Maldives’ Recommendations at the Third Substantive Meeting AHWG on Smooth Transition, New York
Jeffrey Salim Waheed, First Secretary
26th of March 2012

Distinguished Colleagues,

Let me begin by thanking the co-chairs for convening this Third Substantive meeting of the Ad Hoc Working Group on strengthening the smooth transition process for those nations graduating from Least Developed Country status. I would also like to extend our appreciation to the esteemed professor, Patrick Guillaumont, for his illuminating presentation, and thank our dear Turkish Ambassador Apkan for his comments.

It is an honor and a pleasure for the Maldives to be here today. As mentioned previously, the Republic of the Maldives is the most recently graduated Least Developed Country, and we are currently in midst of the transition phase this group was created to address.

Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

The Smooth Transition Strategy

The smooth transition strategy developed for the Maldives focused primarily on trade development with a secondary objective of maintaining development financing. In fact, the Maldives has been hailed as an example to emulate in terms of the nations’ involvement with the WTO and its persistence in the formation of bilateral preferential trade agreements. The Maldives has paved the way for new measures to be introduced and have been supported by the global community. An example of this is that after the Maldives lobbied for an extension on the application of the TRIPS Agreement in the aftermath of the 2004 Tsunami, the WTO agreed to extend the deadline till 2013 or graduation. They later extended the deadline for all LDCs to 2013 as well, moving it back 7 years. Maldives has also been a huge advocate of the status of Small and Vulnerable Economies (SVE), and though this has not been
formalized in the WTO, the concept carries weight and has allowed for more flexible measures
in the conduct of trade negotiations. The Maldives gained access to Enhanced Integrated
Framework (EIF) funding through the promotion of their SVE status. This is also a status we
articulated during Trade Policy Review (TPR) resulting in the Everything but Arms (EBA) trade
agreement with the EU and the recognition of the need for greater differential provisions and
technical assistance. It should be noted that we also have a similar zero tariff agreement with
China for 60% of Maldives’ exports.

In order to maintain these agreements beyond the transition period, the Maldives intends on
joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access.
However, once this happens – in order to meet the eligibility criteria – the Maldives would have
to bear the additional and substantial cost of complying with 27 international conventions on
good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a
preferential agreement with Japan. Unfortunately, it is only this year that we have managed to
sit for discussions on a Free Trade Agreement, though no formal approaches have been
made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the
secondary objective of maintaining developmental assistance has not been as successful. While
the Maldives was able to hold a successful donor conference, with pledges of $313 million US
dollars, linked to the conference’s key themes of macro-economic reform, public sector reform,
good governance, social development and climate change; the nation has only a small portion
of those pledges fulfilled.

The lack of substantial levels of continued developmental assistance and access to
concessionary finance and the inability to reassess the situation in the country has led to
massive shortfalls and the formation of risky economic policies, some of which have proven to
be harmful to the nation’s economic stability.

Development Priorities

A smooth transition plan needs to be continually reassessed, and we must ensure that it is both
effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs
but rather to help them in the next logical step of their national development.

The previous Administrations of the Maldives were unprepared for graduation, and
international aid together with a concrete national plan is absolutely essential. So dire was our
straits in the lead up to graduation that we introduced austerity measures, including the entire
administration, from the Head of State to the Municipality local levels, taking 20% reductions in
public wages. This, together with an ambitious national privatization scheme was introduced in
order to reduce financial burden on the state – thereby creating a number of Public Private
Partnerships (PPPs). Unfortunately, many of these companies attempted to take on
responsibilities that were primarily focused on development in a climate that did not favor access to private development finance, resulting in the central government taking on the additional costs of maintaining these entities. When these endeavors proved to yield little fruit, the administration turned to combining infrastructure and tourism development, with infrastructure projects being integrated into tourism models as Corporate Social Responsibility (CSR) components. The administration was compelled to proceed with these new models for economic development – outside the Tourism Master Plan, thereby throwing off the existing national development frameworks.

In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price over night, causing national, widespread discontent which contributed to the ill will towards the former administration.

While graduation from LDC status is meant to be an indicator of a business environment that is conducive to increased private and public investment, substantial Foreign Direct Investment (FDI) did not materialize in non-traditional sectors of investment (namely in any sector but the tourism industry) and therefore the burden of graduating went largely unabated. The fact remains, that today, the Maldives consists of a number of islands without even the most basic sewerage and water systems, with a geography that makes internal trade almost prohibitively expensive and a fishing industry that is on the decline.

**Consultative Mechanism**

Ladies and gentlemen, distinguished delegates, while the formulation of our strategy was adequate for the time, it was not adaptive to the developing experiences of the Maldives. Yes we have had success in pioneering new measures to mitigate the effects of graduation, however the question remains as to whether those efforts will be enough. Apart from basic monitoring of the graduation process by the Ministry of Foreign Affairs and the Ministry of Economic Development, there was no consultative mechanism to keep track of the process, nor was there any body with the ability to reassess the standards of the graduation and work with donors to meet the needs of the graduating country.

The coherent formation of the national strategy for a smooth transition is of paramount importance and while it is monitored yearly during its formation –its execution should continue to be monitored annually as well, instead of only triennially. The Maldives supports the
Small Island Vulnerable State

In the Maldives’ case, as a Small Island Developing State (SIDS), we face additional well-known, well-documented vulnerabilities that run deep into our economic, social and environmental sectors. While we strive to ensure that our economy and society are both resilient and flexible, we require greater recognition of the particular vulnerabilities that SIDS face, along with a more efficient framework to address them. It is in this regard we once again call for the official recognition of a SIDS category at the United Nations.

Though we enjoy some prosperity, we are extremely vulnerable to external shocks and face high infrastructure development costs due to the dispersed geographical nature of the Maldives. Our key productive capacity is also inextricably linked to our natural environment and the durability of our fragile ecosystem. High per-capita incomes often mask high economic vulnerability and structural handicaps.

In recent history, the Maldives has had to face numerous economic shocks – the most significant of which was the 2004 tsunami which devastated the nation’s social and economic infrastructure. In the following year, the economy contracted by 5.5 percent of GDP, and the effects of the tsunami are still being felt 8 years later. More recently however, the global financial and economic crisis hit the Maldives exacerbating severe account deficits, high liquidity growth, double digit inflation, pressure on the exchange rate, increased public and private sector debt, and rising inequalities between rural and urban communities – even leading to a 10% decline in tourist arrivals.

Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

Ray of Light

The one predominantly positive and by far the most successful program has been the implementation of a tax system. Previously the government relied solely on indirect taxation through import duties and basic rents from leased property, however with the new tax system the government started to engage in direct taxation. The Maldives Inland Revenue Authority has proven to be highly competent, efficient and evenhanded. However, as the cost of the
administration of the collection of taxes from Small and Medium business enterprises in the country has proven to be excessively costly, there is the growing desire to revert to indirect taxes for products meant for local consumption – though the tax system would remain completely intact for the nation’s larger businesses.

In the end, the success of the tax regime has shown the nation, the value in moving forward as a nation that is independent, entering maturity, and readying itself to be an active member of the community of nations. Though we have encouraged greater oversight, we look forward to the day when we are free to wholly control the development priorities of the nation and take pride in its access to capital markets. But till then, we hope this process would ease access to concessionary finance, development assistance, technology transfer, and capacity building while reinforcing the monitoring mechanisms of this process.

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In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

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In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

The lack of substantial levels of continued developmental assistance and access to concessionary finance and the inability to reassess the situation in the country has led to massive shortfalls and the formation of risky economic policies, some of which have proven to be harmful to the nation’s economic stability.

**Development Priorities**

A smooth transition plan needs to be continually reassessed, and we must ensure that it is both effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs but rather to help them in the next logical step of their national development.

The previous Administrations of the Maldives were unprepared for graduation, and international aid together with a concrete national plan is absolutely essential. So dire was our straits in the lead up to graduation that we introduced austerity measures, including the entire administration, from the Head of State to the Municipality local levels, taking 20% reductions in public wages. This, together with an ambitious national privatization scheme was introduced in order to reduce financial burden on the state – thereby creating a number of Public Private Partnerships (PPPs). Unfortunately, many of these companies attempted to take on
responsibilities that were primarily focused on development in a climate that did not favor access to private development finance, resulting in the central government taking on the additional costs of maintaining these entities. When these endeavors proved to yield little fruit, the administration turned to combining infrastructure and tourism development, with infrastructure projects being integrated into tourism models as Corporate Social Responsibility (CSR) components. The administration was compelled to proceed with these new models for economic development – outside the Tourism Master Plan, thereby throwing off the existing national development frameworks.

In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price over night, causing national, widespread discontent which contributed to the ill will towards the former administration.

While graduation from LDC status is meant to be an indicator of a business environment that is conducive to increased private and public investment, substantial Foreign Direct Investment (FDI) did not materialize in non-traditional sectors of investment (namely in any sector but the tourism industry) and therefore the burden of graduating went largely unabated. The fact remains, that today, the Maldives consists of a number of islands without even the most basic sewerage and water systems, with a geography that makes internal trade almost prohibitively expensive and a fishing industry that is on the decline.

Consultative Mechanism

Ladies and gentlemen, distinguished delegates, while the formulation of our strategy was adequate for the time, it was not adaptive to the developing experiences of the Maldives. Yes we have had success in pioneering new measures to mitigate the effects of graduation, however the question remains as to whether those efforts will be enough. Apart from basic monitoring of the graduation process by the Ministry of Foreign Affairs and the Ministry of Economic Development, there was no consultative mechanism to keep track of the process, nor was there any body with the ability to reassess the standards of the graduation and work with donors to meet the needs of the graduating country.

The coherent formation of the national strategy for a smooth transition is of paramount importance and while it is monitored yearly during its formation – its execution should continue to be monitored annually as well, instead of only triennially. The Maldives supports the
proposal for the formation of a consultative mechanism that brings together the multilateral agencies and donor nations with the graduating country. While national ownership of the strategy is important, we urge the international community to continue to work with the graduating nations to ensure that the preparation and implementation of the transition strategy continues unhindered, so that national concerns about the transition is addressed, and so that the nations in question have the best opportunity become independent states. The nature and greater vulnerabilities of the state must be taken into account as well.

Small Island Vulnerable State

In the Maldives’ case, as a Small Island Developing State (SIDS), we face additional well-known, well-documented vulnerabilities that run deep into our economic, social and environmental sectors. While we strive to ensure that our economy and society are both resilient and flexible, we require greater recognition of the particular vulnerabilities that SIDS face, along with a more efficient framework to address them. It is in this regard we once again call for the official recognition of a SIDS category at the United Nations.

