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ECONOMIC COMMISSION FOR LATIN AMERICA LIMITED

# REPORT OF THE FIRST MEETING OF THE INTERGOVERNMENTAL GROUP OF 24 ON INTERNATIONAL MONETARY MATTERS AT THE MINISTERIAL LEVEL

Caracas (April 1972)

(Revision 1)

Working paper prepared for the Latin American Group of the III UNCTAD (April-May 1972).

I. The First Meeting of the Intergovernmental Group of 24 on International Monetary Matters at the Ministerial level, was held at Caracas during the period of April 6-7, 1972.

The initial meeting was presided over by General Guillermo Marcó del Pont, representing the Minister for Foreign Affairs of Peru in his capacity as Chairman of the II Ministerial Meeting of the Group of 77 held at Lima from October 28 to November 6, 1971.

The Bureau of the Meeting was unanimously elected as follows:

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| Chairman | Dr. Pedro Tinoco, h., Venezuelan Minister of Finance |
| Vice-Chairman | Dr. Mohamed Seghir Mostefai, Governor of the Central Bank of Algeria |
| | Dr. N. Martin Perera, Minister of Finance of Ceylon |

Dr. Carlos Rafael Silva, Chairman of the Meeting of Deputies acted as Rapporteur.

As especial guests, it was attended by Dr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund and Dr. Manuel Pérez Guerrero, Secretary General of UNCTAD.

The Group of 24 has been constituted by decision of the Governments of the Group of 77 in response to a proposal submitted by the Ministry of Foreign Affairs of Peru during the II Ministerial Meeting.

The creation of the Group of 24 arose from the disatisfaction expressed by developing countries with the manner in which the fundamental decisions are being made by a small group of developed countries. In consequence, our main aim is to achieve an effective participation of the developing countries in all monetary decisions at the international level, and particularly matters concerning the reforms to the international monetary system, on which discussion are being started, or contemplated, in order to expedite the solution of the present crisis.

The Ministers considered the report presented by the Deputies and have reached the following conclusions.

/II. ORGANIZATION

## II. ORGANIZATION AND WORKING PROCEDURE OF THE GROUP

1. The Group of 24 will work in close relation with the Governments of the Group of 77 from which it emanates and at the same time it will be independent from any international or regional institution with which it will however co-operate as necessary.

2. Meetings of the Group should be held as an when necessary bearing in mind in fixing such meetings according to the annual meeting of the International Monetary Fund. The venue for such meetings should be on the basis of invitations. It is envisaged to have Deputies' Meetings more frequently than Ministerial Meetings. The Chairman of the current deputies' meeting will serve as Rapporteur for the current Ministerial meeting. In order to provide for continuity it was agreed that the Chairman of the current meeting be the Vice-Chairman of the following meeting. It was also felt that continuity in the representation of member countries would be of considerable help to the work and functioning of the Group. Possible rotations of membership of the Group of 24 among member countries of the Group of 77 in each region should be considered in future and kept under review from time to time.

3. The host country government and/or Central Bank would provide the necessary executive secretariat and other facilities for holding the meeting. A preparatory committee will be constituted to arrange the next meeting, consisting of the Bureau of the last meeting and a representative from the next host country. The Group will decide on the commissioning of studies by different national and international bodies, the Chairman of the Group of Deputies being responsible for conveying such requests to the appropriate bodies. In addition to the assistance and resources which Executive Directors of the IMF and International Institutions especially UNCTAD secretariat may be requested to provide in the technical field. Members of the Group can also submit for its consideration the studies they deem useful for the carrying out of the Group's tasks. In view of these arrangements, it was generally felt that for the present, at any rate, it was not necessary to establish a permanent secretariat for providing documentation and other services.

4. The meeting of Deputies will report to the Ministers' meeting. The conclusions or recommendations of the Ministerial meeting will be communicated by its Chairman to the Chairman of Group of 77 and all members of this Group through their Governors of the IMF. Special arrangements will be made to keep those governments informed who are not members of the Fund.

/III. SUBSTANTIVE

## III. SUBSTANTIVE MATTERS

### A: Decision-Making Process

1. In connection with this matter the Ministers reaffirmed the following principles:

(a) That the IMF should be the main forum for debate and the institution for effective decision-making on all matters pertaining to the international monetary system.

(b) That such decisions should be adopted with the full participation of all its members, and

(c) That no action should be taken or procedure adopted that might weaken the effectiveness of either the Board of Governors or the Executive Board of the IMF.

