

Contribution from the Government of Maldives to the thematic report to be submitted to the 76th session of the United Nations General Assembly by the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly, social and cultural rights

1. Measures and steps already taken or planned regarding increasing liquidity provisions for countries to respond to the pandemic and address debt service burden.
Since 2017, Maldives has established the Sovereign Development Fund, with earmarked revenue and savings deposited to the fund and managed, which acts as a buffer to service future debt obligations in case the need arises.

2. Measures and steps already taken or planned to address the high foreign and public debt because of the pandemic at national and subnational level.

To address the risks of high external debt and public debt exacerbated due to Covid-19 pandemic, GOM took the following measures:

- Cost cut down measures were taken to compensate for the drastic reduction in the Government's revenue due to adverse impacts of Covid-19.
- Participated in G20 DSSI which provided necessary relief in debt service obligations.
- Carried out a liability management exercise to mitigate the challenges in the repayment of Eurobond USD250m due in 2022.
- GOM had negotiated with creditors for concessional rates whenever possible during various negotiations.

Further, the following activities are planned to be implemented:

- Increase share of domestic market financing by introducing more domestic instruments.
- Seek concessional financing from bilateral and multilateral partners
- Diversification of debt portfolio through introduction of new Shariah compliant Government Securities and innovative financial instrument such as green, blue or social impact bonds.
- Strengthen the public debt legal framework by consolidating all relevant provision of public debt to a single legislation. This includes strengthening existing sovereign guarantee framework to limit GOM's exposure from Guarantees
- Enhance debt transparency by making regular disclosure of debt statistics of public and publicly guaranteed debt.

3. In the case that foreign debt repayments represent more than 15% of your Government's annual budget, as approved by national law and internal mechanisms, what steps have been taken to ensure that the obligation to use the maximum of available resources for human rights is safeguarded in times of COVID-19 crisis?

Foreign debt repayment to annual budget was 2.5% in 2020. The government sought additional financing for the budget through bilateral and multilateral partners. Furthermore, the parliament provided exemptions to the overdraw limit on the Public Bank Account to avail financing for the budget. Expenditure controls were also instated targeting non-essential recurrent expenditures and public sector investment. Furthermore, the Maldives participated in the G20 Debt Service Suspension Initiative that provided some relief in debt repayment which contributed towards ensuring human rights of the citizens are protected.

4. In the case that foreign debt repayments represent more than 10% of the country's export revenues, what steps have been taken to ensure that the obligation to use the maximum of available resources for human rights is safeguarded in times of COVID-19 crisis?

Foreign debt repayment to total revenue ratio was 4.8% in 2020. The ratio considering export revenue would be closer or above 10%. Export revenues declined in Maldives due to the impact on the tourism sector from the Covid-19 crisis. The government sought additional financing for the budget through bilateral and multilateral partners. Furthermore, the parliament provided exemptions to the overdraft limit on the Public Bank Account to avail financing for the budget. Expenditure controls were also instated targeting non-essential recurrent expenditures and public sector investment. Furthermore, the Maldives participated in the G20 Debt Service Suspension Initiative that provided some relief in debt. Market based improvements should be formulated in a way that promotes transparency and ensure equal rights between borrowers and investors across the board.

5. What measures and mechanisms have been adopted to protect the fiscal space required to respond to the exceptional needs of the population during the pandemic, in areas such as health, food, education and social security?

The budget contingency is included in the approved budget to respond to exceptional expenditures such as those caused by the pandemic. Reprioritization of budget spending by reducing discretionary non-essential expenditures such as travel, capital equipment and public investment was also able to produce further fiscal space to address the needs of the pandemic.

6. How could assessments of a debtor's capacity to repay its creditors incorporate the safeguarding of maximum available resources for human rights?

By comparing the debt service to revenue ratio with the budgetary resource requirement for human rights as a share of revenue, one could assess the relative weight of one over the other. Also, one could measure the amount of fiscal consolidation required, and the types of expenditure reduction undertaken to meet debt sustainability targets.

7. If there are legal, policy or regulatory frameworks that can assert the primacy of access to essential services over the repayment of foreign debts, please explain and provide relevant documentation.

There are no existing legal/regulatory/policy frameworks that prioritise provision of essential services over the repayment of foreign debt. The Ministry currently has the flexibility to readjust budget allocations within the year if necessary.

8. If available, what is your Government's position/ Institution's position with regard to the aspects of national and international debt architecture that need to be reformed in order to make it more robust?

National Debt Architecture:

The legal framework for debt management in the Maldives is currently fragmented across multiple laws and regulations. Therefore, a clear and consistent legal framework for public debt management is required. This reform should include developing a comprehensive and unambiguous framework for efficient public debt management. Additionally, the reform would promote discipline, transparency and accountability in the decision-making process for public debt management.

International Debt Architecture:

- Increased Debt Transparency: Creditors can only make informed lending decisions if they have sufficient information about borrower's existing debt and terms (subject legal

agreements between parties). Initiatives to support debt transparency are often well received by investors, this would have positive impact to market-access countries where high debt transparency will feed well when investors price country's debt. In this regard, the Government is voluntarily disseminating PPG debt statistics to the public and international organizations regularly.

- State Contingent Features: Can help sovereigns from downside risk, especially to cover situations involving natural disasters and global/national pandemic(s). This is particularly relevant and critical to a country such as the Maldives who are vulnerable to climate change and highly dependent on tourism and its effects that often comes with significant economic and humanitarian costs. The possibility of contingent features in debt instruments will allow us to extending debt obligations when natural disasters hits. It will also provide the Government breathing space and allow to focus on humanitarian needs and recovery efforts without breaching its debt obligations.