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Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

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The one predominantly positive and by far the most successful program has been the implementation of a tax system. Previously the government relied solely on indirect taxation through import duties and basic rents from leased property, however with the new tax system the government started to engage in direct taxation. The Maldives Inland Revenue Authority has proven to be highly competent, efficient and evenhanded. However, as the cost of the
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In the end, the success of the tax regime has shown the nation, the value in moving forward as a nation that is independent, entering maturity, and readying itself to be an active member of the community of nations. Though we have encouraged greater oversight, we look forward to the day when we are free to wholly control the development priorities of the nation and take pride in its access to capital markets. But till then, we hope this process would ease access to concessionary finance, development assistance, technology transfer, and capacity building while reinforcing the monitoring mechanisms of this process.

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Maldives’ Recommendations at the Third Substantive Meeting AHWG on Smooth Transition, New York
Jeffrey Salim Waheed, First Secretary
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Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

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The previous Administrations of the Maldives were unprepared for graduation, and international aid together with a concrete national plan is absolutely essential. So dire was our straits in the lead up to graduation that we introduced austerity measures, including the entire administration, from the Head of State to the Municipality local levels, taking 20% reductions in public wages. This, together with an ambitious national privatization scheme was introduced in order to reduce financial burden on the state – thereby creating a number of Public Private Partnerships (PPPs). Unfortunately, many of these companies attempted to take on
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In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price over night, causing national, widespread discontent which contributed to the ill will towards the former administration.

While graduation from LDC status is meant to be an indicator of a business environment that is conducive to increased private and public investment, substantial Foreign Direct Investment (FDI) did not materialize in non-traditional sectors of investment (namely in any sector but the tourism industry) and therefore the burden of graduating went largely unabated. The fact remains, that today, the Maldives consists of a number of islands without even the most basic sewerage and water systems, with a geography that makes internal trade almost prohibitively expensive and a fishing industry that is on the decline.

Consultative Mechanism

Ladies and gentlemen, distinguished delegates, while the formulation of our strategy was adequate for the time, it was not adaptive to the developing experiences of the Maldives. Yes we have had success in pioneering new measures to mitigate the effects of graduation, however the question remains as to whether those efforts will be enough. Apart from basic monitoring of the graduation process by the Ministry of Foreign Affairs and the Ministry of Economic Development, there was no consultative mechanism to keep track of the process, nor was there any body with the ability to reassess the standards of the graduation and work with donors to meet the needs of the graduating country.

The coherent formation of the national strategy for a smooth transition is of paramount importance and while it is monitored yearly during its formation –its execution should continue to be monitored annually as well, instead of only triennially. The Maldives supports the
proposal for the formation of a consultative mechanism that brings together the multilateral agencies and donor nations with the graduating country. While national ownership of the strategy is important, we urge the international community to continue to work with the graduating nations to ensure that the preparation and implementation of the transition strategy continues unhindered, so that national concerns about the transition is addressed, and so that the nations in question have the best opportunity become independent states. The nature and greater vulnerabilities of the state must be taken into account as well.

**Small Island Vulnerable State**

In the Maldives’ case, as a Small Island Developing State (SIDS), we face additional well-known, well-documented vulnerabilities that run deep into our economic, social and environmental sectors. While we strive to ensure that our economy and society are both resilient and flexible, we require greater recognition of the particular vulnerabilities that SIDS face, along with a more efficient framework to address them. It is in this regard we once again call for the official recognition of a SIDS category at the United Nations.

Though we enjoy some prosperity, we are extremely vulnerable to external shocks and face high infrastructure development costs due to the dispersed geographical nature of the Maldives. Our key productive capacity is also inextricably linked to our natural environment and the durability of our fragile ecosystem. High per-capita incomes often mask high economic vulnerability and structural handicaps.

In recent history, the Maldives has had to face numerous economic shocks – the most significant of which was the 2004 tsunami which devastated the nation’s social and economic infrastructure. In the following year, the economy contracted by 5.5 percent of GDP, and the effects of the tsunami are still being felt 8 years later. More recently however, the global financial and economic crisis hit the Maldives exacerbating severe account deficits, high liquidity growth, double digit inflation, pressure on the exchange rate, increased public and private sector debt, and rising inequalities between rural and urban communities – even leading to a 10% decline in tourist arrivals.

Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

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The one predominantly positive and by far the most successful program has been the implementation of a tax system. Previously the government relied solely on indirect taxation through import duties and basic rents from leased property, however with the new tax system the government started to engage in direct taxation. The Maldives Inland Revenue Authority has proven to be highly competent, efficient and evenhanded. However, as the cost of the
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In the end, the success of the tax regime has shown the nation, the value in moving forward as a nation that is independent, entering maturity, and readying itself to be an active member of the community of nations. Though we have encouraged greater oversight, we look forward to the day when we are free to wholly control the development priorities of the nation and take pride in its access to capital markets. But till then, we hope this process would ease access to concessionary finance, development assistance, technology transfer, and capacity building while reinforcing the monitoring mechanisms of this process.

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It is an honor and a pleasure for the Maldives to be here today. As mentioned previously, the Republic of the Maldives is the most recently graduated Least Developed Country, and we are currently in midst of the transition phase this group was created to address.

Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

The Smooth Transition Strategy

The smooth transition strategy developed for the Maldives focused primarily on trade development with a secondary objective of maintaining development financing. In fact, the Maldives has been hailed as an example to emulate in terms of the nations’ involvement with the WTO and its persistence in the formation of bilateral preferential trade agreements. The Maldives has paved the way for new measures to be introduced and have been supported by the global community. An example of this is that after the Maldives lobbied for an extension on the application of the TRIPS Agreement in the aftermath of the 2004 Tsunami, the WTO agreed to extend the deadline till 2013 or graduation. They later extended the deadline for all LDCs to 2013 as well, moving it back 7 years. Maldives has also been a huge advocate of the status of Small and Vulnerable Economies (SVE), and though this has not been
formalized in the WTO, the concept carries weight and has allowed for more flexible measures in the conduct of trade negotiations. The Maldives gained access to Enhanced Integrated Framework (EIF) funding through the promotion of their SVE status. This is also a status we articulated during Trade Policy Review (TPR) resulting in the Everything but Arms (EBA) trade agreement with the EU and the recognition of the need for greater differential provisions and technical assistance. It should be noted that we also have a similar zero tariff agreement with China for 60% of Maldives’ exports.

In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a preferential agreement with Japan. Unfortunately, it is only this year that we have managed to sit for discussions on a Free Trade Agreement, though no formal approaches have been made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

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Ladies and gentlemen, distinguished delegates, while the formulation of our strategy was adequate for the time, it was not adaptive to the developing experiences of the Maldives. Yes we have had success in pioneering new measures to mitigate the effects of graduation, however the question remains as to whether those efforts will be enough. Apart from basic monitoring of the graduation process by the Ministry of Foreign Affairs and the Ministry of Economic Development, there was no consultative mechanism to keep track of the process, nor was there any body with the ability to reassess the standards of the graduation and work with donors to meet the needs of the graduating country.

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proposal for the formation of a consultative mechanism that brings together the multilateral agencies and donor nations with the graduating country. While national ownership of the strategy is important, we urge the international community to continue to work with the graduating nations to ensure that the preparation and implementation of the transition strategy continues unhindered, so that national concerns about the transition is addressed, and so that the nations in question have the best opportunity become independent states. The nature and greater vulnerabilities of the state must be taken into account as well.

Small Island Vulnerable State

In the Maldives’ case, as a Small Island Developing State (SIDS), we face additional well-known, well-documented vulnerabilities that run deep into our economic, social and environmental sectors. While we strive to ensure that our economy and society are both resilient and flexible, we require greater recognition of the particular vulnerabilities that SIDS face, along with a more efficient framework to address them. It is in this regard we once again call for the official recognition of a SIDS category at the United Nations.

Though we enjoy some prosperity, we are extremely vulnerable to external shocks and face high infrastructure development costs due to the dispersed geographical nature of the Maldives. Our key productive capacity is also inextricably linked to our natural environment and the durability of our fragile ecosystem. High per-capita incomes often mask high economic vulnerability and structural handicaps.

In recent history, the Maldives has had to face numerous economic shocks – the most significant of which was the 2004 tsunami which devastated the nation’s social and economic infrastructure. In the following year, the economy contracted by 5.5 percent of GDP, and the effects of the tsunami are still being felt 8 years later. More recently however, the global financial and economic crisis hit the Maldives exacerbating severe account deficits, high liquidity growth, double digit inflation, pressure on the exchange rate, increased public and private sector debt, and rising inequalities between rural and urban communities – even leading to a 10% decline in tourist arrivals.

Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

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The one predominantly positive and by far the most successful program has been the implementation of a tax system. Previously the government relied solely on indirect taxation through import duties and basic rents from leased property, however with the new tax system the government started to engage in direct taxation. The Maldives Inland Revenue Authority has proven to be highly competent, efficient and evenhanded. However, as the cost of the
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In the end, the success of the tax regime has shown the nation, the value in moving forward as a nation that is independent, entering maturity, and readying itself to be an active member of the community of nations. Though we have encouraged greater oversight, we look forward to the day when we are free to wholly control the development priorities of the nation and take pride in its access to capital markets. But till then, we hope this process would ease access to concessionary finance, development assistance, technology transfer, and capacity building while reinforcing the monitoring mechanisms of this process.

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Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

The Smooth Transition Strategy

The smooth transition strategy developed for the Maldives focused primarily on trade development with a secondary objective of maintaining development financing. In fact, the Maldives has been hailed as an example to emulate in terms of the nations’ involvement with the WTO and its persistence in the formation of bilateral preferential trade agreements. The Maldives has paved the way for new measures to be introduced and have been supported by the global community. An example of this is that after the Maldives lobbied for an extension on the application of the TRIPS Agreement in the aftermath of the 2004 Tsunami, the WTO agreed to extend the deadline till 2013 or graduation. They later extended the deadline for all LDCs to 2013 as well, moving it back 7 years. Maldives has also been a huge advocate of the status of Small and Vulnerable Economies (SVE), and though this has not been
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In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a preferential agreement with Japan. Unfortunately, it is only this year that we have managed to sit for discussions on a Free Trade Agreement, though no formal approaches have been made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

The lack of substantial levels of continued developmental assistance and access to concessionary finance and the inability to reassess the situation in the country has led to massive shortfalls and the formation of risky economic policies, some of which have proven to be harmful to the nation’s economic stability.

