

FINAL REPORT

Volume 1

MALDIVES

Diagnostic trade integration study

November 2006

LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ADBS	Automated Digital Beacon System
ADC	Atoll Development Committee
ADF	Atoll Development Fund
AIC	Allied Insurance Company
ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated System for Customs Data
ATS	Air Traffic Services
BML	Bank of Maldives Limited
CEC	Commission of the European Community
CEC	Committee on Economic Cooperation
CFP	Common Fisheries Policy
CG	Coast Guard
CIF	Cost Insurance and Freight
CMD	Capital Market Division
CMDA	Capital Markets Development Authority
CMS	Centre for Maritime Studies
COE	Committee of Experts
COMESA	Common Market for Eastern and Southern Africa
CTD	Committee on Trade and Development
DBC	Development Banking Cell
DBI	Doing Business Indicators
DDA	Doha Development Agenda
DP	Development Partner
DTIS	Diagnostic Trade Integrated Study
EAC	East African Community
EBA	Everything But Arms
ECOSOC	Economic and Social Council
EEZ	Exclusive Economic Zone
ESE	European Seafood Exposition
EU	European Union
FAD	Fish Aggregating Device
FAM	Fishermen's Association of Maldives
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FHTS	Faculty of Hospitality and Tourism Studies
FIB	Foreign Investment Board
FISB	Foreign Investment Services Bureau (MEDT)
FMC	Faculty of Management and Computing
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GOM	Government of the Maldives

GSP	Generalized System of Preferences
HACCP	Hazard Analysis and Critical Control Points
HDFC	Housing Development Finance Corporation
HDI	Human Development Index
HIES	Household Income and Expenditure Survey
HH	Household
HRD	Human Resource Development
HS	Harmonized System
ICAO	International Civil Aviation Organization
ICOR	Incremental Capital Output Ratio
ICT	Information & Communications Technology
IDB	Islamic Development Bank
IF	Integrated Framework
IFC	International Finance Corporation
IFR	Instrument Flight Rules
IMF	International Monetary Fund
IOTC	Indian Ocean Tuna Commission
IPO	Intellectual Property Office
IPR	Intellectual Property Rights
IQF	Individual Quick Frozen
ISO	International Standards Organization
ITC	International Trade Centre
ITCC	Inter-ministerial Tourism Coordination Committee
ITPD	International Trade Policy Division (MEDT)
LDC	Least Developed Country
MAC	Maldives Airports Company Ltd
MACI	Maldives Association of Construction Industry
MAD	Ministry of Atoll Development
MAT	Maldivian Air Taxi
MATI	Maldives Association for Tourism Industry
MCHE	Maldives College of Higher Education
MCS	Maldives Customs Service
MCH	Maldives Commercial Harbour
MDG	Millennium Development Goals
MDNC	Ministry of Defense and National Security
MEDT	Ministry of Economic Development and Trade
MEEW	Ministry of Energy, Environment and Water
MFA	Multi Fibre Agreement
MFA	Ministry of Foreign Affairs
MFAMR	Ministry of Fisheries, Agriculture and Marine Resources
MFLC	Maldives Finance Leasing Company
MFN	Most Favoured Nation
MFT	Ministry of Finance and Treasury
MGF	Ministry of Gender and Family
MHEL	Ministry of Higher Education and Labour
MHUD	Ministry of Housing and Urban Development

MIA	Male' International Airport
MIFCO	Maldives Industrial Fishing Company
MJ	Ministry of Justice
MMA	Maldives Monetary Authority
MNCCI	Maldives National Chamber of Commerce and Industry
MPA	Maldives Ports Authority
MPND	Ministry of Planning and National Development
MRC	Marine Research Centre
MRF	Maldivian Rufiyaa (local currency)
MSSR	Mono-pulse Secondary Surveillance Radar
MSY	Maximum Sustainable Yields
MTCA	Ministry of Tourism and Civil Aviation
MTC	Ministry of Transport and Communication
MTCC	Maldives Transport and Contracting Company
MTPB	Maldives Tourism Promotion Board
NAMA	Non Agricultural Market Access
NCIT	National Centre for Information Technology
NDP	National Development Plan
NFA	Net Foreign Assets
NGO	Non Governmental Organization
NSC	National Steering Committee
NTPWG	National Trade Policy Working Group
NWTOC	National WTO Committee
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of the Petroleum Producing Countries
PHL	Public Health Laboratory
PPP	Public Private Partnerships
PPP	Purchasing Power Parity
Rf	Rufiyaa
S&D	Special and Differential Treatment
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asia Free Trade Area
SAPTA	South Asia Preferential Trade Agreement
SEPAP	South Asia Poverty Alleviation Plan
SKJ	Skip Jack Tuna
SME	Small and Medium Size Enterprises
SOE	State Owned Enterprise
SPS	Sanitary and Phytosanitary
STELCO	State Electricity Company
STO	State Trading Organization
STOL	Short Takeoff and Landing
TBT	Technical Barriers to Trade
TEU	Twenty-foot Equivalent Unit
TMA	Trans Maldivian Aviation
TPR	Trade Policy Review
TRIMS	Trade Related Investment Measures

TRIPS	Trade Related Intellectual Property Rights
TRTA	Trade Related Technical Assistance
TSA	Tourism Satellite Accounts
TTMP	Third Tourism Master Plan
UAE	United Arab Emirates
UK	United Kingdom
UNCTAD	UN Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asian and the Pacific
UNIDO	United Nations Industrial Development Organization
USA	United States of America
USD	United States of America Dollar
VAT	Value Added Tax
VFR	Visual Flight Rules
VHF	Very High Frequency
VPA	Vulnerability and Poverty Assessment
WCO	World Customs Organization
WEC	Women Entrepreneurs Council
WIPO	World Intellectual Property Organization
WToO	World Tourism Organization
WTO	World Trade Organization

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FOREWORD

The Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (or IF) was established in October 1997 under the auspices of the World Trade Organization (WTO).

The IF was conceived as a country-driven process leading to the integration of trade policy into national development strategies, and to coordinated delivery of trade-related technical assistance (TRTA) by development partners in response to identified needs. Accordingly, the IF can be seen as an instrument of coherence to ensure maximum use of scarce resources in support of LDCs to become full players and beneficiaries of the world's economy and the multilateral trading system. To this extent, it is a unique international initiative based on partnership through which the six core agencies, the International Monetary Fund (IMF), the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the World Trade Organization (WTO) and the World Bank, combine their efforts with those of LDCs and donors to respond to the trade development needs of the beneficiary countries.

An essential part of the IF process is the preparation of a Diagnostic Trade Integration Study (hereinafter referred to by its acronym, DTIS) as the analytical foundation for policy recommendations and actionable TRTA/capacity building interventions. The DTIS has five major components.

- A review and analysis of the country's economic and export performance.
- A description and assessment of the country's macroeconomic environment and investment climate.
- A focus on the international policy environment and specific constraints that exports from the country faces in international markets.
- A focus on a small number of key labour intensive sectors where the private sector can contribute to a significant expansion of output and exports and a good *a priori* case can be made that the poor stand to benefit either in terms of employment and/or lower prices.
- A set of policy reform priorities and required capacity strengthening at the sectoral level to capitalize on the major opportunities identified in the strategy.

On the strength of the detailed analysis, the DTIS provides an Action Matrix comprising policy reform measures and capacity strengthening activities to serve as the basis for trade-related assistance and support.

The Maldives DTIS was initiated through a preliminary mission in June 2005. Following this mission, a Concept Note was prepared and agreed upon with the government and

major stakeholders as the basis of the work to be undertaken by the DTIS team. Detailed terms of reference were developed to define the work of each member of the team. The main mission of the team for consultations and research took place in August /September 2005. Prior to the arrival of the team, a national consultant carried out a stock taking assessment of related studies and TRTA initiatives. The DTIS mission coincided with preparatory work for the formulation of the 7th National Development Plan (NDP-7) supported by the Asian Development Bank (ADB) and UNDP. It was agreed by the government and main development partners at the outset that the DTIS would constitute a major input to the plan.

The members of the DTIS team and areas of responsibility are as follows:

- **Bent Larsen** (team leader, economist and pro-poor strategy)
- **Frank Hansen** (energy)
- **Jan-Bjarni Bjarnason** (tourism)
- **John Dallimore** (investment policy and business support)
- **Noel Cronje** (port and logistics services)
- **Ole Kirkegaard Larsen** (fisheries)
- **Rajendra Maistry** (customs services)
- **Richard Hess** (trade policy and facilitation)
- **Walter Green** (knowledge services)

In addition, the following national consultants provided substantive support to the team:

- **Abdulla Nafiz** (stock taking assessment)
- **Fathmath Shafeega** (fisheries, energy, gender issues)
- **Saud Mohamed** (tourism, knowledge services, and port and logistic services)

The entire team would like to express its thanks to the Honourable Minister of Economic Development and Trade (MEDT) Mr. Mohamed Jaleel, and staff of the International Trade Policy Division (ITDP) and in particular Mr. Abdulla Thawfeeq, Deputy Director, International Trade Policy.

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Finally, the team would like to express its appreciation for the professional guidance, support and editorial assistance of the UNDP Trade and Human Development Unit (THDU) in Geneva and in particular to Mr. David Luke, THDU Coordinator and Ms. Sari Laaksonen, Programme Officer. This support has ensured that this summary volume of the DTIS is not only concise but also reader friendly and, therefore, we hope, usable as a tool for change in the Maldives.

EXECUTIVE SUMMARY

A. GEOGRAPHICAL FEATURES

The Maldives is a low-lying archipelago consisting of approximately 1,190 islands, located in the Indian Ocean southwest of Sri Lanka. It has exclusive economic rights over some 859,000 km of sea surrounding the islands but its land mass is limited to only 300 km and is widely scattered over an 850 km north-south fairly narrow stretch. Its population of around 300,000 people inhabits about 200 islands, dispersed in 26 geographical atolls¹, and organized in 20 regional administrative units. One third of the inhabited islands have a population of less than 500, the rest have a population of less than 1,000. This exceptionally wide dispersion of its people makes the Maldives unique, even among other countries that are archipelagos.

