

Intergenerational Trust Fund for the People of the Republic of Nauru

Background

The Government of the Republic of Nauru (GON) has pursued establishing a trust fund since 2009 with the objective of providing a stream of revenue to replace or supplement various volatile and, possibly, terminating revenue sources.

The *Nauru National Sustainable Development Strategy 2005-25: Partnerships for Quality of Life (as revised in October 2009)* identifies the establishment of a trust fund as one of the seven strategies to stabilize the macroeconomic environment conducive to private investment. The aim was to have a trust fund provide supplementary funds to the budget as of 2030, mainly to replace dwindling phosphate royalty revenues. Parliament passed the *Nauru Trust Fund Act 2012* to authorize the establishment of a trust fund. The new Trust fund was formally registered in late 2015 and commenced operations in 2016.

Nauru's economic structure and GON's revenue streams have improved. For the period between FY2014-5 and FY2018-9, domestic revenue has significantly increased. Donor budget support and other donor-sponsored development expenditure have remained at sizeable amounts but are a reduced portion of the overall budget.

The change is catalyzed by: 1) Continued hosting of the Regional Processing Center for Refugees (RPC). There is currently a transition for Nauru to assume greater management responsibilities for the RPC. 2) Fisheries revenue, resulting from fishing vessels using Nauru's Exclusive Economic Zone and a new fisheries agreement in effect, have increased and are expected to be at higher levels yet are volatile; and at the same time, responding to these primary revenue increases, Customs, Tax (both Business Profit Tax and Employment Services Tax), tariffs and other revenue streams have also increased. External aid assistance remains at high levels, making up about one-third of all revenue to include budget support and donor-supported development expenditure.

The GON conducted discussions with various development partners, including Australia, New Zealand, Republic of China (Taiwan) and the Asian Development Bank (ADB), regarding the structure of the Fund to include its purpose, management and administration, accountability and other legal and operational aspects. The Asian Development Bank was instrumental in their support of the establishment of the Fund with the funding of the consultant for the establishment process including the tendering for support services and initial Executive Administration role. The ADB also provided an initial contribution to the Fund. The Memorandums of Understanding (MOUs) are now place for initial founding development partners. These MOUs sets forth the structure and governance of the Fund.

The GON will contribute a portion of annual revenue to the Fund based on a formula agreed to in the MOU. GON's development partners intend to contribute

annually to the Fund. Other contributors may also enter into an agreement with the GON based on the parameters set forth in the MOU.

The Fund is intended to be a perpetual fund meaning its principal will be secured over the long term by eventual annual distributions that are less than the annual estimated long-term investment return rate.

The original members of the fund include Nauru, Australia, Republic of China (Taiwan) and the inclusion of New Zealand (with a MOA) in May 2019. All have committee members and provide annual contributions to the fund.

The Fund's purpose, as stated in the MOU/MOA is:

“The purpose of the Fund is to provide a source of revenue to the Republic of Nauru post-2033, or at a time sooner as determined by the Committee, for investments in education, health, environment and infrastructure. The Fund will help to smooth out windfall income streams in the medium term and replace all or part or supplement questionable future revenue.

The Fund will begin Distributions when the Committee determines that the Fund has reached a Current Value that the Committee considers feasible to provide the Government of the Republic of Nauru with a source of revenue to replace revenue reductions of any naturally based resource stream.”

The Fund as at 1st June 2019 has a value AUD \$110+ million comprised of contributions from the GON and its development partners and returns from initial investments to date.

The Fund is successfully managed by a Committee consisting of representatives from the GON and its developments contributing to the Fund. The following service providers will support the Committee:

- Investment Fund Manager - Mercer International
- Executive Administrator - BDO to coordinate and support Committee activity, administer the Fund on behalf of the Committee and to coordinate and liaise with services providers
- Accountant - BDO to provide timely accounting support
- Auditor - Hanrick Curran to audit the accounts of the Fund annually
- Review Consultant – Vinstar (David Hutton) to evaluate the Fund compared to international best practices and benchmarks.