Development Priorities

A smooth transition plan needs to be continually reassessed, and we must ensure that it is both effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs but rather to help them in the next logical step of their national development.

The previous Administrations of the Maldives were unprepared for graduation, and international aid together with a concrete national plan is absolutely essential. So dire was our straits in the lead up to graduation that we introduced austerity measures, including the entire administration, from the Head of State to the Municipality local levels, taking 20% reductions in public wages. This, together with an ambitious national privatization scheme was introduced in order to reduce financial burden on the state – thereby creating a number of Public Private Partnerships (PPPs). Unfortunately, many of these companies attempted to take on
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In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price over night, causing national, widespread discontent which contributed to the ill will towards the former administration.

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In recent history, the Maldives has had to face numerous economic shocks – the most significant of which was the 2004 tsunami which devastated the nation’s social and economic infrastructure. In the following year, the economy contracted by 5.5 percent of GDP, and the effects of the tsunami are still being felt 8 years later. More recently however, the global financial and economic crisis hit the Maldives exacerbating severe account deficits, high liquidity growth, double digit inflation, pressure on the exchange rate, increased public and private sector debt, and rising inequalities between rural and urban communities – even leading to a 10% decline in tourist arrivals.

Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

Ray of Light

The one predominantly positive and by far the most successful program has been the implementation of a tax system. Previously the government relied solely on indirect taxation through import duties and basic rents from leased property, however with the new tax system the government started to engage in direct taxation. The Maldives Inland Revenue Authority has proven to be highly competent, efficient and evenhanded. However, as the cost of the
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taxes for products meant for local consumption – though the tax system would remain
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In the end, the success of the tax regime has shown the nation, the value in moving forward as
a nation that is independent, entering maturity, and readying itself to be an active member of
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It is an honor and a pleasure for the Maldives to be here today. As mentioned previously, the Republic of the Maldives is the most recently graduated Least Developed Country, and we are currently in midst of the transition phase this group was created to address.

Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

The Smooth Transition Strategy

The smooth transition strategy developed for the Maldives focused primarily on trade development with a secondary objective of maintaining development financing. In fact, the Maldives has been hailed as an example to emulate in terms of the nations’ involvement with the WTO and its persistence in the formation of bilateral preferential trade agreements. The Maldives has paved the way for new measures to be introduced and have been supported by the global community. An example of this is that after the Maldives lobbied for an extension on the application of the TRIPS Agreement in the aftermath of the 2004 Tsunami, the WTO agreed to extend the deadline till 2013 or graduation. They later extended the deadline for all LDCs to 2013 as well, moving it back 7 years. Maldives has also been a huge advocate of the status of Small and Vulnerable Economies (SVE), and though this has not been
formalized in the WTO, the concept carries weight and has allowed for more flexible measures in the conduct of trade negotiations. The Maldives gained access to Enhanced Integrated Framework (EIF) funding through the promotion of their SVE status. This is also a status we articulated during Trade Policy Review (TPR) resulting in the Everything but Arms (EBA) trade agreement with the EU and the recognition of the need for greater differential provisions and technical assistance. It should be noted that we also have a similar zero tariff agreement with China for 60% of Maldives’ exports.

In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a preferential agreement with Japan. Unfortunately, it is only this year that we have managed to sit for discussions on a Free Trade Agreement, though no formal approaches have been made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

The lack of substantial levels of continued developmental assistance and access to concessionary finance and the inability to reassess the situation in the country has led to massive shortfalls and the formation of risky economic policies, some of which have proven to be harmful to the nation’s economic stability.

**Development Priorities**

A smooth transition plan needs to be continually reassessed, and we must ensure that it is both effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs but rather to help them in the next logical step of their national development.

The previous Administrations of the Maldives were unprepared for graduation, and international aid together with a concrete national plan is absolutely essential. So dire was our straits in the lead up to graduation that we introduced austerity measures, including the entire administration, from the Head of State to the Municipality local levels, taking 20% reductions in public wages. This, together with an ambitious national privatization scheme was introduced in order to reduce financial burden on the state – thereby creating a number of Public Private Partnerships (PPPs). Unfortunately, many of these companies attempted to take on
responsibilities that were primarily focused on development in a climate that did not favor access to private development finance, resulting in the central government taking on the additional costs of maintaining these entities. When these endeavors proved to yield little fruit, the administration turned to combining infrastructure and tourism development, with infrastructure projects being integrated into tourism models as Corporate Social Responsibility (CSR) components. The administration was compelled to proceed with these new models for economic development – outside the Tourism Master Plan, thereby throwing off the existing national development frameworks.

In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price over night, causing national, widespread discontent which contributed to the ill will towards the former administration.

While graduation from LDC status is meant to be an indicator of a business environment that is conducive to increased private and public investment, substantial Foreign Direct Investment (FDI) did not materialize in non-traditional sectors of investment (namely in any sector but the tourism industry) and therefore the burden of graduating went largely unabated. The fact remains, that today, the Maldives consists of a number of islands without even the most basic sewerage and water systems, with a geography that makes internal trade almost prohibitively expensive and a fishing industry that is on the decline.

Consultative Mechanism

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The coherent formation of the national strategy for a smooth transition is of paramount importance and while it is monitored yearly during its formation –its execution should continue to be monitored annually as well, instead of only triennially. The Maldives supports the
proposal for the formation of a consultative mechanism that brings together the multilateral agencies and donor nations with the graduating country. While national ownership of the strategy is important, we urge the international community to continue to work with the graduating nations to ensure that the preparation and implementation of the transition strategy continues unhindered, so that national concerns about the transition is addressed, and so that the nations in question have the best opportunity become independent states. The nature and greater vulnerabilities of the state must be taken into account as well.

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Jeffrey Salim Waheed, First Secretary
26th of March 2012

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It is an honor and a pleasure for the Maldives to be here today. As mentioned previously, the Republic of the Maldives is the most recently graduated Least Developed Country, and we are currently in midst of the transition phase this group was created to address.

Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

The Smooth Transition Strategy

The smooth transition strategy developed for the Maldives focused primarily on trade development with a secondary objective of maintaining development financing. In fact, the Maldives has been hailed as an example to emulate in terms of the nations’ involvement with the WTO and its persistence in the formation of bilateral preferential trade agreements. The Maldives has paved the way for new measures to be introduced and have been supported by the global community. An example of this is that after the Maldives lobbied for an extension on the application of the TRIPS Agreement in the aftermath of the 2004 Tsunami, the WTO agreed to extend the deadline till 2013 or graduation. They later extended the deadline for all LDCs to 2013 as well, moving it back 7 years. Maldives has also been a huge advocate of the status of Small and Vulnerable Economies (SVE), and though this has not been
formalized in the WTO, the concept carries weight and has allowed for more flexible measures in the conduct of trade negotiations. The Maldives gained access to Enhanced Integrated Framework (EIF) funding through the promotion of their SVE status. This is also a status we articulated during Trade Policy Review (TPR) resulting in the Everything but Arms (EBA) trade agreement with the EU and the recognition of the need for greater differential provisions and technical assistance. It should be noted that we also have a similar zero tariff agreement with China for 60% of Maldives’ exports.

In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a preferential agreement with Japan. Unfortunately, it is only this year that we have managed to sit for discussions on a Free Trade Agreement, though no formal approaches have been made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

The lack of substantial levels of continued developmental assistance and access to concessionary finance and the inability to reassess the situation in the country has led to massive shortfalls and the formation of risky economic policies, some of which have proven to be harmful to the nation’s economic stability.

**Development Priorities**

A smooth transition plan needs to be continually reassessed, and we must ensure that it is both effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs but rather to help them in the next logical step of their national development.

The previous Administrations of the Maldives were unprepared for graduation, and international aid together with a concrete national plan is absolutely essential. So dire was our straits in the lead up to graduation that we introduced austerity measures, including the entire administration, from the Head of State to the Municipality local levels, taking 20% reductions in public wages. This, together with an ambitious national privatization scheme was introduced in order to reduce financial burden on the state – thereby creating a number of Public Private Partnerships (PPPs). Unfortunately, many of these companies attempted to take on...
responsibilities that were primarily focused on development in a climate that did not favor access to private development finance, resulting in the central government taking on the additional costs of maintaining these entities. When these endeavors proved to yield little fruit, the administration turned to combining infrastructure and tourism development, with infrastructure projects being integrated into tourism models as Corporate Social Responsibility (CSR) components. The administration was compelled to proceed with these new models for economic development – outside the Tourism Master Plan, thereby throwing off the existing national development frameworks.

In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price overnight, causing national, widespread discontent which contributed to the ill will towards the former administration.

While graduation from LDC status is meant to be an indicator of a business environment that is conducive to increased private and public investment, substantial Foreign Direct Investment (FDI) did not materialize in non-traditional sectors of investment (namely in any sector but the tourism industry) and therefore the burden of graduating went largely unabated. The fact remains, that today, the Maldives consists of a number of islands without even the most basic sewerage and water systems, with a geography that makes internal trade almost prohibitively expensive and a fishing industry that is on the decline.

**Consultative Mechanism**

Ladies and gentlemen, distinguished delegates, while the formulation of our strategy was adequate for the time, it was not adaptive to the developing experiences of the Maldives. Yes we have had success in pioneering new measures to mitigate the effects of graduation, however the question remains as to whether those efforts will be enough. Apart from basic monitoring of the graduation process by the Ministry of Foreign Affairs and the Ministry of Economic Development, there was no consultative mechanism to keep track of the process, nor was there any body with the ability to reassess the standards of the graduation and work with donors to meet the needs of the graduating country.

The coherent formation of the national strategy for a smooth transition is of paramount importance and while it is monitored yearly during its formation –its execution should continue to be monitored annually as well, instead of only triennially. The Maldives supports the
proposal for the formation of a consultative mechanism that brings together the multilateral agencies and donor nations with the graduating country. While national ownership of the strategy is important, we urge the international community to continue to work with the graduating nations to ensure that the preparation and implementation of the transition strategy continues unhindered, so that national concerns about the transition is addressed, and so that the nations in question have the best opportunity become independent states. The nature and greater vulnerabilities of the state must be taken into account as well.

Small Island Vulnerable State

In the Maldives’ case, as a Small Island Developing State (SIDS), we face additional well-known, well-documented vulnerabilities that run deep into our economic, social and environmental sectors. While we strive to ensure that our economy and society are both resilient and flexible, we require greater recognition of the particular vulnerabilities that SIDS face, along with a more efficient framework to address them. It is in this regard we once again call for the official recognition of a SIDS category at the United Nations.