Of the remaining islands, 87 are tourist resorts and 57 are leased for commercial agriculture or used for industrial activity and garbage storage. Accordingly, the vast majority of the islands are uninhabited although a few of these are used for subsistence agriculture.

The surrounding sea contains enormous fishery resources. The islands are also an attractive tourist destination given their sandy white beaches and clear lagoons, bringing more than 600,000 tourist arrivals in 2004. The main natural endowments are thus associated with the marine environment. However, the meagre landmass is a causal factor limiting economic opportunities and market development and the country's geographical features incur high transport costs, thus putting pressure on the competitiveness of the economy.

B. GOVERNMENT

The Maldives is an independent sovereign nation governed under a democratic executive-style system. The capital Male' is situated roughly almost at the middle of the north-south string of islands that make up the country. The president, also head of state and government, and lawmakers are elected according to universally accepted democratic principles for a term of five years. Each atoll is represented in the country's legislature. Over the years, the country has been politically stable, and in May 2005, the first steps for introducing a multiparty system were taken.

¹ Atoll is derived from the Maldivian word atholhu, the only Maldivian word that has become international. It identifies an atoll as a number of islands sharing a common outer reef; there can be one to several hundreds of islands forming an atoll.

C. ECONOMIC TRENDS

Buoyant GDP growth of up to 6 – 9 per cent year driven by investment in the tourism sector with negative or very low levels of inflation is a distinctive feature of the economy in recent years. Significant progress has also been achieved in human and social development over the past two decades. Prudent macroeconomic and public investment policies as well as a largely favourable external environment has facilitated this progress, lifting the Maldives from being one of the 20 poorest countries in the 1970s to one that shares many characteristics of a lower middle-income country today. The GDP per capita was Rf 30,733 (US\$ 2,401 equivalent) in 2004. As a result, the Maldives' graduation from LDC status is a real possibility. However, the government would prefer to delay graduation so as not to lose foreign assistance – including participation in the Integrated Framework – that is critical to the country's recovery from the devastating tsunami that hit the Maldives and other countries in the region on 26th December 2004. Although loss of human life was minimal, it is estimated that the loss to the economy caused by the tsunami is around 62 per cent of GDP, with full recovery not expected before 2008. It is understood that the United Nations Economic and Social Council (ECOSOC) is sensitive to the government's need for a carefully managed graduation programme with appropriate transition arrangements.

Though liberalization of the economy is advanced and economic growth rates are nominally high, a significant proportion of the jobs created have gone to foreign workers due to rigidities in the local labour market. For a variety of reasons that is elaborated upon in the DTIS, relatively high levels of unemployment and underemployment are a distinctive characteristic of the economy. Flexibility in macro-economic policy is somewhat limited as the country's currency, the Rufiyaa, is pegged to the US dollar.

Recent developments have had a negative impact on trade and economic performance. In particular, there has been a dramatic change in 2005 following the tsunami. This resulted in a downturn in the tourism sector which contributes substantially both to GDP and to foreign exchange earnings. In addition, the garment and apparel industry literally collapsed during 2004 as the end of the Multi-Fibre Agreement (MFA) quota system approached. Rising oil prices throughout 2005 and during the first half of 2006 has brought about a downward spiral in the terms of trade. The boom years that Maldives has experienced in recent years up to 2004 may now be at an end. There is therefore an urgent need to address this situation so that measures can be taken to mitigate the problems that are now being experienced. To this extent, the DTIS exercise for the Maldives has been more than timely.

D. POVERTY AND HUMAN DEVELOPMENT

The recent economic shocks that the country has experienced have exposed the constraints of an economy that is dependent essentially on the tourism sector and the limited intra- and inter-sectoral linkages. Moreover, lack of employment opportunities and insufficient provision of secondary and tertiary education facilities on the atolls, has caused migration to Male'. Migratory trends were further aggravated by the tsunami. As a result the Male' population is now estimated at 70,000, whereas its theoretical capacity is 50,000. Congestion and unemployment are the immediate negative impacts.

With regard to indicators of human welfare, in particular the human development index (HDI), in 2005 the Maldives was ranked 96 (HDI=0.745), behind Dominican Republic (0.749), Turkey (0.750) and Sri Lanka (0.751), ahead of Turkmenistan (0.738) and Jamaica (0.738). This is actually a small slide from a ranking of 84 in 2004 when the Maldives was ahead of Turkey (94) and Sri Lanka (96). The GDP per capita of \$ 2,401 in 2004 is near that of Vietnam but below Sri Lanka and Seychelles. The Vulnerability and Poverty Assessment (VPA) carried out by UNDP in 1997 and 2004 indicated that absolute poverty is below one percent.

E. TRADE PERFORMANCE AND POLICIES

The Maldives economy is very open. Trade in goods typically accounts for around 75-80 per cent of GDP. If services are taken into account, trade in goods and services account for approximately 150 per cent of GDP.

Imports of goods typically outweigh exports of goods (mostly fish and fish products) by a factor of between three and four. However, this large shortfall in foreign exchange earnings is to a large extent made up for by revenues from the export of services via the tourism sector. There is therefore only a relatively modest negative current accounts balance.

Although there is currently very limited production activity in the Maldives, there is need to be aware of anti-export bias in the tariff structure that may impact on other sectors, such as tourism. Apparently, this problem is being addressed through the extensive use of discretionary duty concessions and exemptions. The total value of these in 2004 was Rf. 413 million, compared to actual collections of Rf 1,136 m, representing approximately 36 per cent of total revenue. In previous years the proportion of concessions and exemptions has been similar (37 per cent in 2001). In 2004 main beneficiary sectors were tourism and fisheries.

Theoretically, graduation from least-developed country status will affect the privileges and preferences that Maldives currently enjoys under the multilateral trading system as an LDC member of the WTO. As the graduation of an LDC is unprecedented since the establishment of the WTO in 1995, the graduation of the Maldives will establish some important precedents for the trade body in regard to transitional arrangements. Indeed,

WTO members (through the Committee for Trade and Development, CTD) have responded cautiously and agreed to grant the Maldives a transitional period based on a roadmap for graduation to be prepared by the Maldives government.

However, in tangible terms, there are two major consequences of Maldives graduating from LDC status: loss of preferential market access; and possible reduction in trade related technical cooperation.

F. BUSINESS ENVIRONMENT AND PRIVATE SECTOR DEVELOPMENT

The business environment in the Maldives is liberal – the result of which is particularly visible in the tourism sector. As a result, the Maldives comes out fairly well in the World Bank ‘Doing Business Survey’ of such issues as ease of entry and establishment or free repatriation of profits (see the Appendix to this chapter). Indeed, given the specificity of tourism sector ‘resource-seeking’ investment, or perhaps more aptly in the Maldives case, ‘resort-seeking’ investment, a benign approach is primarily what is required to attract the necessary flows. But the business environment in the Maldives is also one in which there are significant gaps in the underlying policy, institutional and legal framework for business development and private sector support. This is reflected in the general weakness of the domestic private sector and thin national portfolio of SMEs engaged in value added activities in the dominant tourism and fishery sectors, forging stronger intra- and inter-sectoral linkages, and achieving a more diversified economy.

It is also true that as a small island developing economy, the business environment in the Maldives poses formidable challenges for the investor and entrepreneur. Aside from Male’, the capital, there is no significant population centre. Local markets are also difficult to reach given the exceptionally wide dispersion of people. There are therefore serious limitations on the extent to which economies of scale can be exploited. High costs of transportation, infrastructure, energy and water, complete dependence on imported technology, and unavailability of a wide range of skills are further constraints on attaining a competitive business environment. These difficulties were dramatized in the collapse of garment manufacturing when the Multi Fibre Agreement (MFA) expired at the end of 2004.

The challenge for the Maldives is to put in place the necessary framework to enable it to take full advantage of its comparative advantage in the tourism and fishery sectors and strong potential in other sectors such as horticulture, port services, handicraft, aquaculture, etc. There is considerable scope for value-added business opportunities in the two main sectors and for dynamic linkages between these and other sectors. As the Appendix illustrates, on some key aspects of the business environment, the record of the Maldives is mixed.

G. CUSTOMS SERVICES AND TRANSPORT INFRASTRUCTURE

The discussion in the DTIS of the services that facilitate trade in the Maldives is based on recognition that tourism and fishery are the most important export sectors. Currently, over 600,000 tourists a year visit the country, with projections for continuing growth. This requires adequate airport, port and transport transfer facilities to service this volume of visitors in addition to efficient importation processes for the inputs – ranging from construction materials for building and maintenance work on the resorts to food, beverages, and other consumer goods - required by the tourism sector. The fishery sector also depends on the importation of critical inputs such as fuel, boat engines and other fishing gear. Fishery exports are mostly perishable goods and therefore depend on efficient export processes. Significant constraints in hub capacity for both air and maritime transport need to be addressed.

Transaction costs are lower when customs procedures are carried out efficiently. The DTIS research confirmed that there is a perception among private sector users that customs procedures are not applied in a uniform and customary way across the country. Malpractice is alleged arising from face-to-face contact between clients and customs officers. But the overall assessment of the DTIS team is that customs procedures are satisfactory although there is room for improvement.

In particular, although the customs service is computerized and officers have received training in operating such tools and facilities, there are still gaps at the technical level hindering an optimal use of the technology and IT software systems available. For example, the ASYCUDA++ is not fully utilized and all potential application towards more efficient use has not been explored. In addition, current operational systems and procedures in the cargo control area impede the movement of goods and do not meet the set objective of obtaining maximum revenue at minimum cost. There is also a lack of effective communication and coordination among customs services, the trading community and other agencies (port authority, aviation services, clearing agents, coast guard or police), which adversely affects the efficiency of processes relating to the movement of goods.

