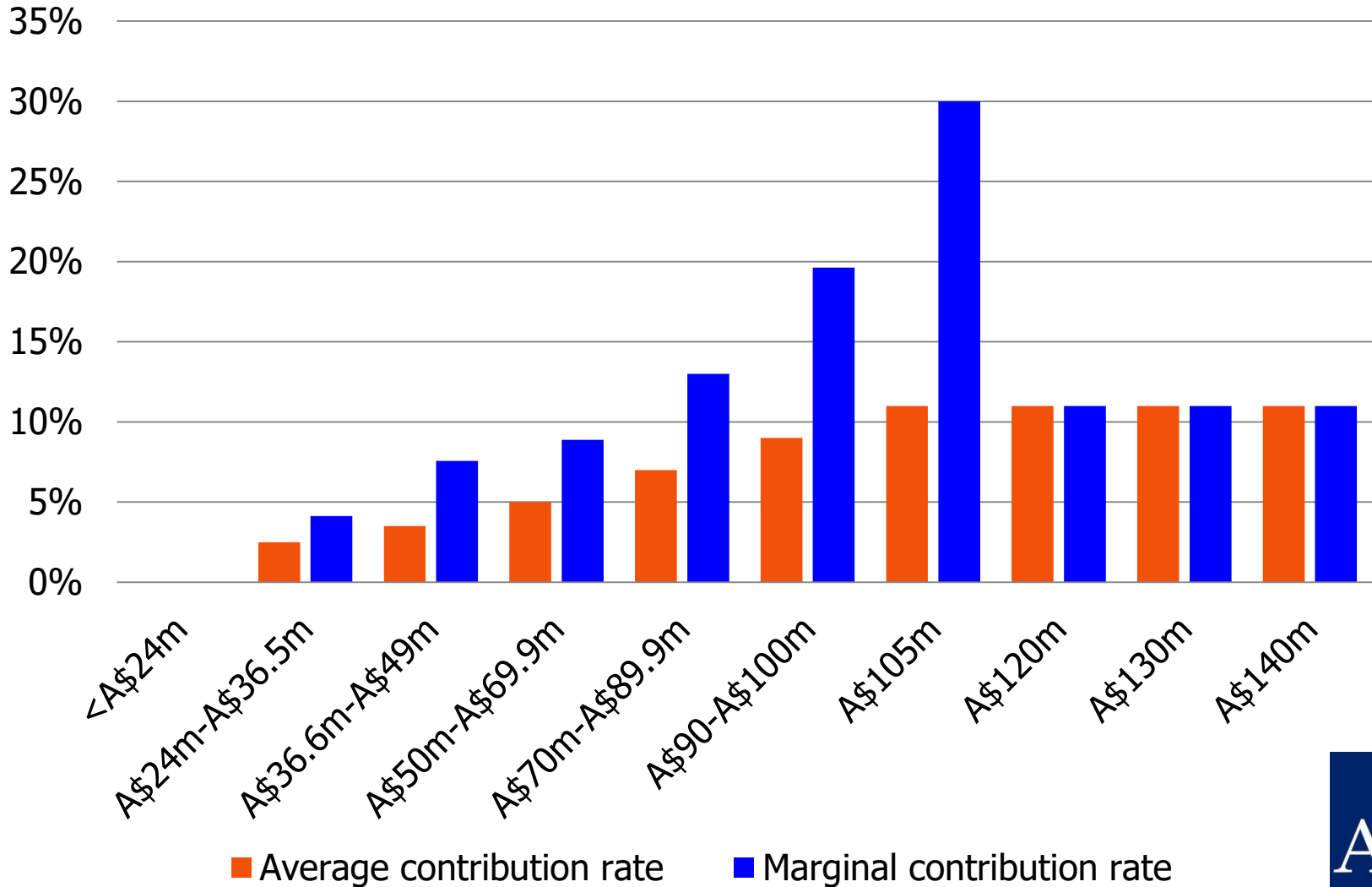
Source: ADB calculations





# Saving for the future

% of domestic revenue



Source: ADB calculations



# A sustainable source of financing

- Distribution formula:

$$\text{Max. distribution} = \text{Principal}_{3YMA} \times (r - s)$$

- Where:

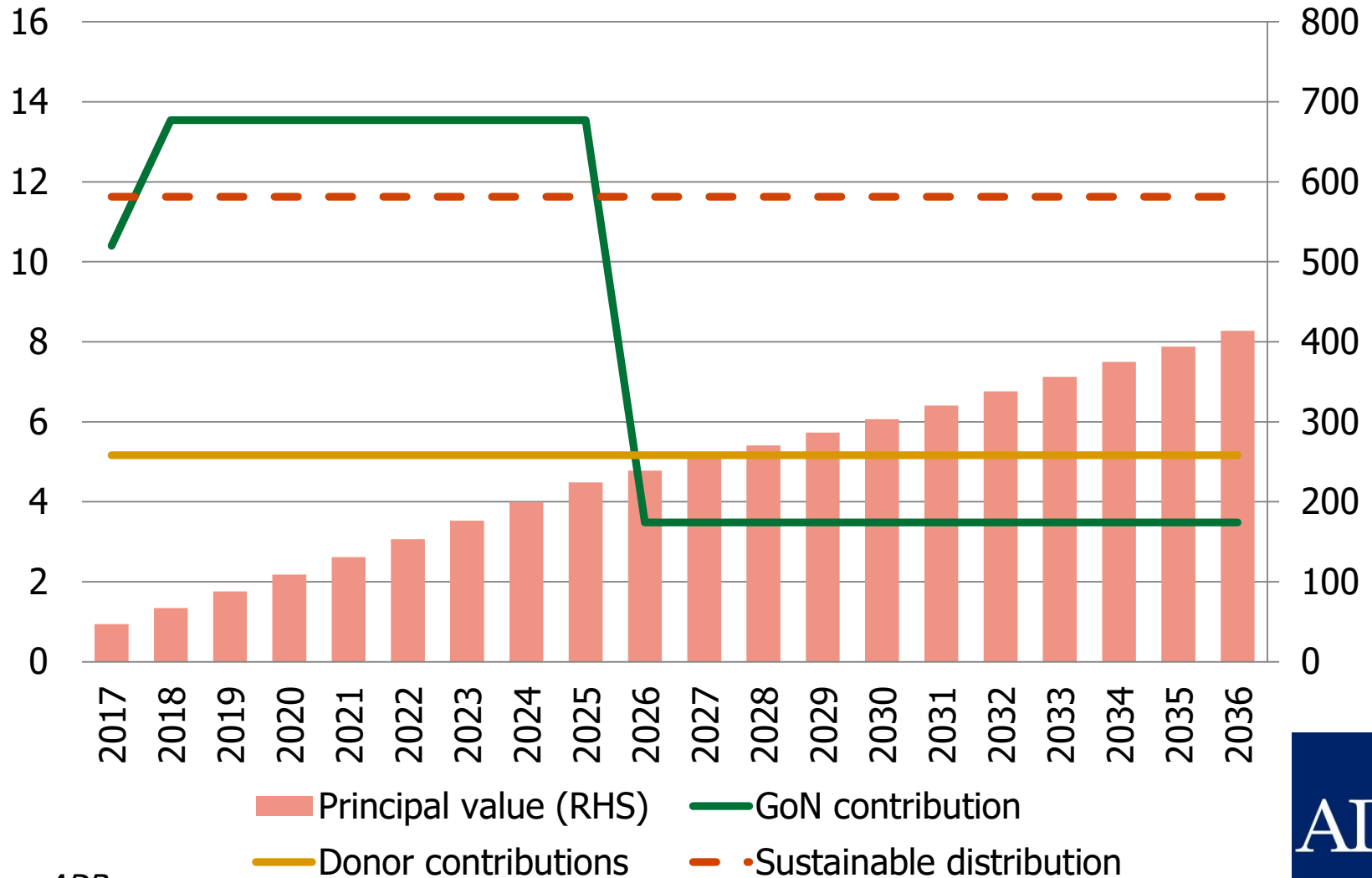
$\text{Principal}_{3YMA}$  = 3 year moving average of principal value