Though we enjoy some prosperity, we are extremely vulnerable to external shocks and face high infrastructure development costs due to the dispersed geographical nature of the Maldives. Our key productive capacity is also inextricably linked to our natural environment and the durability of our fragile ecosystem. High per-capita incomes often mask high economic vulnerability and structural handicaps.

In recent history, the Maldives has had to face numerous economic shocks – the most significant of which was the 2004 tsunami which devastated the nation’s social and economic infrastructure. In the following year, the economy contracted by 5.5 percent of GDP, and the effects of the tsunami are still being felt 8 years later. More recently however, the global financial and economic crisis hit the Maldives exacerbating severe account deficits, high liquidity growth, double digit inflation, pressure on the exchange rate, increased public and private sector debt, and rising inequalities between rural and urban communities – even leading to a 10% decline in tourist arrivals.

Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

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The one predominantly positive and by far the most successful program has been the implementation of a tax system. Previously the government relied solely on indirect taxation through import duties and basic rents from leased property, however with the new tax system the government started to engage in direct taxation. The Maldives Inland Revenue Authority has proven to be highly competent, efficient and evenhanded. However, as the cost of the
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In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a preferential agreement with Japan. Unfortunately, it is only this year that we have managed to sit for discussions on a Free Trade Agreement, though no formal approaches have been made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

The lack of substantial levels of continued developmental assistance and access to concessionary finance and the inability to reassess the situation in the country has led to massive shortfalls and the formation of risky economic policies, some of which have proven to be harmful to the nation’s economic stability.

Development Priorities

A smooth transition plan needs to be continually reassessed, and we must ensure that it is both effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs but rather to help them in the next logical step of their national development.

The previous Administrations of the Maldives were unprepared for graduation, and international aid together with a concrete national plan is absolutely essential. So dire was our straits in the lead up to graduation that we introduced austerity measures, including the entire administration, from the Head of State to the Municipality local levels, taking 20% reductions in public wages. This, together with an ambitious national privatization scheme was introduced in order to reduce financial burden on the state – thereby creating a number of Public Private Partnerships (PPPs). Unfortunately, many of these companies attempted to take on
responsibilities that were primarily focused on development in a climate that did not favor access to private development finance, resulting in the central government taking on the additional costs of maintaining these entities. When these endeavors proved to yield little fruit, the administration turned to combining infrastructure and tourism development, with infrastructure projects being integrated into tourism models as Corporate Social Responsibility (CSR) components. The administration was compelled to proceed with these new models for economic development – outside the Tourism Master Plan, thereby throwing off the existing national development frameworks.

In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price over night, causing national, widespread discontent which contributed to the ill will towards the former administration.

While graduation from LDC status is meant to be an indicator of a business environment that is conducive to increased private and public investment, substantial Foreign Direct Investment (FDI) did not materialize in non-traditional sectors of investment (namely in any sector but the tourism industry) and therefore the burden of graduating went largely unabated. The fact remains, that today, the Maldives consists of a number of islands without even the most basic sewerage and water systems, with a geography that makes internal trade almost prohibitively expensive and a fishing industry that is on the decline.

Consultative Mechanism

Ladies and gentlemen, distinguished delegates, while the formulation of our strategy was adequate for the time, it was not adaptive to the developing experiences of the Maldives. Yes we have had success in pioneering new measures to mitigate the effects of graduation, however the question remains as to whether those efforts will be enough. Apart from basic monitoring of the graduation process by the Ministry of Foreign Affairs and the Ministry of Economic Development, there was no consultative mechanism to keep track of the process, nor was there any body with the ability to reassess the standards of the graduation and work with donors to meet the needs of the graduating country.

The coherent formation of the national strategy for a smooth transition is of paramount importance and while it is monitored yearly during its formation –its execution should continue to be monitored annually as well, instead of only triennially. The Maldives supports the
proposal for the formation of a consultative mechanism that brings together the multilateral agencies and donor nations with the graduating country. While national ownership of the strategy is important, we urge the international community to continue to work with the graduating nations to ensure that the preparation and implementation of the transition strategy continues unhindered, so that national concerns about the transition is addressed, and so that the nations in question have the best opportunity become independent states. The nature and greater vulnerabilities of the state must be taken into account as well.

**Small Island Vulnerable State**

In the Maldives’ case, as a Small Island Developing State (SIDS), we face additional well-known, well-documented vulnerabilities that run deep into our economic, social and environmental sectors. While we strive to ensure that our economy and society are both resilient and flexible, we require greater recognition of the particular vulnerabilities that SIDS face, along with a more efficient framework to address them. It is in this regard we once again call for the official recognition of a SIDS category at the United Nations.

Though we enjoy some prosperity, we are extremely vulnerable to external shocks and face high infrastructure development costs due to the dispersed geographical nature of the Maldives. Our key productive capacity is also inextricably linked to our natural environment and the durability of our fragile ecosystem. High per-capita incomes often mask high economic vulnerability and structural handicaps.

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Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

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The one predominantly positive and by far the most successful program has been the implementation of a tax system. Previously the government relied solely on indirect taxation through import duties and basic rents from leased property, however with the new tax system the government started to engage in direct taxation. The Maldives Inland Revenue Authority has proven to be highly competent, efficient and evenhanded. However, as the cost of the
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In the end, the success of the tax regime has shown the nation, the value in moving forward as a nation that is independent, entering maturity, and readying itself to be an active member of the community of nations. Though we have encouraged greater oversight, we look forward to the day when we are free to wholly control the development priorities of the nation and take pride in its access to capital markets. But till then, we hope this process would ease access to concessionary finance, development assistance, technology transfer, and capacity building while reinforcing the monitoring mechanisms of this process.

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In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price over night, causing national, widespread discontent which contributed to the ill will towards the former administration.

While graduation from LDC status is meant to be an indicator of a business environment that is conducive to increased private and public investment, substantial Foreign Direct Investment (FDI) did not materialize in non-traditional sectors of investment (namely in any sector but the tourism industry) and therefore the burden of graduating went largely unabated. The fact remains, that today, the Maldives consists of a number of islands without even the most basic sewerage and water systems, with a geography that makes internal trade almost prohibitively expensive and a fishing industry that is on the decline.

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The coherent formation of the national strategy for a smooth transition is of paramount importance and while it is monitored yearly during its formation –its execution should continue to be monitored annually as well, instead of only triennially. The Maldives supports the
proposal for the formation of a consultative mechanism that brings together the multilateral agencies and donor nations with the graduating country. While national ownership of the strategy is important, we urge the international community to continue to work with the graduating nations to ensure that the preparation and implementation of the transition strategy continues unhindered, so that national concerns about the transition is addressed, and so that the nations in question have the best opportunity become independent states. The nature and greater vulnerabilities of the state must be taken into account as well.

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In the Maldives’ case, as a Small Island Developing State (SIDS), we face additional well-known, well-documented vulnerabilities that run deep into our economic, social and environmental sectors. While we strive to ensure that our economy and society are both resilient and flexible, we require greater recognition of the particular vulnerabilities that SIDS face, along with a more efficient framework to address them. It is in this regard we once again call for the official recognition of a SIDS category at the United Nations.

Though we enjoy some prosperity, we are extremely vulnerable to external shocks and face high infrastructure development costs due to the dispersed geographical nature of the Maldives. Our key productive capacity is also inextricably linked to our natural environment and the durability of our fragile ecosystem. High per-capita incomes often mask high economic vulnerability and structural handicaps.

In recent history, the Maldives has had to face numerous economic shocks – the most significant of which was the 2004 tsunami which devastated the nation’s social and economic infrastructure. In the following year, the economy contracted by 5.5 percent of GDP, and the effects of the tsunami are still being felt 8 years later. More recently however, the global financial and economic crisis hit the Maldives exacerbating severe account deficits, high liquidity growth, double digit inflation, pressure on the exchange rate, increased public and private sector debt, and rising inequalities between rural and urban communities – even leading to a 10% decline in tourist arrivals.

Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

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In the end, the success of the tax regime has shown the nation, the value in moving forward as a nation that is independent, entering maturity, and readying itself to be an active member of the community of nations. Though we have encouraged greater oversight, we look forward to the day when we are free to wholly control the development priorities of the nation and take pride in its access to capital markets. But till then, we hope this process would ease access to concessionary finance, development assistance, technology transfer, and capacity building while reinforcing the monitoring mechanisms of this process.

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Maldives’ Recommendations at the Third Substantive Meeting AHWG on Smooth Transition, New York
Jeffrey Salim Waheed, First Secretary
26th of March 2012

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It is an honor and a pleasure for the Maldives to be here today. As mentioned previously, the Republic of the Maldives is the most recently graduated Least Developed Country, and we are currently in midst of the transition phase this group was created to address.

Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

**The Smooth Transition Strategy**

The smooth transition strategy developed for the Maldives focused primarily on trade development with a secondary objective of maintaining development financing. In fact, the Maldives has been hailed as an example to emulate in terms of the nations’ involvement with the WTO and its persistence in the formation of bilateral preferential trade agreements. The Maldives has paved the way for new measures to be introduced and have been supported by the global community. An example of this is that after the Maldives lobbied for an extension on the application of the TRIPS Agreement in the aftermath of the 2004 Tsunami, the WTO agreed to extend the deadline till 2013 or graduation. They later extended the deadline for all LDCs to 2013 as well, moving it back 7 years. Maldives has also been a huge advocate of the status of Small and Vulnerable Economies (SVE), and though this has not been
formalized in the WTO, the concept carries weight and has allowed for more flexible measures in the conduct of trade negotiations. The Maldives gained access to Enhanced Integrated Framework (EIF) funding through the promotion of their SVE status. This is also a status we articulated during Trade Policy Review (TPR) resulting in the Everything but Arms (EBA) trade agreement with the EU and the recognition of the need for greater differential provisions and technical assistance. It should be noted that we also have a similar zero tariff agreement with China for 60% of Maldives’ exports.

In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a preferential agreement with Japan. Unfortunately, it is only this year that we have managed to sit for discussions on a Free Trade Agreement, though no formal approaches have been made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

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Ladies and gentlemen, distinguished delegates, while the formulation of our strategy was adequate for the time, it was not adaptive to the developing experiences of the Maldives. Yes we have had success in pioneering new measures to mitigate the effects of graduation, however the question remains as to whether those efforts will be enough. Apart from basic monitoring of the graduation process by the Ministry of Foreign Affairs and the Ministry of Economic Development, there was no consultative mechanism to keep track of the process, nor was there any body with the ability to reassess the standards of the graduation and work with donors to meet the needs of the graduating country.