H. TOURISM SECTOR

Very few countries in the world can offer tourists an exotic atoll environment, and even fewer countries in the world are made up of coral platforms, with the accompanying image of Robinson Crusoe islands and islets with white sandy beaches, unpolluted crystal clear water and abundant marine life.

Overall, the assessment of the DTIS is that institutional capacity for the development, management and implementation of tourism policy in the Maldives is adequate, although there are significant gaps and policy shortcomings. There is also an almost total absence of civil society involvement or engagement with tourism policy.

The recommendations cover these issues including the need for support to SME development to facilitate linkages within and between tourism and other economic sectors. With foreign workers accounting for over half the total number of jobs in the tourism sector, the recommendations also deal with labour market issues, education and training.

I. FISHERY SECTOR

The geographical characteristics of the Maldives as an archipelago with a 960,000-km² exclusive economic zone (EEZ) make marine resources an important natural asset. The vast EEZ contains a variety of pelagic species (i.e. fish living in the open ocean) such as tuna species and mackerel, near shore reef fish species and demersal or bottom living species. There are two main commercially active sub-sectors: marine catch fishery and fish processing. There is at present no aquaculture on any commercial scale.

Unlike tourism where the government is active in promoting FDI and in marketing the Maldives as a destination, the fishery sector has seen virtually no FDI and attracts relatively little government support.

The assessment of the DTIS is that the overall capacity to carry out fishery policy analysis and implement development plans is considered insufficient. There is scope for upgrading the level of technical training and bringing modern methods of fishery policy management into work of the key government agencies concerned.

The non-alignment of policy with commercial opportunities is further reflected in the almost total absence of aquaculture – the cultivation of certain fish species – in the Maldives although the reef provides a natural habitat.

Another gap concerns the inadequate policy measures to promote the sector as an employment and business opportunity. Although fishing as such is potentially lucrative and generates average returns that are higher than income from public sector employment, as an occupation it is held in low esteem in Maldives society. The younger population shuns fishing, a trend confirmed by survey findings which shows that the average crew age is increasing. The provision of appropriate training facilities as the basis of modernization and professionalization of the occupation can help overcome this trend with significant gains for the development of the sector. Credit and business support facilities for the occupation are also required.

Inadequate policy measures to promote the sector as an employment and business opportunity is also reflected in the weak linkages to the tourism industry. Although resort and catering industry chefs demand fresh reef fish, crustacean products and the more expensive tuna species such as yellowfin and bigeye for their clientele, supply has been uncertain and inconsistent, leading in some case to fish imports!

ACTION MATRIX

Action no.	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/legislation/Reform Institutions	Technical assistance/investments		
1. Macroeconomic Reforms						
1.1	Conduct a cost-benefit study on the fixed currency peg to the US dollar.		X	X	MMA, DP	Short to medium term
1.2	Initiate design and implement a wider tax regime based on new sources of revenue generation, such as sales tax, progressive VAT, corporate taxation.		X	X	MFT, DP	Medium to long term
1.3	Initiate a study on the introduction of re-distributive income tax.		X		MFT, DP	Short term
1.4	Abolish the regressive tourist bed tax and introduce value based progressive taxation.		X	X	MTCA, MFT, DP	Medium to long term
1.5	Establish a statistical system for registration of all employment (public and private sector).		X	X	MHEL, MPND	Medium to Long term
1.6	Review labour market incentives and disincentives.		X	X	MHEL, MPND, DP	Short to Medium Term
2. Trade Policy and Institutions						
2.1	Build capacity within the government in particular ITPD (MEDT) and the private sector organisations such as the MNCCI, MACI, MATI, and FAM to be able to better formulate, negotiate and implement trade policy in line with the country's main export interests in tourism and fish products and possibilities in selected service sectors in the future.		X	X	MEDT, ITPD, NSC, DP	Short term
2.2	Assess future requirements for services development		X	X	MEDT, ITPD, DP	Medium term
2.3	As there is virtually no industry to protect coupled with a small internal market and limited industrial development possibilities, reduce customs tariffs in line with SAFTA requirements and replace revenue lost by a reformed tax system.	X		X	MFT, MSC, DP	Medium term

Action no.	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/legislation/Reform Institutions	Technical assistance/investments		
2.4	Support simple, non-restrictive rules of origin specifications and limited listing of sensitive products in SAFTA regional agreements.		X	X	ITPD, DP	Short term
2.5	Reconsider the need for royalty tax on fish exports		X	X	MEDT, ITPD	Short term
2.6	Initiate intellectual property protection of Maldives fish as a geographical indication		X	X	MEDT, ITPD	Short term
2.7	Consider the various options for trade and economic agreements with EU and provide appropriate transition arrangements to ensure preferential market access for canned tuna after the LDC graduation		X	X	MEDT, ITPD	Short to Medium term
2.8	Improve awareness of trade policy issues through better communication/internet site.				MEDT, ITPD, DP	Short term
2.9	Establish a permanent representation in Geneva to interface with the WTO and the EC in Brussels		X	X	MEDT, ITPD	Short to Medium Term
3. Business Environment and Private Sector Development						
3.1	Develop clear strategy for investments and business support for mainstreaming in the NDP-7		X	X	MEDT, FISB, FIB, DP	Short Term
3.2	Define new structure for MEDT and FISB with clear mandates assigned to sub-units; pay particular attention to enhancing the marketing and promotion function of FISB.		X	X	MEDT, DP	Short Term
3.3	Legislation pertinent to investments and business practices to be reviewed and updated and where necessary new legislation drafted including the separation of the regulatory role and the business advisory function.		X	X	MEDT, FISB, FIB, DP	Short term
3.4	Investigate the establishment of an independent Trade and Investment Promotion Agency (TIPA) as a one-window approach for investors (foreign and national) and traders, in consultation with MNCCL. Investment proposals to be directly handled by associated ministries for specialist input via TIPA.		X	X	MEDT, FISB, MNCCL, DP	Short to medium term
3.5	Improve business start-up procedures and streamline company registration procedures at central and the national level		X	X	MEDT, FISB, MJ, DP	Short term

Action no.	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/legislation/Reform Institutions	Technical assistance/investments		
3.6	Align training with market needs and further develop the vocational training provided by the Maldives College of Higher Education with particular attention paid to the faculties concerned with hotel, catering and hospitality services, management and commerce, maritime studies, engineering and technical services.	X	X	X	MHEL	Medium term
3.7	Establish vocational and entrepreneurship training facilities and courses at atoll level to reduce access disparities and improve gender equality.		X	X	MFAMR, MTCA, MGF, DP	Short to Medium term
3.8	Use new taxation policies to create transparency and requirement for auditing and corporate governance such as the introduction of IAS.		X	X	MEDT, FISB, MFT, DP	Medium to Long term
3.9	Clarify land ownership issues and the role of land as investment collateral.		X	X	MEDT, MAD, MFT, DP	Medium to Long term
3.10	Improve access to finance with lower, more competitive rates and with complete range of financial services for SMEs.		X	X	MMA, financial institutions	Long term
3.11	Create an integrated financial and technical small business advisory service at the national level.		X	X	MEDT, MAD, BML, DP	Short term
3.12	Develop further the infant capital markets through awareness programs and introduce venture capital as a source of funding for investments.		X	X	CMDA, MMA, DP	Short to medium
3.13	Build the capacity of the Maldives National Chamber of Commerce and Industry (MNCCI) to become a service organization for the private sector including in the area of SME support.		X	X	MEDT, MNCCI	Short to Medium
3.14	Examine options to provide support to the Women Entrepreneurs Council (WEC) in accordance with the Women's Entrepreneurship Development Plan 2006-2009.		X	X	MEDT, WEC	Short to Medium
4. Customs Services and Transport Infrastructure						
4.1	Reduce transaction cost by carrying out a post-implementation review of the existing ASYCUDA++ to meet the WTO-GATT Valuation Agreement.		X	X	MCS, DP	Short term
4.2	Continue towards full automation of customs processes by mitigating ASYCUDA World (the fully automated package for customs clearance and document processing using EDI).			X	MCS, DP	Short to Medium
4.3	Provide customs agents with further technical training with a view to making the clearance and movement of goods more effective and efficient.	X		X	MCS, DP	Short term

Action no.	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/legislation/Reform Institutions	Technical assistance/investments		
4.4	Develop a national integrity Action Plan based on the provisions of WCO's Revised Declaration on Integrity in Customs.		X	X	MCS, DP	Short term
4.5	Develop a long-term solution to overcome congestion at the Male' Commercial Port and as a solution, consider decentralizing some services to the regional office in Gan (Seenu Atoll).	X	X	X	MPA, MTC	Medium term
4.6	Improve the capacity of the Coast Guard to carry out actual inspection territory and fisheries inspection by acquisition of new multi-function vessels and training.		X	X	CG, DP, MTC	Short term
4.7	Ensure better coordination among border institutions (Port Authority, Health, Agriculture, Aviation Authority, Coast Guard)	X	X	X	CG, MCS, MAC, MPA, MTC	Short term
4.8	Carry out a feasibility study for the establishment of an inter-modal (air, maritime) transport facility to connect international and domestic trade in an optimal way. The study will also assess the potential for the facility to act as a regional transshipment point	X	X	X	MTC, MPA, MAC, DP	Short term
4.9	Develop legal framework for and promote private-public partnership models (PPP) for investments in atoll level and local maritime transport systems.	X	X	X	MTC, MFT, DP, AG	Short to Medium
4.10	Clarify the Maldives Airport Company (MAC) national mandate and cost recovery policy for the operation of the regional airports		X		MTC, MAC	Short term
4.11	Establish cold and chill room facilities at MPA and MIA for fish and agricultural products.	X	X	X	MAC, MFAMR, MTA/MOA	Short term
4.12	Develop a long-term solution for serving a greater number of international air passengers with a particular consideration for constructing a new parallel runaway for MIA's existing runaway		X	X	MAC, MTC, MTCA	Short to Medium term
4.13	Secure a greater coverage of scheduled flights by the major international airlines	X	X		MTC, MTCA	Short to Medium term
4.14	Commission a feasibility study of establishing a national airline	X	X	X	MTC, MTCA, MEDT	Short to Medium term
4.15	Establish an "interchange system" for passengers and freight from international to national flights and back		X	X	MAC, MTC, MTCA	Short to Medium Term