9. Which stakeholders should be consulted, at national and/or international level, in order to identify existing gaps in the international debt architecture? Why? What sort of mechanisms should be used for these consultations? What would be some of the benefits and shortfalls of consultation for the process?

At the national level, the Ministry of Finance, President's Office, Attorney General's Office and the Central bank should undertake the initiative to identify existing gaps in the international debt architecture. This should be carried out with the consultation from multilateral organizations such as the IMF and World Bank. The consultation process would provide a holistic view of the reforms in the overall framework.

10. If your Government made use of the new measures by the G20 and IMF, what was the domestic process for consultation and approval of such a decision? What are the existing mechanisms and safeguards to ensure that decisions take into account consistency with human rights obligations?

Human rights considerations are taken into account where issues are decided by the Cabinet. The cabinet paper produced during this process has to include impact on human rights for that particular issue. The GOM's decision to participate at in the G20 DSSI was taken at the highest level with the President following consultation with key stakeholders within the Government including Attorney General's Office and Ministry of Foreign Affairs.

11. With regard to the G-20 Debt Service Suspension Initiative (DSSI), adopted in April 2020 and valid until June 2021: What have been the benefits and what have been the drawbacks of this initiative? If available, what is your Government's position/ Institution's position regarding how the DSSI could be improved, and why would this initiative need extension and improvement?

While the G20 DSSI provided some temporary relief in debt service obligations, the reluctance of private creditors to participate in the initiative means the savings under the DSSI is relatively minimal to GOM, considering that GOM's major non concessional debt is with private creditors which are backed by GOM's sovereign guarantees. Therefore, GOM urges G20 nations to on board the private creditors and ensure that the sovereign backed/guaranteed debt is included in this initiative on par with G20 terms without negative impacts in the country ratings

Further, given the scale of Covid-19 crisis and significant debt vulnerabilities and deteriorating outlook in many low-income countries such as the Maldives, we recognize the importance of extending DSSI beyond 2021. We also believe that the repayment terms of the deferred payment should be more favourable and not come as a burden to the borrowers in order to achieve full benefit of the deferment.

The G20 terms are only extended with a year's grace and to be repaid within 5 years; and this might not be the most ideal as country's would still be in recovery stage and might not reach pre-covid levels within 1 year. GOM suggests to reconsider such when designing future frameworks. Additionally, since the deferment is NPV neutral, it accrues interest for the deferred interest payments. The current arrangement also requires deferred debt service payment to be settled within 6 years including 1 year grace period. This makes it difficult for debtors to meet repayment obligations, especially while still combating Covid-19 outbreak and its health and economic impacts. Therefore, the current DSSI framework could be improved by allowing debtors to extend repayment of deferred debt service payments across remainder of the loan duration.

12. One of the alternatives to supply needed emergency liquidity is through a new issuance of special drawing rights (SDR): How could a new issuance of SDRs be beneficial for your State in the short and mid-term?

The Maldives is estimated to receive an approximate allocation of US\$26 million from the proposed US\$650 billion SDR allocation. This is expected to provide an immediate boost of US\$26 million to gross international reserves, which is a growth of around 3%, based on reserves as at end of April 2021. The COVID-19 pandemic has significantly weakened the external and fiscal position of the country, resulting in large financing gaps over the medium term. In the short-term, the boost in reserves will provide some relief to the pressure on the exchange rate peg and help cover balance of payments and fiscal needs stemming from the COVID-19 crisis. The anticipated reserves growth will slightly improve the external position, in terms of gross international reserves in months of imports.

However, it should be noted that the viability of medium-term benefits depends on the evolution of the pandemic and the associated spill over effects on the overall macroeconomic stability. As the IMF is yet to revise the 2009 Guidance Note on the Treatment and Use of SDR Allocations on appropriate implementation and use of the allocation, it is too early to assess the impact on the fiscal or debt position of the Maldives.

13. If available, what is your Government's position/ Institution's position with regard to the following issues:

a. Debt cancellation

Debt cancellation would be an appropriate option for highly indebted countries which are categorized as debt distressed.

b. How to ascertain how much debt relief should take place and to which States

Priority should be given to poorest countries which are highly indebted.

c. Multilateral framework for debt restructuring

We believe multilateral framework for debt restructuring needs to be improved as the rating agencies do not take this positively if it involves private creditors.

d. Market-based improvements to international debt architecture

Market based improvements should be formulated in a way that promotes transparency and ensure equal rights between borrowers and investors across the board.

e. **Independent international body on debt crisis resolution and prevention**

Given the surge in public debt levels triggered by the current crisis, it is possible to have a situation where several sovereign debt restructurings are proceeding in parallel. This could lead to creditors with claims on many countries facing large losses, which in turn make them less cooperative in resolving the situation. An independent international body could assist in the restructuring process with fair treatment for both sides that would ultimately avoid protracted proceedings and losses.

f. **Reform of credit rating agencies**

Maldives has called for increased regulation of Credit Rating Agencies to incorporate longer-term HR & social & environmental indicators, in order to provide a more comprehensive & fairer representation of the development trajectory of countries in the UN Human Rights Council

14. According to your Government's position/ institution's position, how can changes on the global level of international debt architecture be reflected and consistent with international human rights obligations?

- We believe strengthening the contractual provision will allow for fairness between investors including minority creditors.
- Debt transparency would ensure that all are well informed of the indebtedness of the country.