r = long run sustainable rate of return

s = sustainability gap

# A sustainable source of financing

Illustrative projections, constant 2016 A\$ millions



Source: ADB



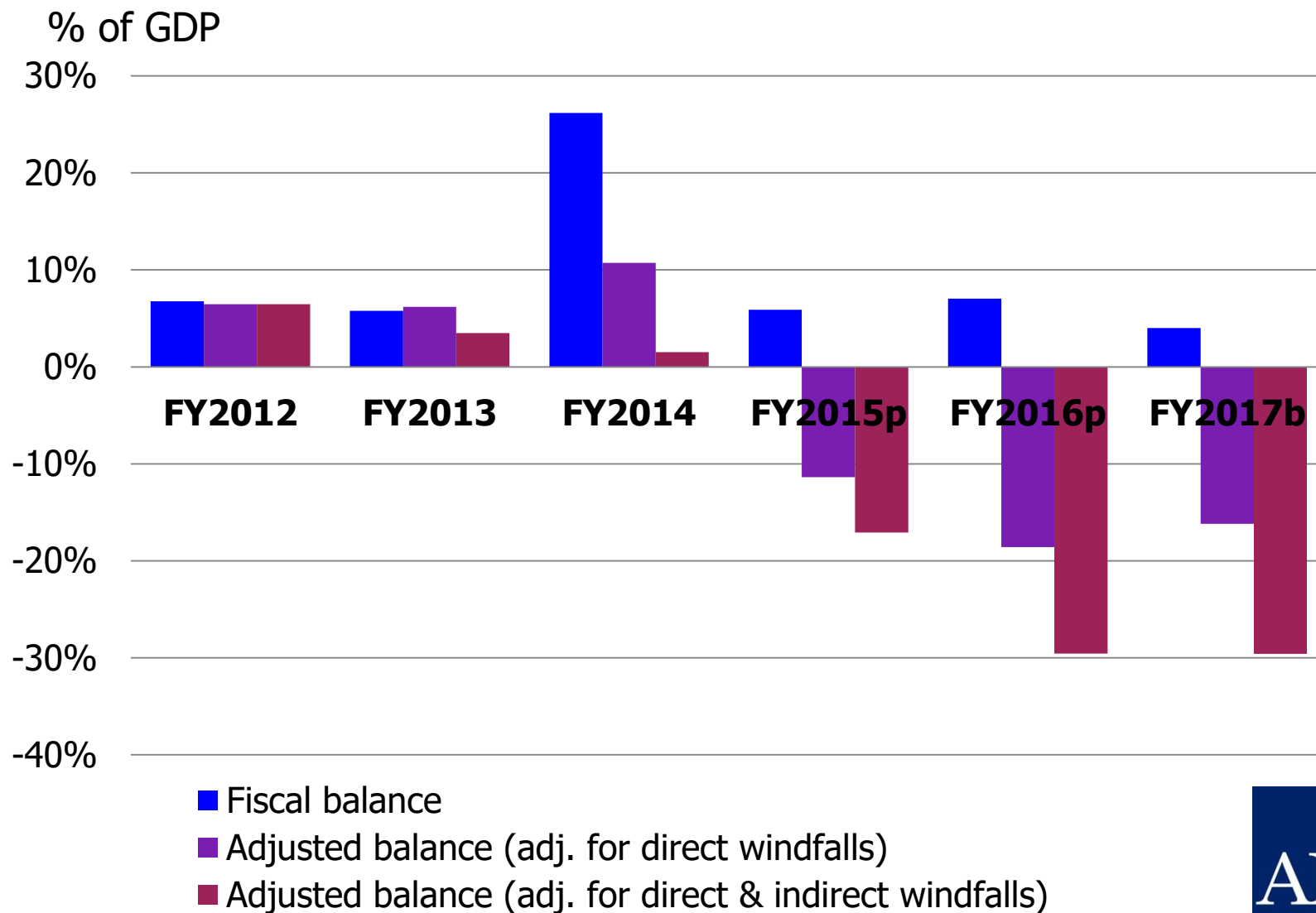
# Learning from history and international practices

- Avoiding the mistakes of the past
  - Governance of the fund
  - Fund management
  - Transparency and accountability
- International lessons
  - Division of ownership and management
  - Transparency
  - Domestic economic implications

# The need for complementary reforms

- Improve cash flow management
  - Make NTF transfers without disrupting budget implementation
- Improve fiscal transparency & accountability
  - Prepare and release government financial statements
  - Independent audits of financial statements
- Develop a more comprehensive fiscal framework
  - NTF fiscal rules shouldn't exist in isolation
  - Balance different policy objectives
- Saving enough?

# Saving enough for the future?



Source: ADB estimates

