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May 29, 1987

To: Members of the Executive Board

From: The Acting Secretary

Subject: Italy - Establishment and Administration of Voluntary  
Contribution Account

The attached paper on the establishment and administration of a voluntary contribution account at the request of the Italy is scheduled for discussion by the Executive Board on Monday, June 1, 1987. A draft decision appears on page 3.

Mr. Liuksila (ext. 7797) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:  
Department Heads



INTERNATIONAL MONETARY FUND

Establishment and Administration of Voluntary Contribution Account  
at the Request of Italy: Letter of Request, Draft Decision  
and Instrument, and Draft Reply by the Managing Director

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Prepared by the African Department, the Legal Department  
and the Treasurer's Department

Approved by Alassane D. Ouattara, Francois Gianviti and David Williams

May 29, 1987

1. It is expected that the Government of Italy, through the Italian Treasury, will request the Fund to open an account with the Fund pursuant to Article V, Section 2(b), for the administration of resources to be contributed by Italy for the benefit of such member or members of the Fund as Italy may designate. Assistance to the designated beneficiaries would be provided in the form of grants. Upon the establishment of the Account, the Government of Italy will make a voluntary contribution of seven million U.S. dollars (US\$7,000,000) to the Fund in that Account. It is understood that Italy has designated Somalia as beneficiary of a grant from the resources in that Fund Account of the same amount in support of Somalia's structural adjustment program.

2. Article V, Section 2(b) provides the Fund with authority to perform financial and technical services, and, in that connection, to administer grants from one member to the Fund for use by the Fund for the benefit of such member or members of the Fund as the grantor may designate. Article V, Section 2(b) reads as follows:

"If requested, the Fund may decide to perform financial and technical services, including the administration of resources contributed by members, that are consistent with the purposes of the Fund. Operations involved in the performance of such financial services shall not be on the account of the Fund. Services under this subsection shall not impose any obligation on a member without its consent."

3. The establishment of the Account would be a service for Italy that is consistent with the purposes of the Fund. The attached letter of request demonstrates one such instance, which is to facilitate the

resumption of the Fund's financial assistance in support of Somalia's structural adjustment program aimed at reducing internal and external imbalances in Somalia's economy.

Accordingly, the Fund has authority to accede to Italy's request to open the Account and to decide upon arrangements under which certain resources are transferred by Italy to the Account administered by the Fund for purposes of a further transfer by the Fund to another member or members of the Fund. Under such a scheme, Italy may retain the power to designate beneficiaries, to specify the form of grants to be made by the Fund from the resources in the Account and to terminate the Account at any time.

Italy's request would be met by the adoption of the attached draft Instrument which authorizes the Managing Director to establish and administer the Account as a separate account under Article V, Section 2(b).

4. Under the terms and conditions of the attached draft Instrument, the Managing Director will not be called upon to exercise judgment on the distributional aspects. That is, the Fund will not be required to establish amounts or determine qualifications or initiate transfers of funds.

The operations conducted through the Account will not be "on the account of the Fund," in accordance with Article V, Section 2(b). The resources contributed to the Account would not be recorded in the General Department or the SDR Department of the Fund, but would be kept separate of all other accounts of, or administered by, the Fund, and the assets held in the Account shall not be available to discharge or meet any liabilities, obligations or losses incurred by the Fund in the administration of any other account of, or administered, by the Fund, and vice versa. (Draft Instrument, paragraph 4(b)).

The Managing Director is to be authorized to open accounts with the Fund's depositories "in the name of the Fund." (Draft Instrument, paragraph 4(a)). The resources held in such accounts would constitute "assets" of the Fund for various purposes of the Articles of Agreement. Thus, the guarantee in Article XIII, Section 3 would apply. The provision reads:

"Each member guarantees all assets of the Fund against loss resulting from failure or default on the part of the depository designated by it."

Similarly, the assets held in the Account would constitute assets of the Fund for the purposes of the Fund's immunities and privileges under Article IX of the Fund Agreement and under Article III

of the U.N. Convention on Privileges and Immunities which apply in member countries that have accepted the Convention with respect to the Fund. 1/

5. The Fund is not expected to incur any obligation or liability by reason of the establishment, administration or termination of the Account. Either Italy or the Fund could terminate the Account at any time. (Draft Instrument, Paragraph 6(a)).

Before the transfer of resources by Italy to the Account, the Managing Director will contact Somalia's fiscal agency to receive the latter member's instructions for transfers by the Fund of funds to it.

6. Paragraph 4(d) of the draft Instrument provides that no charge shall be levied for the service rendered by the Fund in the establishment, operation, and termination of the Account. Moreover, it is not proposed to charge Italy or any beneficiary member for the expenses of carrying out the operations of the Account, which are expected to be minimal.

7. A decision setting forth the terms and conditions on which the Fund authorizes the Managing Director to open and administer an Account for Italy, pursuant to Article V, Section 2(b), requires a majority of votes cast.

Accordingly, the following draft decision is proposed for adoption by the Executive Board:

"1. Pursuant to Article V, Section 2(b), the Fund adopts the provisions set forth in the Annex that establish an Account for the administration by the Fund of resources to be contributed by Italy for the benefit of such member or members as Italy may designate.