Action no.	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/legislation/Reform Institutions	Technical assistance/investments		
4.16	Examine optimal organisational options for the Port Authority	X	X	X	MPA, MTC	Short to Medium term
4.17	Review training needs of transport operators, providers of logistics services, forwarders and terminal operators.		X	X	MTC, DP, MPA	Short to medium term
4.18	Promote dialogue between private and public sectors on trade and transport facilitation issues and establish a National Working Group on Trade Facilitation with key stakeholders involved.		X	X	MEDT, MCS, MAC	Short term
5. Tourism						
5.1	Fully implement the Third Tourism Sector Master Plan, with a focus on sector development and how to distribute economic gains, including employment, to the benefit of people living in the atolls	X	X	X	MTCA, MATI, DP	Short term
5.2	Review and update existing Tourism Act and accompanying regulations and establish and Inter-ministerial Tourism Coordination Committee.		X	X	MTCA, DP	Short term
5.3	Ensure resources to effectively monitor and enforce regulations and standards and to carry out market research.			X	MTCA, MTPB	Short to Medium term
5.4	Establish an improved system of tourism economic impact statistics, including 1) adoption of international definitions of tourism terms and concepts; 2) design and conduct a comprehensive visitor expenditure survey; 3) put in place a Tourism Satellite Accounts (TSA) system; and 4) conduct regular biannual tourism employment surveys.		X	X	MTCA, MFT, DP	Short term
5.5	Invest in marketing with a particular view of diversifying source markets within Europe, increasing market share of the Australian and Asian markets and diversifying market segments.		X	X	MTCA, MFT, DP	Short to Medium term
5.6	Prepare a detailed human resource development (HRD) plan in consultation with stakeholders to ascertain employment and training needs, set clear employment targets for expatriate and local staff at different skill levels in the short, medium and long term.		X	X	MTCA, MCHE	Short to Medium term
5.7	Implement resort classification system as an incentive to encourage resort operators to develop better facilities and services		X	X	MTCA, MAT	Short to Medium term

Action no.	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/legislation/Reform Institutions	Technical assistance/investments		
5.8	Decentralise further the FHTS training facilities to allow more activities at atoll level to benefit island women and increase their sector relevant job opportunities.		X	X	FHTS, MAD, DP	Short to Medium term
6. Fishery Sector						
6.1	Assist the MFAMR in the development of the masterplan and establish formal mechanism for improved policy dialogue and strategic planning involving all stakeholder groups.			X	MFAMR, MRC, MFA, MNCCI, DP	Short term
6.2	Assist the consultative process in creating awareness relating to the approval and implementation of the draft Fisheries law.	X	X	X	Parliament, MFAMR	Short term
6.3	Implement the recommendations and outcome of the Fisheries Master Plan that is under preparation.		X	X	MFAMR, DP	Short to Medium term
6.4	Develop and modernize the fisheries statistics system allowing full coverage of species, including in particular financial data collation and economic analytical tools for fish resource assessment and fisheries management.	X		X	MFAMR, MRC, MFA, MNPDP, DP	Short term
6.5	Enhance the capacity of MFAMR and Marine Resource Centre (MRC) to carry out research on fish stock assessment, exploratory fishing and fishery economics through capacity building and the provision of equipment particularly with the acquisition of a multi-technology fully equipped fisheries research vessel.		X	X	MFAMR, MRC, CMS, DP	Short to Medium term
6.6	Procure two new multi flex vessels for the Coast Guard for carrying out fisheries inspection, enforcement of environmental protection requirements, and provide sea rescue services.	X	X	X	MNDF, MFAMR, MRC	Short to Medium Term
6.7	Define an organisational framework for Maldives fish exporters in close co-ordination with the FAO Post tsunami loan project; the framework should have a lobbying function, generate market intelligence and dissemination through information services as such as newsletters and a web site for fish exporters.			X	MFAMR, MFA, FAO	Short term
6.8	Establish formal mechanism for improved strategic planning and institutional coordination on matters of trade-related quality and SPS management.			X	MFAMR, PHL, MRC, DP	Short term
6.9	Enhance the MFAMR capacity to attend and play a more active role in meetings of the SPS Committee, Codex Alimentarius, OIE and IPPC.		X	X	PHL, DP	Long term

Action no.	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/legislation/Reform Institutions	Technical assistance/investments		
6.10	Undertake awareness-raising and training in fishery products, food processing and agriculture related to HACCP, GAP, GMP, etc.			X	PHL, MFAMR, DP	Short term
6.11	Implement a scheme for support of implementation of HACCP, GAP, GMP etc. through loans, partial subsidies etc.			X	BML, MFT, MFAMR, DP	Medium-term
6.12	Abolish the requirement for a specific number of fishing days to obtain a license, as this is believed to add to under-reporting of catch.		X	X	MFAMR, DP	Short term
6.13	Provide incentives for the modernization of the skipjack tuna fishing fleet by improving post harvest handling and storage and crew facilities in order to reduce losses and maintain jobs.			X	MFAMR, MRC, DP	Medium-term
6.14	Develop new value added products for export and tourism industry at a dedicated facility equipped with QA laboratory applying modern technology and packaging methods.			X	MRC, DP	Short to Medium term
6.15	Promote recreational fishing as a service to the tourism industry.				MFAMR, MTCA	Short to Medium term
6.16	Develop sustainable aquaculture production through zoning and applied technology.			X	MFAMR, MHUD, MAC, MIFCO, DP	Short to Medium term
6.17	Improve trade capacity through establishment of private sector chill and/or cold store facilities at main landing sites and also in the transport link.		X	X	MFAMR, MEDT, Private transport companies, DP	Short to medium term
6.18	Assist the MFAMR in the ongoing project to establish Maldives Institute of Marine Fisheries. Design and implement a sector education strategy making the best use of existing training facilities and FET and MRC; this will include training of engineers, refrigeration mechanics, electricians, fishermen, quality control staff, fish processing technicians, and marketing managers.		X	X	MFAMR, MEDT, Private transport companies, DP	Short to medium term
6.19	Design and implementation of atoll level training courses in jobs, which attract women such as marketing, processing, quality control, warehousing, and administration.		X	X	MFAMR, MGF, DP	Medium term
6.20	Assist in the set-up and development of a suitable Association/NGO for the development of the Fishing Industry in the Maldives			X	MFAMR, MNCCI, MEDT	Medium Term
7. Mainstreaming and Implementation						

Action no.	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/legislation/Reform Institutions	Technical assistance/investments		
7.1	Champion trade mainstreaming to national development planning as a high-level inter-ministerial agenda.				MEDT, DP	Short term
7.2	Coordinate the delivery of TRTA between GoM and the stakeholder groups.			X	MEDT, Private sector, DP	Short term
7.3	Establish a coordinating unit within the ITPD for TRTA implementation, management and monitoring.			X	MEDT, DP	Short term

CHAPTER 1

INTRODUCTION AND OVERVIEW

Chapter Plan

This summary chapter provides an overview of the geography, government, economic, and social trends as well as a map of the Maldives.

I. Geographical Location and Features

The Maldives is a low-lying archipelago consisting of approximately 1,190 islands, located in the Indian Ocean southwest of Sri Lanka. It has exclusive economic rights over some 859,000 km of sea surrounding the islands but its land mass is limited to only 300 km and is widely scattered over an 850 km north-south fairly narrow stretch. Its population of around 300,000 people inhabits about 200 islands, dispersed in 26 geographical atolls², and organized in 20 regional administrative units. One third of the inhabited islands have a population of less than 500, the rest have a population of less than 1,000. This exceptionally wide dispersion of its people makes the Maldives unique, even among other countries that are archipelagos.

Of the remaining islands, 87 are tourist resorts and 57 are leased for commercial agriculture or used for industrial activity and garbage storage. Accordingly, the vast majority of the islands are uninhabited although a few of these are used for subsistence agriculture.

The surrounding sea contains enormous fishery resources. The islands are also an attractive tourist destination given their sandy white beaches and clear lagoons, bringing more than 600,000 tourist arrivals in 2004. The main natural endowments are thus associated with the marine environment. However, the meagre landmass is a causal factor limiting economic opportunities and market development and the country's geographical features incur high transport costs, thus putting pressure on the competitiveness of the economy.

II. Government and Economic Trends

The Maldives is an independent sovereign nation governed under a democratic executive-style system. The capital Male' is situated roughly almost at the middle of the north-south string of islands that make up the country. The president, also head of state and

² Atoll is derived from the Maldivian word atholhu, the only Maldivian word that has become international. It identifies an atoll as a number of islands sharing a common outer reef; there can be one to several hundreds of islands forming an atoll.

government, and lawmakers are elected according to universally accepted democratic principles for a term of five years. Each atoll is represented in the country's legislature. Over the years, the country has been politically stable, and in May 2005, the first steps for introducing a multiparty system were taken.