The coherent formation of the national strategy for a smooth transition is of paramount importance and while it is monitored yearly during its formation –its execution should continue to be monitored annually as well, instead of only triennially. The Maldives supports the
proposal for the formation of a consultative mechanism that brings together the multilateral agencies and donor nations with the graduating country. While national ownership of the strategy is important, we urge the international community to continue to work with the graduating nations to ensure that the preparation and implementation of the transition strategy continues unhindered, so that national concerns about the transition is addressed, and so that the nations in question have the best opportunity become independent states. The nature and greater vulnerabilities of the state must be taken into account as well.

Small Island Vulnerable State

In the Maldives’ case, as a Small Island Developing State (SIDS), we face additional well-known, well-documented vulnerabilities that run deep into our economic, social and environmental sectors. While we strive to ensure that our economy and society are both resilient and flexible, we require greater recognition of the particular vulnerabilities that SIDS face, along with a more efficient framework to address them. It is in this regard we once again call for the official recognition of a SIDS category at the United Nations.

Though we enjoy some prosperity, we are extremely vulnerable to external shocks and face high infrastructure development costs due to the dispersed geographical nature of the Maldives. Our key productive capacity is also inextricably linked to our natural environment and the durability of our fragile ecosystem. High per-capita incomes often mask high economic vulnerability and structural handicaps.

In recent history, the Maldives has had to face numerous economic shocks – the most significant of which was the 2004 tsunami which devastated the nation’s social and economic infrastructure. In the following year, the economy contracted by 5.5 percent of GDP, and the effects of the tsunami are still being felt 8 years later. More recently however, the global financial and economic crisis hit the Maldives exacerbating severe account deficits, high liquidity growth, double digit inflation, pressure on the exchange rate, increased public and private sector debt, and rising inequalities between rural and urban communities – even leading to a 10% decline in tourist arrivals.

Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

Ray of Light

The one predominantly positive and by far the most successful program has been the implementation of a tax system. Previously the government relied solely on indirect taxation through import duties and basic rents from leased property, however with the new tax system the government started to engage in direct taxation. The Maldives Inland Revenue Authority has proven to be highly competent, efficient and evenhanded. However, as the cost of the
administration of the collection of taxes from Small and Medium business enterprises in the country has proven to be excessively costly, there is the growing desire to revert to indirect taxes for products meant for local consumption – though the tax system would remain completely intact for the nation’s larger businesses.

In the end, the success of the tax regime has shown the nation, the value in moving forward as a nation that is independent, entering maturity, and readying itself to be an active member of the community of nations. Though we have encouraged greater oversight, we look forward to the day when we are free to wholly control the development priorities of the nation and take pride in its access to capital markets. But till then, we hope this process would ease access to concessionary finance, development assistance, technology transfer, and capacity building while reinforcing the monitoring mechanisms of this process.

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It is an honor and a pleasure for the Maldives to be here today. As mentioned previously, the Republic of the Maldives is the most recently graduated Least Developed Country, and we are currently in midst of the transition phase this group was created to address.

Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

The Smooth Transition Strategy

The smooth transition strategy developed for the Maldives focused primarily on trade development with a secondary objective of maintaining development financing. In fact, the Maldives has been hailed as an example to emulate in terms of the nations’ involvement with the WTO and its persistence in the formation of bilateral preferential trade agreements. The Maldives has paved the way for new measures to be introduced and have been supported by the global community. An example of this is that after the Maldives lobbied for an extension on the application of the TRIPS Agreement in the aftermath of the 2004 Tsunami, the WTO agreed to extend the deadline till 2013 or graduation. They later extended the deadline for all LDCs to 2013 as well, moving it back 7 years. Maldives has also been a huge advocate of the status of Small and Vulnerable Economies (SVE), and though this has not been
formalized in the WTO, the concept carries weight and has allowed for more flexible measures in the conduct of trade negotiations. The Maldives gained access to Enhanced Integrated Framework (EIF) funding through the promotion of their SVE status. This is also a status we articulated during Trade Policy Review (TPR) resulting in the Everything but Arms (EBA) trade agreement with the EU and the recognition of the need for greater differential provisions and technical assistance. It should be noted that we also have a similar zero tariff agreement with China for 60% of Maldives’ exports.

In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a preferential agreement with Japan. Unfortunately, it is only this year that we have managed to sit for discussions on a Free Trade Agreement, though no formal approaches have been made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

The lack of substantial levels of continued developmental assistance and access to concessionary finance and the inability to reassess the situation in the country has led to massive shortfalls and the formation of risky economic policies, some of which have proven to be harmful to the nation’s economic stability.

**Development Priorities**

A smooth transition plan needs to be continually reassessed, and we must ensure that it is both effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs but rather to help them in the next logical step of their national development.

The previous Administrations of the Maldives were unprepared for graduation, and international aid together with a concrete national plan is absolutely essential. So dire was our straits in the lead up to graduation that we introduced austerity measures, including the entire administration, from the Head of State to the Municipality local levels, taking 20% reductions in public wages. This, together with an ambitious national privatization scheme was introduced in order to reduce financial burden on the state – thereby creating a number of Public Private Partnerships (PPPs). Unfortunately, many of these companies attempted to take on
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In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price over night, causing national, widespread discontent which contributed to the ill will towards the former administration.

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In recent history, the Maldives has had to face numerous economic shocks – the most significant of which was the 2004 tsunami which devastated the nation’s social and economic infrastructure. In the following year, the economy contracted by 5.5 percent of GDP, and the effects of the tsunami are still being felt 8 years later. More recently however, the global financial and economic crisis hit the Maldives exacerbating severe account deficits, high liquidity growth, double digit inflation, pressure on the exchange rate, increased public and private sector debt, and rising inequalities between rural and urban communities – even leading to a 10% decline in tourist arrivals.

Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

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In the end, the success of the tax regime has shown the nation, the value in moving forward as a nation that is independent, entering maturity, and readying itself to be an active member of the community of nations. Though we have encouraged greater oversight, we look forward to the day when we are free to wholly control the development priorities of the nation and take pride in its access to capital markets. But till then, we hope this process would ease access to concessionary finance, development assistance, technology transfer, and capacity building while reinforcing the monitoring mechanisms of this process.

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Jeffrey Salim Waheed, First Secretary
26th of March 2012

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It is an honor and a pleasure for the Maldives to be here today. As mentioned previously, the Republic of the Maldives is the most recently graduated Least Developed Country, and we are currently in midst of the transition phase this group was created to address.

Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

The Smooth Transition Strategy

The smooth transition strategy developed for the Maldives focused primarily on trade development with a secondary objective of maintaining development financing. In fact, the Maldives has been hailed as an example to emulate in terms of the nations’ involvement with the WTO and its persistence in the formation of bilateral preferential trade agreements. The Maldives has paved the way for new measures to be introduced and have been supported by the global community. An example of this is that after the Maldives lobbied for an extension on the application of the TRIPS Agreement in the aftermath of the 2004 Tsunami, the WTO agreed to extend the deadline till 2013 or graduation. They later extended the deadline for all LDCs to 2013 as well, moving it back 7 years. Maldives has also been a huge advocate of the status of Small and Vulnerable Economies (SVE), and though this has not been
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In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a preferential agreement with Japan. Unfortunately, it is only this year that we have managed to sit for discussions on a Free Trade Agreement, though no formal approaches have been made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

The lack of substantial levels of continued developmental assistance and access to concessionary finance and the inability to reassess the situation in the country has led to massive shortfalls and the formation of risky economic policies, some of which have proven to be harmful to the nation’s economic stability.

**Development Priorities**

A smooth transition plan needs to be continually reassessed, and we must ensure that it is both effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs but rather to help them in the next logical step of their national development.

The previous Administrations of the Maldives were unprepared for graduation, and international aid together with a concrete national plan is absolutely essential. So dire was our straits in the lead up to graduation that we introduced austerity measures, including the entire administration, from the Head of State to the Municipality local levels, taking 20% reductions in public wages. This, together with an ambitious national privatization scheme was introduced in order to reduce financial burden on the state – thereby creating a number of Public Private Partnerships (PPPs). Unfortunately, many of these companies attempted to take on
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In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price over night, causing national, widespread discontent which contributed to the ill will towards the former administration.

While graduation from LDC status is meant to be an indicator of a business environment that is conducive to increased private and public investment, substantial Foreign Direct Investment (FDI) did not materialize in non-traditional sectors of investment (namely in any sector but the tourism industry) and therefore the burden of graduating went largely unabated. The fact remains, that today, the Maldives consists of a number of islands without even the most basic sewerage and water systems, with a geography that makes internal trade almost prohibitively expensive and a fishing industry that is on the decline.

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It is an honor and a pleasure for the Maldives to be here today. As mentioned previously, the Republic of the Maldives is the most recently graduated Least Developed Country, and we are currently in midst of the transition phase this group was created to address.

Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

The Smooth Transition Strategy

The smooth transition strategy developed for the Maldives focused primarily on trade development with a secondary objective of maintaining development financing.
In fact, the Maldives has been hailed as an example to emulate in terms of the nations’ involvement with the WTO and its persistence in the formation of bilateral preferential trade agreements. The Maldives has paved the way for new measures to be introduced and have been supported by the global community. An example of this is that after the Maldives lobbied for an extension on the application of the TRIPS Agreement in the aftermath of the 2004 Tsunami, the WTO agreed to extend the deadline till 2013 or graduation. They later extended the deadline for all LDCs to 2013 as well, moving it back 7 years. Maldives has also been a huge advocate of the status of Small and Vulnerable Economies (SVE), and though this has not been
formalized in the WTO, the concept carries weight and has allowed for more flexible measures in the conduct of trade negotiations. The Maldives gained access to Enhanced Integrated Framework (EIF) funding through the promotion of their SVE status. This is also a status we articulated during Trade Policy Review (TPR) resulting in the Everything but Arms (EBA) trade agreement with the EU and the recognition of the need for greater differential provisions and technical assistance. It should be noted that we also have a similar zero tariff agreement with China for 60% of Maldives’ exports.

In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a preferential agreement with Japan. Unfortunately, it is only this year that we have managed to sit for discussions on a Free Trade Agreement, though no formal approaches have been made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

The lack of substantial levels of continued developmental assistance and access to concessionary finance and the inability to reassess the situation in the country has led to massive shortfalls and the formation of risky economic policies, some of which have proven to be harmful to the nation’s economic stability.