2. Taking into consideration the present situation and in order to improve on the decision-making process and to enhance the effectiveness of the above principles, the Ministers decided to support the idea of the early establishment of a Committee of the Board of Governors of the IMF. In their view such a committee will enable the Governors of both developed and developing countries to exchange views and make recommendations to the Board of Governors on matters pertaining to the reform of the international monetary system and related amendments of the Articles of Agreement. In the event of the setting up of such a committee, the Group of 24 at a Ministerial level will seek contact with the nine Governors of the developing countries in that Committee to consider arrangements for adequate co-ordination with the Group of 24.

3. The Ministers consider it desirable that the Committee of the Board of Governors have the following basic characteristics:

(a) The Committee should be composed of 20 Governors of the IMF, each one selected from a constituency that appoints or elects an Executive Director, on the basis of its own choice and trying to insure the broadest representation of the respective countries. The Committee will elect as Chairman a Governor from its own membership. The Managing Director will be invited to attend the meetings.

(b) The Committee should act in an advisory capacity and should report its findings and recommendations to the Board of Governors. All final decisions will be taken by the Board of Governors.

/(c) In

(c) In connection with the possibilities of such a Committee formally operating at the level of Deputies, the Group affirmed that such as arrangement should not impair the effectiveness of the Executive Board.

(d) The terms of reference of the Committee should be the issues, pertaining to the reform of the international monetary system and related amendments to the Articles of Agreement of the IMF.

(e) The Committee through the Executive Board of the IMF should be able to utilize the services and facilities of the IMF and other sources.

B. Activation of Special Drawing Rights

1. The Ministers took into account the facts that the first basic period of the SDRs allocation ends in December 1972 and that before the end of June of this year, the Managing Director of the IMF, after appropriate consultations, will have to make a proposal or submit a report regarding the further allocation of SDRs as from January 1st, 1973. Having considered this matter, the Ministers strongly supported the idea of a new activation of SDRs starting as from January 1st, 1973. In arriving at this conclusion, they took into account the following points:

(a) That, in accordance with Article 24 of the Articles of Agreement of the Fund, all decisions with respect to the allocation of SDRs shall be based on the long term global need for liquidity so as to promote the attainment of the Fund's purposes and avoid economic stagnation and deflation as well as excess demand and inflation in the world, while promoting the expansion and balanced growth of international trade.

(b) That the international monetary experience of the past years is not sufficiently extensive for it to constitute a genuine basis for prediction about the future course of the evolution of international liquidity.

(c) That recent developments regarding the pattern of holdings of international liquidity, while tending to increase the difficulties surrounding technical judgement in this area, should nevertheless be taken account of in determining the magnitude of liquidity creation.

2. Given the preceding considerations the Ministers wish to stress the need for an early conclusion of the studies in progress as well as any additional work which may be deemed necessary in order to arrive at an early judgement on SDRs activation.

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C: The Link between SDRs and Development Finance

1. The Ministers recognize that the magnitude of SDRs creation should at all times be determined solely by reference to the liquidity need of the world economy. There are however several reasons to support the use of part of the additional liquidity so created for purposes of additional development finance. The link is justified not only for reasons of equity but also because of its usefulness in bringing about a balanced and widely distributed economic growth. In this regard, there is no doubt that a fuller utilization of resources in the developing world is a valuable contribution to world trade, economic growth, and prosperity.

2. The fact that the establishment of the SDRs has permitted developed countries substantial savings of real resources in the process of acquiring international liquidity implies that they are now in a better position to increase their flow of aid to developing countries. For all the above reasons, the Ministers recommend that a link be established between SDRs allocation and development finance. Such a link should benefit all developing countries and should in effect provide additional resources over an above the regular sources of development finance.

3. The Ministers also suggest that further studies should be urgently undertaken so that technical aspect of the link proposal may be resolved.

D: Other Matters relating to SDRs

1. The Ministers considered that it is essential to further strengthen the asset characteristics of the SDRs so as to establish them as full-fledged reserve assets and took note with satisfaction of recent developments in the IMF which represent a first step in that direction. They recognize however, that to accomplish this objective, further changes are required in some operation characteristics of SDRs. The changes will be the object of detailed consideration as part of the reform of the international monetary system.

2. They also recognize the necessity of modifying the present basis for the distribution of SDRs, in particular, IMF quotas. Quotas are supposed to measure the relative economic positions of countries; however, the original Bretton Woods formula was designed to produce results in accordance with certain pre-determined aims. Although it was later modified and several new formulas introduced, they still lack a rigorous economic reasoning to justify them as being as adequate way of measurement. For all these reasons, the present structures of quotas fails to recognize existing relative economic structures and has resulted in depriving developing countries of an adequate share in the distribution of SDRs.