Buoyant GDP growth of up to 6 – 9 per cent year with negative or very low levels of inflation is a distinctive feature of the economy in recent years. Significant progress has also been achieved in human and social development over the past two decades. Prudent macroeconomic and public investment policies as well as a largely favourable external environment has facilitated this progress, lifting the Maldives from being one of the 20 poorest countries in the 1970s to one that shares many characteristics of a lower middle-income country today. The GDP per capita was Rf 30,733 (US\$ 2,401 equivalent) in 2004. As a result, the Maldives' graduation from LDC status is a real possibility. However, the government would prefer to delay graduation so as not to lose foreign assistance – including participation in the Integrated Framework – that is critical to the country's recovery from the devastating tsunami that hit the Maldives and other countries in the region on 26th December 2004. It is understood that the United Nations Economic and Social Council (ECOSOC) is sensitive to the government's need for a carefully managed graduation programme with appropriate transition arrangements.

Though liberalization of the economy is advanced and economic growth rates are nominally high, a significant proportion of the jobs created have gone to foreign workers due to rigidities in the local labour market. For a variety of reasons that is elaborated upon in the DTIS, relatively high levels of unemployment and underemployment are a distinctive characteristic of the economy. Flexibility in macro-economic policy is somewhat limited as the country's currency, the Rufiyaa, is pegged to the US dollar.

Recent developments have had a negative impact on trade and economic performance. In particular, there has been a dramatic change in 2005 following the tsunami. This resulted in a downturn in the tourism sector which contributes substantially both to GDP and to foreign exchange earnings. In addition, the garment and apparel industry literally collapsed during 2004 as the end of the Multi-Fibre Agreement (MFA) quota system approached. Rising oil prices throughout 2005 and during the first half of 2006 has brought about a downward spiral in the terms of trade. The boom years that Maldives has experienced in recent years up to 2004 may now be at an end. There is therefore an urgent need to address this situation so that measures can be taken to mitigate the problems that are now being experienced. To this extent, the DTIS exercise for the Maldives has been more than timely.

III. Social Conditions and Human Development

The recent economic shocks that the country has experienced have exposed the constraints of an economy that is dependent essentially on the tourism sector and the limited intra- and inter-sectoral linkages. Moreover, lack of employment opportunities and insufficient provision of secondary and tertiary education facilities on the atolls, has

caused migration to Male'. Migratory trends were further aggravated by the tsunami. As a result the Male' population is now estimated at 70,000, whereas its theoretical capacity is 50,000. Congestion and unemployment are the immediate negative impacts. Although loss of human life was minimal, it is estimated that the loss to the economy caused by the tsunami is around 62 per cent of GDP, with full recovery not expected before 2008.

With regard to indicators of human welfare, in particular the human development index (HDI), in 2005 the Maldives was ranked 96 (HDI=0.745), behind Dominican Republic (0.749), Turkey (0.750) and Sri Lanka (0.751), ahead of Turkmenistan (0.738) and Jamaica (0.738). This is actually a small slide from a ranking of 84 in 2004 when the Maldives was ahead of Turkey (94) and Sri Lanka (96). The GDP per capita of \$ 2,401 in 2004 is near that of Vietnam but below Sri Lanka and Seychelles. The Vulnerability and Poverty Assessment (VPA) carried out by UNDP in 1997 and 2004 indicated that absolute poverty is below one percent.

IV. Map of the Maldives

A map of the Maldives is provided below. The map includes the original names of the geographical atolls along with the names of the administrative division (shown in red).



CHAPTER 2

MACROECONOMIC POLICIES AND PERFORMANCE

Chapter Plan

This chapter reviews the main trends in the Maldives economy, employment and other macroeconomic and financial indicators. It concludes with an assessment of the impact of the December 2004 tsunami.

I. Economic Trends

Notwithstanding the natural constraints of an elongated archipelago with a dispersed population and limited land area, the Maldives has enjoyed relatively strong growth during the ten years between 1994-2004. Average real GDP growth during this period was 7.5 per cent per annum. In 2004 GDP was Rufiyaa (Rf.) 8.2 billion (US\$ 644.4 million) with a GDP per capita of US\$ 2,401, up from US\$ 1,229 in 1990, or almost a doubling over 15 years (see Table 2.1).

Table 2.1: Key Indicators (US\$ m)

	2000	2001	2002	2003	2004
Real GDP (1995 constant prices, Rf Mn)	6,345.5	6,564.4	6,992.8	7,581.1	8,248.8
Real GDP Growth rate	4.8	3.5	6.5	8.4	8.8
GDP (million US\$)	539	558	594	645	695
Population	271,410	275,975	280,549	285,066	289,480
GDP per capita (US\$)	1,986	2,021	2,118	2,262	2,401

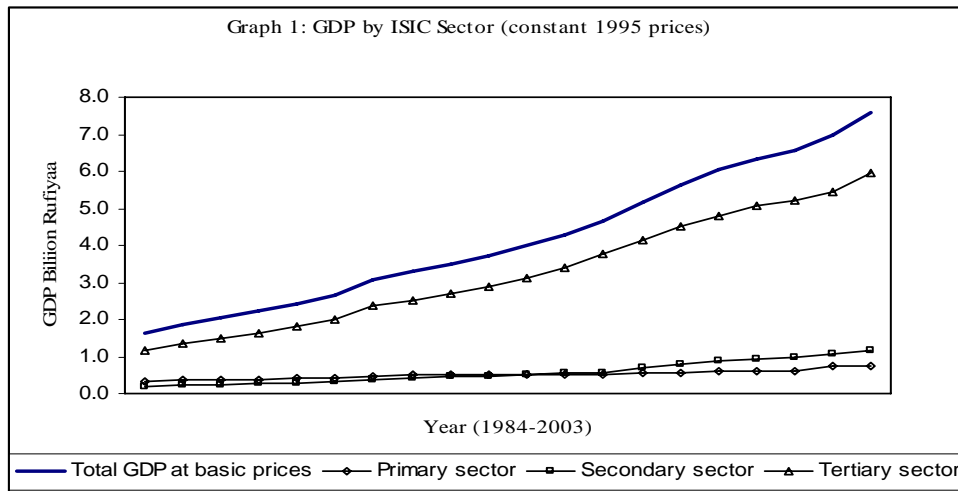
Source: Economic Statistics, MMA, August 2005; MMA Economic Statistics Vol. 5, No. 4, MMA, December 2004 and update April 2005; and GDP by Kind and Activity 1995 – 2004, MPND

The GDP per capita level places the Maldives in the group of lower middle-income developing countries. Graduation from LDC status was under discussion at the UN ECOSOC, but is now delayed due to the severe set back caused by the tsunami.

The composition of the Maldivian economy has changed considerably over the last three decades. In the mid-1970s the primary sector³ encompassing agriculture, fisheries and coral sand mining was dominant with a GDP contribution of 40 per cent. The secondary sector (manufacturing, utilities and construction) contributed 25 per cent and the tertiary sector (encompassing trade, services, government etc) contributed 35 per cent (see Graph 1). The single most important economic activity in the 1970s was fisheries, accounting for up to 32 per cent of GDP. However, the level of value addition was low and confined to the simple processing of household based products known as ‘Maldivian Fish’. This consisted of dried, salted and smoked tuna fish products for local consumption and export

³ According to the International Standard Industrial Classification (ISIC) of all economic activities definitions

to Sri Lanka. However, by 2004 the fisheries sector accounted for just 6.2 per cent of GDP, but this figure included an estimated value added contribution of 3 per cent due to the increase in canned, frozen and fresh on ice products since the mid-1990s.



Source: Table 15.2, 25 years Statistics, MPND, 2005

As the role of the fisheries dominated primary sector declined in the economy, the tertiary sector has become the main contributor to GDP accounting for almost 80 per cent in 2004 (see Table 2.2 below). This change has been largely due to the successful development of tourism, which accounted for 33 per cent of GDP in 2004 and reflects the result of a continuous annual growth of the sector averaging almost 14 per cent over two decades.

During the last decade other service related economic activities have recorded significant growth. In particular, domestic trade, transport and communications, financial services and government administration have accounted for an increasing share of GDP. Transport and communications have been the economy's second most important locomotive, accounting for 15 per cent of GDP in 2004. This activity is likely to see further growth from expected investments in telecommunications.

As far as the secondary sector is concerned, manufacturing activity is set to decline due to the collapse of the Sri Lankan-owned and operated textile and apparel factories, which had been established to take advantage of the otherwise idle USA import quotas under the Multi Fibre Agreement (MFA). But there is scope for fish processing to increase. Fish processing was introduced in the mid-1990s through the state-owned Maldives Industrial Fishing Company (MIFCO) - to increase. Since 2002 liberalization of fish processing activities has led to a small but growing private export oriented industry.

II. Employment

The labour force consisted of nearly 100,000 persons in 2004. Despite the progress made in economic performance and other aspects of human development, there are relatively high levels of unemployment, estimated at 14 per cent for 2004, with female unemployment at 23 per cent and male unemployment at 7 per cent.⁴ Under-employment is estimated at 33 per cent nation-wide, meaning that part of the Maldivian labour force that is counted as employed, but this employment is not full-time due to factors such as seasonality etc. Underemployment is higher in atolls with 35 per cent compared to 28 per cent in Male’.

Table 2.2: Share of GDP by Main Economic Activity (in pct.)