Development Priorities

A smooth transition plan needs to be continually reassessed, and we must ensure that it is both effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs but rather to help them in the next logical step of their national development.

The previous Administrations of the Maldives were unprepared for graduation, and international aid together with a concrete national plan is absolutely essential. So dire was our straits in the lead up to graduation that we introduced austerity measures, including the entire administration, from the Head of State to the Municipality local levels, taking 20% reductions in public wages. This, together with an ambitious national privatization scheme was introduced in order to reduce financial burden on the state – thereby creating a number of Public Private Partnerships (PPPs). Unfortunately, many of these companies attempted to take on...
responsibilities that were primarily focused on development in a climate that did not favor access to private development finance, resulting in the central government taking on the additional costs of maintaining these entities. When these endeavors proved to yield little fruit, the administration turned to combining infrastructure and tourism development, with infrastructure projects being integrated into tourism models as Corporate Social Responsibility (CSR) components. The administration was compelled to proceed with these new models for economic development – outside the Tourism Master Plan, thereby throwing off the existing national development frameworks.

In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price over night, causing national, widespread discontent which contributed to the ill will towards the former administration.

While graduation from LDC status is meant to be an indicator of a business environment that is conducive to increased private and public investment, substantial Foreign Direct Investment (FDI) did not materialize in non-traditional sectors of investment (namely in any sector but the tourism industry) and therefore the burden of graduating went largely unabated. The fact remains, that today, the Maldives consists of a number of islands without even the most basic sewerage and water systems, with a geography that makes internal trade almost prohibitively expensive and a fishing industry that is on the decline.

Consultative Mechanism

Ladies and gentlemen, distinguished delegates, while the formulation of our strategy was adequate for the time, it was not adaptive to the developing experiences of the Maldives. Yes we have had success in pioneering new measures to mitigate the effects of graduation, however the question remains as to whether those efforts will be enough. Apart from basic monitoring of the graduation process by the Ministry of Foreign Affairs and the Ministry of Economic Development, there was no consultative mechanism to keep track of the process, nor was there any body with the ability to reassess the standards of the graduation and work with donors to meet the needs of the graduating country.

The coherent formation of the national strategy for a smooth transition is of paramount importance and while it is monitored yearly during its formation –its execution should continue to be monitored annually as well, instead of only triennially. The Maldives supports the
proposal for the formation of a consultative mechanism that brings together the multilateral agencies and donor nations with the graduating country. While national ownership of the strategy is important, we urge the international community to continue to work with the graduating nations to ensure that the preparation and implementation of the transition strategy continues unhindered, so that national concerns about the transition is addressed, and so that the nations in question have the best opportunity become independent states. The nature and greater vulnerabilities of the state must be taken into account as well.

Small Island Vulnerable State

In the Maldives’ case, as a Small Island Developing State (SIDS), we face additional well-known, well-documented vulnerabilities that run deep into our economic, social and environmental sectors. While we strive to ensure that our economy and society are both resilient and flexible, we require greater recognition of the particular vulnerabilities that SIDS face, along with a more efficient framework to address them. It is in this regard we once again call for the official recognition of a SIDS category at the United Nations.

Though we enjoy some prosperity, we are extremely vulnerable to external shocks and face high infrastructure development costs due to the dispersed geographical nature of the Maldives. Our key productive capacity is also inextricably linked to our natural environment and the durability of our fragile ecosystem. High per-capita incomes often mask high economic vulnerability and structural handicaps.

In recent history, the Maldives has had to face numerous economic shocks – the most significant of which was the 2004 tsunami which devastated the nation’s social and economic infrastructure. In the following year, the economy contracted by 5.5 percent of GDP, and the effects of the tsunami are still being felt 8 years later. More recently however, the global financial and economic crisis hit the Maldives exacerbating severe account deficits, high liquidity growth, double digit inflation, pressure on the exchange rate, increased public and private sector debt, and rising inequalities between rural and urban communities – even leading to a 10% decline in tourist arrivals.

Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

Ray of Light

The one predominantly positive and by far the most successful program has been the implementation of a tax system. Previously the government relied solely on indirect taxation through import duties and basic rents from leased property, however with the new tax system the government started to engage in direct taxation. The Maldives Inland Revenue Authority has proven to be highly competent, efficient and evenhanded. However, as the cost of the
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In the end, the success of the tax regime has shown the nation, the value in moving forward as a nation that is independent, entering maturity, and readying itself to be an active member of the community of nations. Though we have encouraged greater oversight, we look forward to the day when we are free to wholly control the development priorities of the nation and take pride in its access to capital markets. But till then, we hope this process would ease access to concessionary finance, development assistance, technology transfer, and capacity building while reinforcing the monitoring mechanisms of this process.

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In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a preferential agreement with Japan. Unfortunately, it is only this year that we have managed to sit for discussions on a Free Trade Agreement, though no formal approaches have been made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

The lack of substantial levels of continued developmental assistance and access to concessionary finance and the inability to reassess the situation in the country has led to massive shortfalls and the formation of risky economic policies, some of which have proven to be harmful to the nation’s economic stability.

**Development Priorities**

A smooth transition plan needs to be continually reassessed, and we must ensure that it is both effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs but rather to help them in the next logical step of their national development.

The previous Administrations of the Maldives were unprepared for graduation, and international aid together with a concrete national plan is absolutely essential. So dire was our straits in the lead up to graduation that we introduced austerity measures, including the entire administration, from the Head of State to the Municipality local levels, taking 20% reductions in public wages. This, together with an ambitious national privatization scheme was introduced in order to reduce financial burden on the state – thereby creating a number of Public Private Partnerships (PPPs). Unfortunately, many of these companies attempted to take on
responsibilities that were primarily focused on development in a climate that did not favor access to private development finance, resulting in the central government taking on the additional costs of maintaining these entities. When these endeavors proved to yield little fruit, the administration turned to combining infrastructure and tourism development, with infrastructure projects being integrated into tourism models as Corporate Social Responsibility (CSR) components. The administration was compelled to proceed with these new models for economic development – outside the Tourism Master Plan, thereby throwing off the existing national development frameworks.

In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price overnight, causing national, widespread discontent which contributed to the ill will towards the former administration.

While graduation from LDC status is meant to be an indicator of a business environment that is conducive to increased private and public investment, substantial Foreign Direct Investment (FDI) did not materialize in non-traditional sectors of investment (namely in any sector but the tourism industry) and therefore the burden of graduating went largely unabated. The fact remains, that today, the Maldives consists of a number of islands without even the most basic sewerage and water systems, with a geography that makes internal trade almost prohibitively expensive and a fishing industry that is on the decline.

Consultative Mechanism

Ladies and gentlemen, distinguished delegates, while the formulation of our strategy was adequate for the time, it was not adaptive to the developing experiences of the Maldives. Yes we have had success in pioneering new measures to mitigate the effects of graduation, however the question remains as to whether those efforts will be enough. Apart from basic monitoring of the graduation process by the Ministry of Foreign Affairs and the Ministry of Economic Development, there was no consultative mechanism to keep track of the process, nor was there any body with the ability to reassess the standards of the graduation and work with donors to meet the needs of the graduating country.

The coherent formation of the national strategy for a smooth transition is of paramount importance and while it is monitored yearly during its formation –its execution should continue to be monitored annually as well, instead of only triennially. The Maldives supports the
proposal for the formation of a consultative mechanism that brings together the multilateral agencies and donor nations with the graduating country. While national ownership of the strategy is important, we urge the international community to continue to work with the graduating nations to ensure that the preparation and implementation of the transition strategy continues unhindered, so that national concerns about the transition is addressed, and so that the nations in question have the best opportunity become independent states. The nature and greater vulnerabilities of the state must be taken into account as well.

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In the Maldives’ case, as a Small Island Developing State (SIDS), we face additional well-known, well-documented vulnerabilities that run deep into our economic, social and environmental sectors. While we strive to ensure that our economy and society are both resilient and flexible, we require greater recognition of the particular vulnerabilities that SIDS face, along with a more efficient framework to address them. It is in this regard we once again call for the official recognition of a SIDS category at the United Nations.

Though we enjoy some prosperity, we are extremely vulnerable to external shocks and face high infrastructure development costs due to the dispersed geographical nature of the Maldives. Our key productive capacity is also inextricably linked to our natural environment and the durability of our fragile ecosystem. High per-capita incomes often mask high economic vulnerability and structural handicaps.

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Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

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The one predominantly positive and by far the most successful program has been the implementation of a tax system. Previously the government relied solely on indirect taxation through import duties and basic rents from leased property, however with the new tax system the government started to engage in direct taxation. The Maldives Inland Revenue Authority has proven to be highly competent, efficient and evenhanded. However, as the cost of the
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In the end, the success of the tax regime has shown the nation, the value in moving forward as a nation that is independent, entering maturity, and readying itself to be an active member of the community of nations. Though we have encouraged greater oversight, we look forward to the day when we are free to wholly control the development priorities of the nation and take pride in its access to capital markets. But till then, we hope this process would ease access to concessionary finance, development assistance, technology transfer, and capacity building while reinforcing the monitoring mechanisms of this process.

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Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

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A smooth transition plan needs to be continually reassessed, and we must ensure that it is both effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs but rather to help them in the next logical step of their national development.

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In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price overnight, causing national, widespread discontent which contributed to the ill will towards the former administration.

While graduation from LDC status is meant to be an indicator of a business environment that is conducive to increased private and public investment, substantial Foreign Direct Investment (FDI) did not materialize in non-traditional sectors of investment (namely in any sector but the tourism industry) and therefore the burden of graduating went largely unabated. The fact remains, that today, the Maldives consists of a number of islands without even the most basic sewerage and water systems, with a geography that makes internal trade almost prohibitively expensive and a fishing industry that is on the decline.

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The coherent formation of the national strategy for a smooth transition is of paramount importance and while it is monitored yearly during its formation – its execution should continue to be monitored annually as well, instead of only triennially. The Maldives supports the
proposal for the formation of a consultative mechanism that brings together the multilateral agencies and donor nations with the graduating country. While national ownership of the strategy is important, we urge the international community to continue to work with the graduating nations to ensure that the preparation and implementation of the transition strategy continues unhindered, so that national concerns about the transition is addressed, and so that the nations in question have the best opportunity become independent states. The nature and greater vulnerabilities of the state must be taken into account as well.