2. The provisions of the Annex may be amended only by a decision of the Fund and with the concurrence of Italy."

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1/ United Nations Convention on the Privileges and Immunities of the Specialized Agencies and Annex V adopted by the United Nations General Assembly on November 21, 1947. The Executive Directors of the Fund accepted the standard clauses of the Convention and approved Annex V with respect to the Fund on April 11, 1949. The Annex became effective on May 9, 1949, when it was received by the United Nations. See Selected Decisions, Twelfth Issue, pp. 446-466.

Annex to Decision No.

An Instrument to Establish an Account at the Request of Italy

To help fulfill its purposes, the International Monetary Fund (hereinafter called the Fund) has adopted this Instrument to establish an Account at the request of Italy, which shall be governed by, and administered in accordance with, the terms and conditions of this Instrument:

1. Establishment of Account

The Managing Director is hereby authorized to establish with the Fund an Account for the administration of resources to be contributed by Italy.

2. Resources

The resources of the Account shall consist of currency.

3. Operations of the Account

The resources of the Account may be used by the Fund only to provide grants in such form and to such member or members as Italy shall specify. The receipt, holding and use of resources for such grants shall not be on the account of the Fund.

4. Administration of the Account

(a) The Managing Director is authorized (i) to make all arrangements, including establishment of accounts in the name of the International Monetary Fund, with such depositories of the Fund as may be necessary to carry out the operations of the Account; and (ii) to take all measures necessary to implement the provisions of this Instrument.

(b) The assets and property of the Account will be kept separate from the assets and property of all other accounts of, or administered by, the Fund. The assets and property held in such other accounts will not be used to discharge or meet the liabilities, obligations or losses of the Fund incurred in the administration of the Account; nor will the assets and property of the Account be used to discharge or meet the liabilities, obligations or losses incurred by the Fund in the administration of such other accounts.

(c) Subject to the provisions of this Instrument, the Fund, in administering the Account, shall apply mutatis mutandis the same rules and procedures as apply to operations of the General Resources Account of the Fund.

(d) No charge shall be levied for the services rendered by the Fund in the administration, operation, and termination of this Account.

5. Accounts, Audit and Reports

(a) The Fund shall maintain separate financial records and prepare separate financial statements for the Account.

(b) The Audit Committee selected under Section 20 of the Fund's By-Laws shall audit the operations and transactions conducted through the Account. The audit shall relate to the financial year of the Fund.

(c) The Fund shall report on the assets and property and on the operations of the Account in the annual report of the Executive Board to the Board of Governors and shall include in that annual report the report of the Audit Committee on the Account.

6. Termination of the Account

(a) The Account may be terminated by the Fund or Italy at any time. Termination shall be effective on the date that either party receives a notice of termination or on such later date, if any, as may be specified in the notice of termination.

(b) Any assets and property of the Account remaining on the date of termination of the Account shall revert to Italy.

To: The Managing Director

May 29, 1987

From: Salvatore Zecchini

Subject: Italian Initiative in Support of Somalia

Following previous understandings between the Italian Government and the International Monetary Fund, I wish to inform you that on May 6, 1987 the CICS (Comitato Interministeriale per la Cooperazione allo Sviluppo) approved a contribution of US\$7 million to the International Monetary Fund in support of the efforts that are under way to help Somalia to embark upon an adjustment program.

A formal letter of communication on this subject has already been sent to you through diplomatic channels and you will be receiving it in the coming days.

It is hoped that this initiative will help Somalia to clear its arrears and pursue the adjustment measures agreed upon with the International Monetary Fund.



Copy of Draft Letter of Request to the Managing Director

Rome, May 6, 1987

Dear Mr. Camdessus,

The Government of Italy requests the Fund to open an account to administer resources to be contributed by Italy for the benefit of such member or members as Italy may designate. The assistance shall be provided in the form of grants, as specified by Italy.

The Government of Italy will make a voluntary contribution of U.S. dollars 7 million to facilitate the resumption of the Fund's financial assistance in support of Somalia's structural adjustment program aimed at reducing internal and external imbalances in Somalia's economy.

I would appreciate if you would inform me when the account has been opened and the transaction has been completed.

Sincerely yours,

Mr. Michel Camdessus  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Draft Reply by the Managing Director

Dear Sir:

I would like to inform you that the Executive Board of the International Monetary Fund has acceded to your request for the establishment of a Voluntary Contribution Account. The transfer of a grant of 7 million U.S. dollars (US\$7,000,000) to the Account will help me to present to the Executive Board a recommendation for a stand-by arrangement and structural adjustment arrangements for Somalia to support Somalia's adjustment program. The elimination of existing internal and external imbalances will permit Somalia to attain medium-term sustainability in its balance of payments and to improve thereby its creditworthiness.

I would like to take this opportunity to thank you for your Government's innovative approach.

With my highest regards,

Very truly yours,

Michel Camdessus  
Chairman of the Executive Board  
and  
Managing Director