ISIC	Industry/ Economic Activity	2000	2001	2002	2003	2004
GDP at Basic Price		100	100	100	100	100
	Primary	9.4	9.5	10.4	9.7	9.3
A	Agriculture	2.8	2.8	2.7	2.6	2.5
B	Fisheries	6	6.1	7.1	6.6	6.2
C	Coral and sand mining	0.6	0.6	0.6	0.6	0.5
	Secondary	14.4	15.1	15.6	15.6	15.2
D	Manufacturing	8	8.1	8.8	8.5	7.8
	<i>Fish preparation</i>	<i>2.1</i>	<i>2.3</i>	<i>3</i>	<i>2.7</i>	<i>2.5</i>
E	Electricity and water supply	3.2	3.4	3.5	3.6	3.8
F	Construction	3.2	3.5	3.3	3.5	3.6
	Tertiary	80.1	79.3	77.9	78.6	79.6
G	Wholesale and retail trade	4.5	4.4	4.2	4.1	4
H	Tourism (Resorts, etc.)	33	31.9	30.9	32.7	32.9
I	Transport and communications	14.5	14.2	14.3	14.2	15.4
J	Financial services	3.4	3.4	3.4	3.3	3.3
K	Real Estate	7.8	7.7	7.6	7.2	6.9
K	Business services	2.9	2.9	2.9	2.8	2.7
L	Government Administration	11.8	12.7	12.6	12.4	12.6
M, N, O	Education, health and social services	2.2	2.1	2	1.9	1.8
	Financial services indirectly measured	-3.9	-3.9	-3.9	-4	-4

Source: Table 15.1, 25 Years Statistics, MPND, 2005

These unemployment assessments are in line with assessments of poverty and income disparities.

The labour market has developed in a rather skewed manner with the public sector performing the role of employer of last resort. Public sector employment can in fact be considered as part of a social welfare system. Public sector employment absorbed 30 per cent of the labour force in 2004. Private businesses in dynamic sectors such as tourism, construction and transport and communications have increasingly imported the skills they require from the South Asia region, notably from Sri Lanka and Bangladesh. Of the estimated 27,000 jobs in the tourism sector in 2004, foreign workers held 12,649.

⁴ See chapter 4 for a more detailed discussion.

This relatively high proportion of foreign employment is mostly due to the shortage of relevant skills among Maldivians and also to labour market rigidities related to cultural and traditional norms, especially concerning women. For example, while in many countries the garment industry is dominated by women, before the collapse of the industry in the Maldives, the Maldivian work force was not able to adjust to an industrial style working environment and most of the employment that was created went to imported labour. Similarly, in the tourism sector, most hospitality related work is not considered suitable for women for cultural and religious reasons.

The result is that employment opportunities are lost, accounting for levels of unemployment and underemployment that are relatively high. To this extent, a key part of the explanation of the unemployment problem among Maldivians is the effect of labour market rigidities. High economic growth has been accompanied by relatively low employment content as a significant proportion of the jobs created were taken up by imported labour.

The fishery sector, traditionally a major employer, has also been in decline. While the national labour force grew by 60 per cent between 1990 and 2000, the share of fishery sector employment fell by 10 per cent.

III. Exchange Rate Regime

Since October 1994 the Maldives has maintained a *de facto* fixed exchange rate with the Rufiyaa pegged (or anchored) to the U.S. dollar.⁵ No exchange rate restrictions, such as surrender requirements, exist. The Rufiyaa is fully convertible for current and capital account transactions. Residents and non-residents can freely hold foreign currency accounts. Investment proceeds can be fully repatriated, and offshore borrowings are allowed. Commercial banks buy and sell foreign currencies without restriction.

However, the peg to the U.S. dollar has resulted in an appreciation of the Rufiyaa's real effective exchange rate by around 35 per cent since 1995. This has affected the Maldives' competitiveness, especially with regard to fishery and tourism, slowing export growth and economic diversification.⁶ During this period, the government's capital and current expenditures increased imports and demand for foreign currency at the fixed exchange rate, resulting in a foreign exchange shortage. External factors such as the adverse terms of trade due to rising oil and falling fish prices as well as repayment of overseas borrowings to finance the expansion of tourist resort facilities also contributed to the

5 The buying and selling margins around the central currency rate are set at a narrow band of plus or minus 5 laari i.e. currently from Rf 12.75 to Rf 12.85.

6 The negative effect of the appreciation of the currency on the tourism industry is on the demand side rather than on the supply side. On the supply side, the industry imports most of its supplies and uses a high proportion of expatriate labour paid in U.S. dollars. But on the demand side, the affect of currency appreciation may be to reduce tourism income, which is mostly from Europe, Euro-zone and Asian countries.

crisis. Accordingly, the Rufiyaa was devalued by 8.5 per cent in 2001 to avert a foreign currency shortage.

Although the authorities acknowledge the adverse impact of an over-valued exchange rate on economic diversification and competitiveness, they are also concerned about the inflationary effects that a devalued currency may have on an economy heavily reliant on imports.

Together with the structural changes in the economy, the exchange rate regime may point to a situation that resembles the so-called ‘Dutch disease.’ Although the disease is generally associated with the spending of revenue generated from a natural resource discovery, it can occur from any development that results in large inflows of foreign currency. With tourism accounting for 80 per cent of FDI receipts in the Maldives, the tourism sector has had a similar effect. The impact has been most prominent on the Maldivian fisheries sector, which has experienced slow growth and reduced welfare impacts.

IV. Inflation and Financial Sector Trends

The exchange rate peg and conservative management by the Maldives Monetary Authority (MMA) over financial flows has resulted in low single digit and even below zero inflation rates during the last five years. However, one of the effects of reconstruction and rehabilitation following the tsunami was a sharp increase in inflation to 8 per cent during the first half of 2005, which had decreased to 6.6 per cent by the end of July 2005. The MMA forecast is that inflation will continue to decrease during 2006 and 2007 to previous levels.

Overall there was a sharp growth in liquidity and credit during the first half of 2005 as lending for reconstruction and rehabilitation picked up after the tsunami. (see Table 2.3 below). This expansion in credit was largely facilitated by an increase in borrowings from overseas by the commercial banks, also leading to an abrupt down turn in net foreign assets (NFA) of the banking system.

Table 2 3: Inflation, Interest Rates, Liquidity Trends and Debt

	2000	2001	2002	2003	2004	07/2005
Exchange rate pegged (Rf per US\$)	11.77	12.24	12.8	12.8	12.8	12.8
Inflation (per cent change in CPI)	-1.2	0.7	0.9	-2.9	6.4	6.6
Interest level (per cent p.a.)				17 - 24	8 -13	8 -13
Net foreign assets (million Rf)			1662.9	2,613.4	3,366.6	2,813.7
Public sector credit (million of Rf)			1,344.9	1,002.2	741.5	1,168.9
Private sector credit (million of Rf)			2,100.8	2,244.4	3,541.3	4,306.7
Other items (million of Rf)			-1,142.1	-1,316.3	-1,622.6	-1,555.8
Broad money (M2)			3,966.4	4,543.7	6,026.9	6,703.4
External reserves in months of import			4.1	4.1	3.8	3.2
External debt/GDP (per cent)	33.9	33.6	40.4	39.3	38.4	
Debt service ratio ^{a)}	4.2	4.1	4.3	3.7	3.8	5.6

^{a)} Ratio of debt service to exports of goods and non-factor services

Source: Economic Statistics, MMA, December 2004 and update, July 2005

On an annual basis, total NFA of the banking system declined by 15 per cent compared to a 44 per cent growth at the end of the first half of 2004. As a result, reserves stood at 3.8 months of merchandise imports by July 2005 against 4.2 months a year earlier.

Interest rates were reduced in 2004 to an 8-13 per cent band for lending in both Rufiyaa (Rf) and US\$ denominated loans from the previous 17-24 per cent band. But even the reduced rate is considered by private sector operators to be high relative to the rate of inflation. In addition, the requirement for collateral of up to 150 – 200 per cent of the value of a loan is a serious deterrent on investment. In March 2004, parliament amended the Land Act of 2003, removing uncertainties regarding the use of land as collateral. Notwithstanding this reform, titles to land are still not generally applicable as collateral except in a few locations such as in the major land reclamation project at Hulhumale', close to Male' the capital, where freehold has been introduced on trial basis. Not surprisingly, there is very little investment banking activity. During the DTIS exercise, the IMF was assisting the government in reviewing bank policy and in drafting a new bank law.

Most of the credit that is provided by the four commercial banks operating in the country is for operating capital. On an annual basis, total credit extended by commercial banks grew by 56 per cent at the end of June 2005 or double the amount of 2004. The tourism sector accounted for the largest share of the total credit portfolio (59 per cent) to reach Rf 2,348 million (US\$ 183.4 million) at the end of June 2005. The second largest share is held by the wholesale and retail commerce sector (20 per cent), which grew by 60 per cent on an annualized basis to reach Rf 838 million (US\$ 65.5 million) at the end of June 2005.

With regard to other major sectors, construction and fisheries each accounted for 6 per cent of the loan portfolio. Credit to the construction sector increased by 29 per cent on an annual basis. Growth in credit to the fisheries sector showed a slow down in growth from 51 per cent at the end of June 2004 to 26 per cent at the end of June 2005.

Non-bank financing is carried out through two agents in the Maldives: the Maldives Finance Leasing Company Pvt. Ltd. (MFLC) and the Housing Development Finance Corporation Ltd (HDFC). The former provides financing for removable equipment to all sectors. It had total outstanding leases of Rf131.2 at the end of June 2005. The sectoral distribution of these leases was 59 per cent for tourism sector, 19 per cent fisheries, 16 per cent transport, 2 per cent manufacturing and 4 per cent to non-specified activities.

HDFC was established to introduce mortgage financing in the Maldives and had an outstanding loan portfolio of Rf 1.5 billion (US\$118.1 million) by the end of the first half of 2005. This represented a 35 percent increase from the previous year.

Capital markets are still in their infancy in the Maldives. The Capital Market Division (CMD) was created in 1999 within the MMA followed in 2002 by the establishment of the Maldives Stock Exchange (Securities Trading Floor), operated by CMD. Only the shares of three partially privatized State Owned Enterprises (SOEs) are listed and traded: the State Trading Organization Plc (STO); Bank of Maldives Plc (BML) and Maldives Transport and Contracting Company Ltd (MTCC). During the DTIS exercise, a Securities Bill was under consideration in the parliament.