Small Island Vulnerable State

In the Maldives’ case, as a Small Island Developing State (SIDS), we face additional well-known, well-documented vulnerabilities that run deep into our economic, social and environmental sectors. While we strive to ensure that our economy and society are both resilient and flexible, we require greater recognition of the particular vulnerabilities that SIDS face, along with a more efficient framework to address them. It is in this regard we once again call for the official recognition of a SIDS category at the United Nations.

Though we enjoy some prosperity, we are extremely vulnerable to external shocks and face high infrastructure development costs due to the dispersed geographical nature of the Maldives. Our key productive capacity is also inextricably linked to our natural environment and the durability of our fragile ecosystem. High per-capita incomes often mask high economic vulnerability and structural handicaps.

In recent history, the Maldives has had to face numerous economic shocks – the most significant of which was the 2004 tsunami which devastated the nation’s social and economic infrastructure. In the following year, the economy contracted by 5.5 percent of GDP, and the effects of the tsunami are still being felt 8 years later. More recently however, the global financial and economic crisis hit the Maldives exacerbating severe account deficits, high liquidity growth, double digit inflation, pressure on the exchange rate, increased public and private sector debt, and rising inequalities between rural and urban communities – even leading to a 10% decline in tourist arrivals.

Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

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In the end, the success of the tax regime has shown the nation, the value in moving forward as a nation that is independent, entering maturity, and readying itself to be an active member of the community of nations. Though we have encouraged greater oversight, we look forward to the day when we are free to wholly control the development priorities of the nation and take pride in its access to capital markets. But till then, we hope this process would ease access to concessionary finance, development assistance, technology transfer, and capacity building while reinforcing the monitoring mechanisms of this process.

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Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

The Smooth Transition Strategy

The smooth transition strategy developed for the Maldives focused primarily on trade development with a secondary objective of maintaining development financing. In fact, the Maldives has been hailed as an example to emulate in terms of the nations’ involvement with the WTO and its persistence in the formation of bilateral preferential trade agreements. The Maldives has paved the way for new measures to be introduced and have been supported by the global community. An example of this is that after the Maldives lobbied for an extension on the application of the TRIPS Agreement in the aftermath of the 2004 Tsunami, the WTO agreed to extend the deadline till 2013 or graduation. They later extended the deadline for all LDCs to 2013 as well, moving it back 7 years. Maldives has also been a huge advocate of the status of Small and Vulnerable Economies (SVE), and though this has not been
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In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment, and labor.

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In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development, and climate change; the nation has only a small portion of those pledges fulfilled.

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Ladies and gentlemen, distinguished delegates, while the formulation of our strategy was adequate for the time, it was not adaptive to the developing experiences of the Maldives. Yes we have had success in pioneering new measures to mitigate the effects of graduation, however the question remains as to whether those efforts will be enough. Apart from basic monitoring of the graduation process by the Ministry of Foreign Affairs and the Ministry of Economic Development, there was no consultative mechanism to keep track of the process, nor was there any body with the ability to reassess the standards of the graduation and work with donors to meet the needs of the graduating country.

The coherent formation of the national strategy for a smooth transition is of paramount importance and while it is monitored yearly during its formation –its execution should continue to be monitored annually as well, instead of only triennially. The Maldives supports the
proposal for the formation of a consultative mechanism that brings together the multilateral agencies and donor nations with the graduating country. While national ownership of the strategy is important, we urge the international community to continue to work with the graduating nations to ensure that the preparation and implementation of the transition strategy continues unhindered, so that national concerns about the transition is addressed, and so that the nations in question have the best opportunity become independent states. The nature and greater vulnerabilities of the state must be taken into account as well.

Small Island Vulnerable State

In the Maldives’ case, as a Small Island Developing State (SIDS), we face additional well-known, well-documented vulnerabilities that run deep into our economic, social and environmental sectors. While we strive to ensure that our economy and society are both resilient and flexible, we require greater recognition of the particular vulnerabilities that SIDS face, along with a more efficient framework to address them. It is in this regard we once again call for the official recognition of a SIDS category at the United Nations.

Though we enjoy some prosperity, we are extremely vulnerable to external shocks and face high infrastructure development costs due to the dispersed geographical nature of the Maldives. Our key productive capacity is also inextricably linked to our natural environment and the durability of our fragile ecosystem. High per-capita incomes often mask high economic vulnerability and structural handicaps.

In recent history, the Maldives has had to face numerous economic shocks – the most significant of which was the 2004 tsunami which devastated the nation’s social and economic infrastructure. In the following year, the economy contracted by 5.5 percent of GDP, and the effects of the tsunami are still being felt 8 years later. More recently however, the global financial and economic crisis hit the Maldives exacerbating severe account deficits, high liquidity growth, double digit inflation, pressure on the exchange rate, increased public and private sector debt, and rising inequalities between rural and urban communities – even leading to a 10% decline in tourist arrivals.

Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

Ray of Light

The one predominantly positive and by far the most successful program has been the implementation of a tax system. Previously the government relied solely on indirect taxation through import duties and basic rents from leased property, however with the new tax system the government started to engage in direct taxation. The Maldives Inland Revenue Authority has proven to be highly competent, efficient and evenhanded. However, as the cost of the
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In the end, the success of the tax regime has shown the nation, the value in moving forward as a nation that is independent, entering maturity, and readying itself to be an active member of the community of nations. Though we have encouraged greater oversight, we look forward to the day when we are free to wholly control the development priorities of the nation and take pride in its access to capital markets. But till then, we hope this process would ease access to concessionary finance, development assistance, technology transfer, and capacity building while reinforcing the monitoring mechanisms of this process.

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It is an honor and a pleasure for the Maldives to be here today. As mentioned previously, the Republic of the Maldives is the most recently graduated Least Developed Country, and we are currently in midst of the transition phase this group was created to address.

Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

The Smooth Transition Strategy

The smooth transition strategy developed for the Maldives focused primarily on trade development with a secondary objective of maintaining development financing. In fact, the Maldives has been hailed as an example to emulate in terms of the nations’ involvement with the WTO and its persistence in the formation of bilateral preferential trade agreements. The Maldives has paved the way for new measures to be introduced and have been supported by the global community. An example of this is that after the Maldives lobbied for an extension on the application of the TRIPS Agreement in the aftermath of the 2004 Tsunami, the WTO agreed to extend the deadline till 2013 or graduation. They later extended the deadline for all LDCs to 2013 as well, moving it back 7 years. Maldives has also been a huge advocate of the status of Small and Vulnerable Economies (SVE), and though this has not been
formalized in the WTO, the concept carries weight and has allowed for more flexible measures in the conduct of trade negotiations. The Maldives gained access to Enhanced Integrated Framework (EIF) funding through the promotion of their SVE status. This is also a status we articulated during Trade Policy Review (TPR) resulting in the Everything but Arms (EBA) trade agreement with the EU and the recognition of the need for greater differential provisions and technical assistance. It should be noted that we also have a similar zero tariff agreement with China for 60% of Maldives’ exports.

In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a preferential agreement with Japan. Unfortunately, it is only this year that we have managed to sit for discussions on a Free Trade Agreement, though no formal approaches have been made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

The lack of substantial levels of continued developmental assistance and access to concessionary finance and the inability to reassess the situation in the country has led to massive shortfalls and the formation of risky economic policies, some of which have proven to be harmful to the nation’s economic stability.

**Development Priorities**

A smooth transition plan needs to be continually reassessed, and we must ensure that it is both effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs but rather to help them in the next logical step of their national development.

The previous Administrations of the Maldives were unprepared for graduation, and international aid together with a concrete national plan is absolutely essential. So dire was our straits in the lead up to graduation that we introduced austerity measures, including the entire administration, from the Head of State to the Municipality local levels, taking 20% reductions in public wages. This, together with an ambitious national privatization scheme was introduced in order to reduce financial burden on the state – thereby creating a number of Public Private Partnerships (PPPs). Unfortunately, many of these companies attempted to take on
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In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price over night, causing national, widespread discontent which contributed to the ill will towards the former administration.

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In recent history, the Maldives has had to face numerous economic shocks – the most significant of which was the 2004 tsunami which devastated the nation’s social and economic infrastructure. In the following year, the economy contracted by 5.5 percent of GDP, and the effects of the tsunami are still being felt 8 years later. More recently however, the global financial and economic crisis hit the Maldives exacerbating severe account deficits, high liquidity growth, double digit inflation, pressure on the exchange rate, increased public and private sector debt, and rising inequalities between rural and urban communities – even leading to a 10% decline in tourist arrivals.

Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

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The one predominantly positive and by far the most successful program has been the implementation of a tax system. Previously the government relied solely on indirect taxation through import duties and basic rents from leased property, however with the new tax system the government started to engage in direct taxation. The Maldives Inland Revenue Authority has proven to be highly competent, efficient and evenhanded. However, as the cost of the
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In the end, the success of the tax regime has shown the nation, the value in moving forward as a nation that is independent, entering maturity, and readying itself to be an active member of the community of nations. Though we have encouraged greater oversight, we look forward to the day when we are free to wholly control the development priorities of the nation and take pride in its access to capital markets. But till then, we hope this process would ease access to concessionary finance, development assistance, technology transfer, and capacity building while reinforcing the monitoring mechanisms of this process.

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Maldives’ Recommendations at the Third Substantive Meeting AHWG on Smooth Transition, New York
Jeffrey Salim Waheed, First Secretary
26th of March 2012

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It is an honor and a pleasure for the Maldives to be here today. As mentioned previously, the Republic of the Maldives is the most recently graduated Least Developed Country, and we are currently in midst of the transition phase this group was created to address.

Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

The Smooth Transition Strategy

The smooth transition strategy developed for the Maldives focused primarily on trade development with a secondary objective of maintaining development financing. In fact, the Maldives has been hailed as an example to emulate in terms of the nations’ involvement with the WTO and its persistence in the formation of bilateral preferential trade agreements. The Maldives has paved the way for new measures to be introduced and have been supported by the global community. An example of this is that after the Maldives lobbied for an extension on the application of the TRIPS Agreement in the aftermath of the 2004 Tsunami, the WTO agreed to extend the deadline till 2013 or graduation. They later extended the deadline for all LDCs to 2013 as well, moving it back 7 years. Maldives has also been a huge advocate of the status of Small and Vulnerable Economies (SVE), and though this has not been...
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In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a preferential agreement with Japan. Unfortunately, it is only this year that we have managed to sit for discussions on a Free Trade Agreement, though no formal approaches have been made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

The lack of substantial levels of continued developmental assistance and access to concessionary finance and the inability to reassess the situation in the country has led to massive shortfalls and the formation of risky economic policies, some of which have proven to be harmful to the nation’s economic stability.

