

REPUBLIC OF NAURU

INTERNATIONAL MONETARY FUND AND WORLD BANK GROUP INSTITUTIONS BILL 2016

EXPLANATORY MEMORANDUM

The *International Monetary Fund and World Bank Group Institutions Bill 2016* is a Bill for the *International Monetary Fund and World Bank Group Institutions Act 2016*.

EXPLANATION OF CLAUSES

Clause 1 provides that, once enacted, the short title of the Bill will be the *International Monetary Fund and World Bank Group Institutions Act 2016*.

Clause 2 sets out when the Bill's provisions will commence.

Clause 3 is the purpose clause for this Act. The purpose is very clear and states that the Act is to make provision for acceptance of membership by the Republic to the International Monetary Fund and World Bank Group Institutions and other related purposes. The World Bank Group Institutions are:

- (i) International Bank for Reconstruction and Development;
- (ii) International Finance Corporation;
- (iii) International Development Association;
- (iv) Multilateral Investment Guarantee Agency;
- (v) International Centre for Settlement of Investment Disputes.

Clause 4 is an interpretation clause that sets out the definition and interpretation of certain words and terms used in the Act. This is an important clause as there may be some technical words and phrases that are common only to issues pertaining to this law and thus need to be clearly defined to avoid ambiguity.

Clause 5 deals with the acceptance of membership of Nauru to the International Monetary Fund and to the World Bank Group Institutions. In order to accept membership, the Government of Nauru would need to accept certain instruments including the Articles of Agreement of the International Monetary Fund and the Convention on the Settlement of Disputes between States and Nationals of Other States (ICSID Convention) and the terms and resolutions of the respective Board of Governors of the two institutions.

Clause 6 provides for special drawing rights (SDR) that a state has once they are members of the two institutions. The SDR is an international reserve asset that can supplement the official reserves of member countries, including Nauru. Its value is currently based on a basket of four major currencies namely, the U.S Dollar, Euro, Japanese Yen and pound sterling. In October 2016, this will be expanded to include the Chinese renminbi. The SDR is neither a currency nor a claim on the IMF. Rather it is a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain these currencies in exchange for the SDRs in two ways: first, through the arrangement of voluntary exchanges between members; and second, by the IMF designating members with strong external positions to purchase SDRs from members with weak external positions.

This clause of the Act gives the Republic rights to participate in the SDR department with the Minister for Finance executing and depositing on behalf of the Republic an instrument of participation.

Clause 7 are appropriation provisions that allow the Government to borrow or acquire and to pay on behalf of the Republic the amounts that are payable to the institutions named in this Clause. The Government shall also make payments in connection with participation of the Republic in the SDR Department of the Fund.

Clause 8 appoints the Ministry of Finance to act as the fiscal agency on behalf of the Republic. This means that the Ministry shall perform on behalf of the Republic all financial duties relating to the Republic's obligations to the IMF and World Bank group institutions.

Clause 9 is the designation of the channel of communication and for the purposes of dealings with the institutions, the Minister for Finance is designated as the channel of communication identified in the specific Articles of the Articles of the Agreement.

Clause 10 provides the Minister with the power to designate a depository for all of the Fund's, the Bank's, the Corporation's, the Association's and the Agency's holdings of the currency of the Republic that is acceptable to the Institutions.

Clause 11 provides for an authorised representative to execute and deposit any instrument of acceptance, ratification and any other documents that may be required for accepting membership in the institutions. The Minister is appointed as the authorised representative to act on behalf of the Republic.

Clause 12 provides for provisions that shall have the force of law in Nauru from the date of the Minister's signature of the following Articles and Conventions:

- (1) Articles VIII, section 2(b), Article IX, sections 2 to 9 inclusive, and Article XXI(b) of the Articles of Agreement of the Fund;

(2) Articles VII, sections 2 to 9 inclusive, of the Articles of Agreement of the Bank;

(3) Article VI, sections 2 to 9 inclusive, of the Articles of Agreement of the Corporation;

(4) Articles VIII, sections 2 to 9 inclusive, of the Articles of Agreement of the Association;

(5) Articles 44 to 48 inclusive of the MIGA Convention; and

(6) Chapter I, section 6, Articles 18 to 24 inclusive of the ICSID Convention.

Clause 13 gives power to the Minister to appoint the Governor and alternate Governor of the Fund and of the Bank.

Clause 14 is the power to make regulations and this power is given to the Cabinet.