V. Fiscal Regime

The current tax base in the Maldives is narrow, severely limits the government's revenue-raising capacity and accentuates its fiscal deficits. The Maldives has no direct taxes and no general consumption tax. There are three main types of indirect taxes - import tariffs, an export tax on fish and a tourist bed tax. In 2004 these taxes accounted for 92 per cent of total government tax revenue (94 per cent in 1995). It has been noted that the tourist bed tax is highly regressive in nature as it applies equally to all categories of resorts - from the comfortable to the luxurious - and is not related to the service provided or the investment made.

Aside from taxes, the government relies on land-lease payments for tourist resorts as another major source of revenue. This has become the second largest single revenue earner after tariffs (see Table 2.4).

International tourism in the Maldives is the single most important revenue-generating sector. Directly and indirectly it generated an estimated total of Rf 1,333.8 million (US\$ 104.2 million) in 2004, corresponding to more than 40 per cent of total government revenue, estimated at Rf. 3.3 billion (US\$ 256 million), up from 28 per cent in 1995.

On the expenditure side, expansionary fiscal policies have raised budget deficits from 1.4 per cent of GDP in 1997 to an estimated 5.3 per cent in 2001. Since then the deficit declined, reaching 1.8 per cent in 2004. With the effect of the tsunami the deficit is expected to increase to 6 per cent for 2005, with further increases expected in 2006 and 2007. The budget situation is expected to normalize in 2008.

Expenditure has surged above targeted growth levels, especially on government administration and social services, but also a reflection of the commitment of the government to improve human welfare. Accordingly, expenditure growth has outstripped revenue expansion. To some degree, revenue shortfalls have been offset by external aid.

The government maintains an ambitious public investment programme. This programme recognises the fact that for economic development to take place and for the private business sector to invest in administrative regions other than Male' and Hulhumale' and in sectors other than tourism and fisheries, it is essential that public investment addresses the constraints posed in the atolls and the lack of fully functional infrastructure. Table 2.5

below provides data on the public investment programme for recent years. The increase for 2005 to some extent includes tsunami rehabilitation investment.

Table 2.4: Central Government Finance (Rf in million)

	2000	2001	2002	2003	2004	2005		
						pre-tsunami	post tsunami	Diff. in per cent ^a
Total revenue and grants	2373	2523	2715	3088	3395	4201	4503	-7
Total revenue	2207	2311	2582	2964	3321	4106	3663	11
Current revenue	2203	2294	2578	2937	3302	4080	3637	11
Tax revenue	1014	1047	1092	1269	1638	1882	1650	12
Import duties	653	662	692	817	1127	1209	1136	6
Tourism	277	293	305	360	412	552	393	29
Other	85	92	94	92	99	122	122	0
Non-tax revenue	1189	1248	1486	1668	1664	2198	1987	10
SOE profit transfers	357	384	423	571	545	632	632	0
Resort lease payments	427	433	601	576	554	759	600	21
Other	405	431	463	522	566	807	755	6
Capital revenue	4	17	5	28	18	26	26	0
Grants	166	212	133	124	75	94	840	-790
Expenditure and net lending	2694	2886	3117	3375	3664	4645	6104	-31
Current expenditure	1876	1971	2109	2346	2658	3475	3748	-8
Capital expenditure	864	941	1026	1206	1100	1268	2455	-94
Net lending	-46	-26	-18	-177	-94	-98	-98	0
Overall balance	-322	-363	-402	-287	-269	-444	-1602	-261
Overall balance, excluding grants	-487	-575	-535	-411	-343	-538	-2441	-353
Current balance	327	323	469	591	645	605	-111	118
Domestic financing	318	218	30	-132	-137	139	-1	101
Foreign financing	4	146	372	419	405	305	434	-42
Additional external financing requirement							1169	n.a.
Government debt (end of period)	3003	3326	3857	4144	4413	4857	5430	-12
<i>Of which: Foreign</i>	1686	1831	2204	2623	3028	3333	4047	-21

^a) The column indicates the percentage difference in projected budget estimates before and after the tsunami
Source: Use of Fund Resources—Request for Emergency Assistance, IMF, February 2005, Table 3

Table 2.5: Domestic Public Sector Investment Programme 2003 – 2005 (Rf million)

Year	2003		2004		2005	
Sector	No of projects	per cent of total	No of projects	per cent of total	No of projects	per cent of total
Capacity building	27	15.0	32	9.8	50	18.3
Infrastructure development	49	47.0	43	44.9	51	41.5
Social development	147	36.3	136	43.6	180	38.2
Economic development	10	1.7	9	1.6	12	2.0
Research & planning	-	-	2	0.0	-	-
Total Budget		304.8		304.9		381.5

Source: MPND statistics department 2005

VI. Tsunami Effects

According to a joint assessment by World Bank, Asian Development Bank and the United Nations,⁷ the December 2004 tsunami was the worst disaster in Maldives history. Waves of 1 to 4 meters wiped out several islands, and destroyed both housing and livelihoods.

The tsunami has set back the high levels of social progress and prosperity achieved in recent years. Total damage is estimated to be Rf 6,016 million (US\$470 million), 62 per cent of GDP. Of these losses, direct losses are \$298 million, or about 8 per cent of the replacement cost of the national capital stock. Severe damage was caused to houses, tourist resorts, boats and other fishing equipment, schools, health facilities, transport and communication equipment, water and sanitation, and electricity infrastructure. There has also been substantial damage to agricultural crops and perennial trees. Farms, homestead plots, and aquifers have been satirized and flooded with human waste from mismanaged septic tanks. The physical damage has led to severe human suffering inasmuch as large segments of the population have lost their dwellings, lifetime assets, savings, and sources of livelihood. More than 80 people are dead, 26 people are missing and immediately following the disaster, about 7 per cent of the population was living in temporary shelters or with relatives.

As far as the tourism sector is concerned, the initial assessment is that out of the 87 resort islands in the Maldives, 64 resorts remain in operation. Nineteen resorts had to be closed due to the damage caused by the tsunami and 4 resorts were under construction before the incident.

As foreign investors mainly own the resorts, the cost of rebuilding and/or repair is being financed mainly from insurance policies. Repair work is expected to be completed during 2006 at an estimated cost of Rf 19,2 billion (US\$1.5 billion). The loss to the economy is mostly in terms of a decrease in arrival of tourists as well as lost incomes.

Within the fisheries sector, the pole and line tuna fishing sub-sector and the small-scale fish-processing sub sector were most affected by the tsunami. Fishery infrastructure such as fishery island harbours, safe anchorage and boat sheds were damaged on several islands. Several fishing communities were displaced. Over 100 fishing vessels in the medium size range and 20 artisan fishing vessels are reported lost or seriously damaged. An additional 22 vessels are out of commission due to damage to engine and fishing gear. With an average of 10 crewmembers per vessel, this means a direct loss of income earning opportunity for about 1,200 fishermen. Traditional fish processors, mainly women, on the most affected atolls in the central region lost their productive assets and production stocks. Those most seriously affected could not participate in the January to April high fishing season during 2005.

⁷ Maldives Tsunami: Impact and Recovery. Joint Needs Assessment by World Bank-ADB-UN System

According to the estimates prepared by MFAMR, the total cost for repair and rehabilitation of the damage to the fisheries industry from the 2004 tsunami could amount to about Rf. 321 million (US\$25 million equivalent). The damage assessments and cost estimates cover repair and/or replacement of fishing vessels, engines, fishing gear and accessories, fish processing equipment and infrastructure. Table 2.6 below provides a break down.

Table 2.6: Damage Estimate Breakdown

No.	Type of Facility	Unit	Damage to Infrastructure ¹		Total Damage to Infrastructure	
			Full	Part	Rf. Million	US\$ Million ²
1	Fishing vessels	No.	120	320	147.50	11.48
2	Fish processors ³	No.	374	0	17.80	1.38
3	Reef fishery ⁴	No.	0	5	1.88	0.14
4	Infrastructure ⁵	No.	8	2	1.55	0.12
5	Business loss ⁶				152.57	11.87
Total					321.32	25.00

1 Damage estimate is based on MFAMR's revised estimate, received on 13 January 2005.

2 \$1.0 = Rf12.85

3 37 Cottage fish processors and 37 commercial processors lost equipment and materials.

4 Reef fishery damage includes lost equipment, harvesting fleet materials and lost ocean cages

5 Infrastructure includes fully damaged 8 boatsheds, MRS, and FAD centre

6 Direct income losses from fishing and other businesses estimated here. MFAMR estimate of Rf. 405.04 million as business losses also include financial costs for vessels and loss in GDP.

The tsunami had other adverse social impacts on the fishing communities. As these communities rarely use banking facilities to deposit savings, savings are kept at home. Many lost these savings when the tsunami hit their houses. Loss of life savings of fishermen will have a long-term impact on the tsunami-affected populations. Access to financial assistance through small-scale credit or income-generating activities is being put in place to support livelihood recovery. Fishing communities also face difficulties in loan repayments as a major portion of damaged fishing vessels were built with loans from financial intermediaries such as the Atoll Development Fund.

The estimated fleet incapacity during the peak fishing season is expected to lead to a drop in the total annual fish catch, resulting in a worst case scenario of around 8 per cent reduction in the fisheries sector share of GDP in 2005-6. In addition, the industry experienced reduced profits and savings during 2004 as a result of the increased fuel prices, and the accompanying fall in world market prices for tuna. Thus, even for the unaffected segment of the fishery, recovery from 2004 losses may be slow due to sustained low world market prices.

The agricultural sector was also badly hit (see Table 2.7). Soil and water, the basic resources of agriculture, were affected by tsunami waves causing temporary, semi-permanent or even permanent damage to these resources. Although, the extent of the damage has not been fully assessed, it is assumed to be significant especially on islands, which were inundated by seawater following the disaster. Destruction to standing crops, arable land, farming equipment and agricultural infrastructure are substantial resulting in decline in production and yield levels of field and other crops, including homestead cultivation of coconut, vegetables and fruits. Furthermore, the damage caused by sea

water on productive soil and ground water which is the only source of irrigation in these islands are of serious concern for any future agricultural activities.