Development Priorities

A smooth transition plan needs to be continually reassessed, and we must ensure that it is both effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs but rather to help them in the next logical step of their national development.

The previous Administrations of the Maldives were unprepared for graduation, and international aid together with a concrete national plan is absolutely essential. So dire was our straits in the lead up to graduation that we introduced austerity measures, including the entire administration, from the Head of State to the Municipality local levels, taking 20% reductions in public wages. This, together with an ambitious national privatization scheme was introduced in order to reduce financial burden on the state – thereby creating a number of Public Private Partnerships (PPPs). Unfortunately, many of these companies attempted to take on
responsibilities that were primarily focused on development in a climate that did not favor access to private development finance, resulting in the central government taking on the additional costs of maintaining these entities. When these endeavors proved to yield little fruit, the administration turned to combining infrastructure and tourism development, with infrastructure projects being integrated into tourism models as Corporate Social Responsibility (CSR) components. The administration was compelled to proceed with these new models for economic development – outside the Tourism Master Plan, thereby throwing off the existing national development frameworks.

In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price over night, causing national, widespread discontent which contributed to the ill will towards the former administration.

While graduation from LDC status is meant to be an indicator of a business environment that is conducive to increased private and public investment, substantial Foreign Direct Investment (FDI) did not materialize in non-traditional sectors of investment (namely in any sector but the tourism industry) and therefore the burden of graduating went largely unabated. The fact remains, that today, the Maldives consists of a number of islands without even the most basic sewerage and water systems, with a geography that makes internal trade almost prohibitively expensive and a fishing industry that is on the decline.

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Let me begin by thanking the co-chairs for convening this Third Substantive meeting of the Ad Hoc Working Group on strengthening the smooth transition process for those nations graduating from Least Developed Country status. I would also like to extend our appreciation to the esteemed professor, Patrick Guillaumont, for his illuminating presentation, and thank our dear Turkish Ambassador Apkan for his comments.

It is an honor and a pleasure for the Maldives to be here today. As mentioned previously, the Republic of the Maldives is the most recently graduated Least Developed Country, and we are currently in midst of the transition phase this group was created to address.

Though we have a young economy driven by a world-class tourism sector that will only grow and develop to be the backbone and foundation of my nation; the Maldives’ experience with this process has been far from smooth – requiring drastic changes to our national developmental policy and economic framework, while affecting every sector of Maldivian society. It is increasingly evident that the entire process needs to be revamped, and the creation of a greater role for UN and Donor monitoring of the progression of recently graduated countries be developed. In the Maldives, the loss of LDC benefits have been mitigated in some sectors such as trade, but have been detrimental in others such as developmental assistance and its effects on our fiscal policies.

The Smooth Transition Strategy

The smooth transition strategy developed for the Maldives focused primarily on trade development with a secondary objective of maintaining development financing. In fact, the Maldives has been hailed as an example to emulate in terms of the nations’ involvement with the WTO and its persistence in the formation of bilateral preferential trade agreements. The Maldives has paved the way for new measures to be introduced and have been supported by the global community. An example of this is that after the Maldives lobbied for an extension on the application of the TRIPS Agreement in the aftermath of the 2004 Tsunami, the WTO agreed to extend the deadline till 2013 or graduation. They later extended the deadline for all LDCs to 2013 as well, moving it back 7 years. Maldives has also been a huge advocate of the status of Small and Vulnerable Economies (SVE), and though this has not been
formalized in the WTO, the concept carries weight and has allowed for more flexible measures in the conduct of trade negotiations. The Maldives gained access to Enhanced Integrated Framework (EIF) funding through the promotion of their SVE status. This is also a status we articulated during Trade Policy Review (TPR) resulting in the Everything but Arms (EBA) trade agreement with the EU and the recognition of the need for greater differential provisions and technical assistance. It should be noted that we also have a similar zero tariff agreement with China for 60% of Maldives’ exports.

In order to maintain these agreements beyond the transition period, the Maldives intends on joining the EU’s Generalized System of Preferences (GSP+) scheme to regain market access. However, once this happens – in order to meet the eligibility criteria – the Maldives would have to bear the additional and substantial cost of complying with 27 international conventions on good governance, environment and labor.

A significant component of the trade section of the strategy was also the creation of a preferential agreement with Japan. Unfortunately, it is only this year that we have managed to sit for discussions on a Free Trade Agreement, though no formal approaches have been made. Likewise, other regional trade objectives have also remained unmet.

In spite of these realities, substantial progress has been made in the realm of trade, though the secondary objective of maintaining developmental assistance has not been as successful. While the Maldives was able to hold a successful donor conference, with pledges of $313 million US dollars, linked to the conference’s key themes of macro-economic reform, public sector reform, good governance, social development and climate change; the nation has only a small portion of those pledges fulfilled.

The lack of substantial levels of continued developmental assistance and access to concessionary finance and the inability to reassess the situation in the country has led to massive shortfalls and the formation of risky economic policies, some of which have proven to be harmful to the nation’s economic stability.

**Development Priorities**

A smooth transition plan needs to be continually reassessed, and we must ensure that it is both effective and relevant. Graduation from LDC status is not meant to threaten the success of LDCs but rather to help them in the next logical step of their national development.

The previous Administrations of the Maldives were unprepared for graduation, and international aid together with a concrete national plan is absolutely essential. So dire was our straits in the lead up to graduation that we introduced austerity measures, including the entire administration, from the Head of State to the Municipality local levels, taking 20% reductions in public wages. This, together with an ambitious national privatization scheme was introduced in order to reduce financial burden on the state – thereby creating a number of Public Private Partnerships (PPPs). Unfortunately, many of these companies attempted to take on
Responsibilities that were primarily focused on development in a climate that did not favor access to private development finance, resulting in the central government taking on the additional costs of maintaining these entities. When these endeavors proved to yield little fruit, the administration turned to combining infrastructure and tourism development, with infrastructure projects being integrated into tourism models as Corporate Social Responsibility (CSR) components. The administration was compelled to proceed with these new models for economic development – outside the Tourism Master Plan, thereby throwing off the existing national development frameworks.

In large part, the economic strain currently being felt by every sector of our society is due to the economic reform program that we have only just introduced, and it is yet too early to yield substantial results.

Unfortunately, this has included changes to our fiscal policy. In a desperate attempt to increase the circulation of US dollars in the country, the previous administration was pressured to float the exchange rate. The currency was previously pegged at 12.85 Maldivian Rufiyaa to the US Dollar, and the float allowed the currency to fluctuate within a 20% band. However, being a nation that imports the vast majority of its goods, including its staple products, it is highly susceptible to variances in the international exchange rate. So dramatic was the change, that basic commodities doubled in price overnight, causing national, widespread discontent which contributed to the ill will towards the former administration.

While graduation from LDC status is meant to be an indicator of a business environment that is conducive to increased private and public investment, substantial Foreign Direct Investment (FDI) did not materialize in non-traditional sectors of investment (namely in any sector but the tourism industry) and therefore the burden of graduating went largely unabated. The fact remains, that today, the Maldives consists of a number of islands without even the most basic sewerage and water systems, with a geography that makes internal trade almost prohibitively expensive and a fishing industry that is on the decline.

Consultative Mechanism

Ladies and gentlemen, distinguished delegates, while the formulation of our strategy was adequate for the time, it was not adaptive to the developing experiences of the Maldives. Yes we have had success in pioneering new measures to mitigate the effects of graduation, however the question remains as to whether those efforts will be enough. Apart from basic monitoring of the graduation process by the Ministry of Foreign Affairs and the Ministry of Economic Development, there was no consultative mechanism to keep track of the process, nor was there any body with the ability to reassess the standards of the graduation and work with donors to meet the needs of the graduating country.

The coherent formation of the national strategy for a smooth transition is of paramount importance and while it is monitored yearly during its formation –its execution should continue to be monitored annually as well, instead of only triennially. The Maldives supports the
proposal for the formation of a consultative mechanism that brings together the multilateral agencies and donor nations with the graduating country. While national ownership of the strategy is important, we urge the international community to continue to work with the graduating nations to ensure that the preparation and implementation of the transition strategy continues unhindered, so that national concerns about the transition is addressed, and so that the nations in question have the best opportunity become independent states. The nature and greater vulnerabilities of the state must be taken into account as well.

**Small Island Vulnerable State**

In the Maldives’ case, as a Small Island Developing State (SIDS), we face additional well-known, well-documented vulnerabilities that run deep into our economic, social and environmental sectors. While we strive to ensure that our economy and society are both resilient and flexible, we require greater recognition of the particular vulnerabilities that SIDS face, along with a more efficient framework to address them. It is in this regard we once again call for the official recognition of a SIDS category at the United Nations.

Though we enjoy some prosperity, we are extremely vulnerable to external shocks and face high infrastructure development costs due to the dispersed geographical nature of the Maldives. Our key productive capacity is also inextricably linked to our natural environment and the durability of our fragile ecosystem. High per-capita incomes often mask high economic vulnerability and structural handicaps.

In recent history, the Maldives has had to face numerous economic shocks – the most significant of which was the 2004 tsunami which devastated the nation’s social and economic infrastructure. In the following year, the economy contracted by 5.5 percent of GDP, and the effects of the tsunami are still being felt 8 years later. More recently however, the global financial and economic crisis hit the Maldives exacerbating severe account deficits, high liquidity growth, double digit inflation, pressure on the exchange rate, increased public and private sector debt, and rising inequalities between rural and urban communities – even leading to a 10% decline in tourist arrivals.

Our purpose here is to ensure a smooth transition, and that means that post-LDC life must include recognition of SIDS vulnerabilities, but beyond that – the smooth transition should include trade preferences, technical assistance, developmental financing, as well as UN budgetary support.

**Ray of Light**

The one predominantly positive and by far the most successful program has been the implementation of a tax system. Previously the government relied solely on indirect taxation through import duties and basic rents from leased property, however with the new tax system the government started to engage in direct taxation. The Maldives Inland Revenue Authority has proven to be highly competent, efficient and evenhanded. However, as the cost of the
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In the end, the success of the tax regime has shown the nation, the value in moving forward as
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Maldives’ Recommendations at the Third Substantive Meeting AHWG on Smooth Transition, New York
Jeffrey Salim Waheed, First Secretary
26th of March 2012

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