Table 2.7: Extent of damage to agriculture islands

Agricultural status of islands	Number of islands affected ¹	Total number of islands	per cent affected
Major source of income	13	25	52
Secondary source of income	22	42	52
Alternate source of income	12	27	45
Income from agriculture is little significant	65	89	73
Non agricultural islands		16	
Total		200	

¹ Where more than 33 per cent of the island flooded

According to the MFAMR estimates, about 380.5 ha (50 per cent of the field plots) on the inhabited islands have been destroyed due to saline water intrusion and loss due to crop failure including loss of 269,330 plants. These losses are estimated at Rf. 65 million (US \$5 million).

Apart from the fields, perennial trees such as coconuts, breadfruits, mango, betel leaf, guava, and water apple are reported to have been uprooted by the waves and to have died (except coconut) because of salt toxicity. Banana has been severely damaged, as the crop is very susceptible to salt stress.

Ground water aquifers on more than 50 per cent of the inhibited islands have been completely contaminated by salt intrusion. On the remaining islands, water quality has deteriorated. The extent of damage to the arable land and to groundwater is not easily quantifiable. Moreover, the impact of salts on land and groundwater could be permanent in severe cases. The reclamation of these resources would be time consuming and heavily dependant on rainfall.

However, the tsunami has had a minor impact on livestock on inhabited islands. The tsunami damage assessments have been prepared by each atoll office and reported through the NDMC. Although there is an immediate need for further extensive and detailed survey to assess and verify the cost estimates, there is agreement about the general extent of damage to agricultural crops, which need immediate attention.

MFAMR has two agriculture stations on the outer islands. Research and development, training and demonstration programmes are conducted at the stations. The southern station located at Laamu, Mendhoo island was the worst affected due to the disaster. 'Mother plants' were lost and with it important seeds for future planting. This will severely affect the training programmes scheduled at the station for 2005, and hamper research and demonstration activities (see Table 2.8).

Table 2.8: Damage to agricultural facilities

No.	Type of Facility	Unit	Damage	Estimate*	
				Rf Million	US\$ Million
1	Field crops	Farms	1,271	41.66	3.24
2	Perennials / Fruit trees	Households	9,016	23.66	1.84
3	Agricultural input /tools	Households	9,016	6.76	0.52
4	Infrastructure	Farms	1,272	2.5	0.19
5	Land and water resource				
6	Timber and forestry products	No.	84,1776	8.41	0.65
7	Business loss	MVR	50per cent of traded value	4.10	0.32
Total				84.84	6.76

The period following the tsunami coincided with the peak tourist season. Farmers whose crops and plants were not affected by the tsunami will also face losses due to reduced demand from the tourism sector during this period of time.

In relation to inter-sectoral linkages, the tourism sector has only recently started to rely on local farm produce. Many operators of the resorts have in the past complained about unreliability of supplies from local producers. The confidence that has been built in the recent past is likely to be eroded as a result of the disaster. Hence, it is likely that some or most of the resorts will once again turn to imports.

The tsunami disaster has caused stress and trauma in many farming communities. Displacement of families either from their island or home may incur additional loss to the agriculture sector. Many are reluctant to start any farming activities for fear of loss and devastation. Farm incomes depend greatly on the availability of the transport infrastructure accessible to the island. Destruction of jetties, harbours and transport vessels will impact on the cost and incomes earned by farmers.

CHAPTER 3

TRADE PERFORMANCE AND POLICIES

Chapter Plan

This chapter reviews the Maldives' trade performance in recent years, import and export trends, underlying trade policies and trade implications of the Maldives' possible graduation from LDC status. Throughout the discussion, capacity, policy and institutional needs are identified.

I. Trade Performance

The Maldives economy is very open. Trade in goods typically accounts for around 75-80 per cent of GDP. If services are taken into account, trade in goods and services account for approximately 150 per cent of GDP. This is substantially above the trade openness of other South Asian Association for Regional Co-operation (SAARC) members. The next most open economy within the SAARC is Sri Lanka with a ratio of 81.6 per cent as shown in Table 3.1 below.

Table 3.1: Measures of trade openness in SAARC countries, 2002

	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Trade in goods and services as % of GDP	31.4	n.a.	29.6	150.2	34.7	41.8	81.6

Sources: IMF, Direction of Trade Statistics Yearbook, 2002; UNCTAD, Handbook of Statistics, 2003

Note: Services trade for Bangladesh, Nepal and Pakistan is based on 2001 data

Imports of goods typically outweigh exports of goods by a factor of between three and four. However, this large shortfall in foreign exchange earnings is to a large extent made up for by revenues from the export of services. There is therefore only a relatively modest negative current accounts balance (see Table 3.2).

Table 3.2: Balance of Payments

	2000	2001	2002	2003	2004
Domestic exports (f.o.b. US\$ Mn)	76.2	76.57	90.76	112.96	122.4
Re-exports (f.o.b. US\$ Mn)	32.8	34.0	41.9	39.5	58.6
Imports (f.o.b. US\$ Mn)	388.59	387.28	344.7	414.3	567.3
Trade Balance (US\$ Mn)	-233.3	-236.0	-212.4	-262.4	-386.4
Current Account	-51.5	-58.5	-35.7	-31.8	-133.9
Non-monetary capital (net)	43.5	37.3	75.5	106.1	192.7
Over all balance	7.9	21.4	39.8	74.3	58.8
External debt/GDP %	33.9	33.8	40.4	39.3	38.4
Debt service (%)	4.8	4.8	4.6	4.0	3.8

Source: 1) Economic Statistics, MMA, August 2005; 2) MMA Economic Statistics Vol. 5, No. 4, MMA, December 2004 and update April 2005; and 3) Gross Domestic Product by Kind and Activity 1995 – 2004, MPND

II. Imports - Merchandise

There has been a substantial growth in the value of imports over the last ten years, growing by 142 per cent from a total of Rf 3.1 billion in 1995 to Rf 8.2 billion in 2004. The largest growth was in 2004 when the total value increased by 36 per cent. As can be seen in Table 3.3, capital equipment (machinery and mechanical appliances) grew by 49 per cent that year, reflecting the country's investment growth. The growth in mineral products is a result of increasing raw energy consumption and higher prices. Imports from the private sector made up the higher share of total imports compared to government and public sector imports in both 2003 and 2004. This also reflects the changing nature of the economy with the private sector assuming a more dominant position. Imports by the tourism sector showed the largest sectoral growth in 2004, growing by 92 per cent.

Most of the Maldives' imports are sourced from Asia, accounting for roughly two-thirds of total imports in 2004. Other significant supplying regions include the Middle East (16 per cent) and Europe (11 per cent).

Singapore is the most significant source of imports for the Maldives, accounting in recent years for around a quarter of all imports as shown in Table 3.4. The most significant products imported from Singapore in 2004 and 2005 were diesel oil, mobile phones and other technology products.

Table 3.3: Main Import Commodities, by value (CIF)

Commodity	2002		2003		2004		Growth 2002-2004
	Value (Rf mio)	% Total Imports	Value (Rf mio)	% Total Imports	Value (Rf mio)	% Total Imports	
Machinery & mechanical appliances	930	19	1,151	19	1,714	21%	84.3%
Mineral products	819	16	880	15	1,409	17%	72.0%
Textiles and textile articles	594	12	640	11	684	8%	15.2%
Prepared foodstuffs and beverages	440	9	482	8	579	7%	31.6%
Base metal and articles thereof	250	5	326	5	564	7%	125.6%
Vegetable products	371	7	413	7	485	6%	30.7%
Wood and wood articles	141	3	205	3	428	5%	203.5%
Products of chemical and allied industries	271	5	314	5	406	5%	49.8%
Total	5,014	100	6,026	100	8,215	100%	63.8%

Source: Calculated from Statistical Yearbook of Maldives 2004 and Customs Services

Sri Lanka, which in the last few years had been the second most important import source, has recently declined in importance, with the UAE and India taking over as second and third source markets in the first half of 2005. The main reason for the decline in imports from Sri Lanka in 2005 is because the major imports from that country were fabrics and other materials related to the garment and apparel industry, which has now ceased in the Maldives.

The most significant products imported from the UAE in 2004 and 2005 have been diesel and other fuels. Products imported from India are construction materials (mainly aggregates, sand and cement), foodstuffs (rice, sugar, wheat flour and eggs) and pharmaceutical products. Imports from Malaysia are fuel oils, construction materials (mainly timber, steel bars and rods and pvc pipes) and computing equipment.

No single country within the EU is a significant supplier to the Maldives, although the EU countries together typically account for between 10-15 per cent of all imports – covering a wide variety of products.

Table 3.4: Main Import Sources, percentage share by value (CIF)

Country	2001	2002	2003	2004	2005 (Jan-Jun)
Singapore	25.4	25.8	24.9	25.1	24.1
Sri Lanka	13.1	15.2	13.7	10.7	5.3
India	10.6	10.7	10.1	10.3	10.1
Malaysia	8.9	5.2	7.7	7.6	6.0
United Arab Emirates	8.4	7.1	7.6	10.4	11.2
EU	12.1	14.3	11.0	10.2	

Source: Calculated from Statistical Yearbook of Maldives 2004 and Customs Services

III. Imports - Services

Data on services imports is not readily available. However, most services imports are related to the activities carried out by expatriate workers.

The past decade has seen a steady rise in the number of expatriates employed in the country, from 26,468 in 1999 to 42,136 in August 2005, approximately 46 per cent of the workforce. As is to be expected, the hotel and tourist sector leads in the use of the expatriate work force with over 50 per cent of all requirements, followed by construction (19 per cent), social services including health and education (13 per cent) and business support related activities such as accounting and auditing (13 per cent) services. In terms of occupational groups the majority of expatriates are to be found in the semi-skilled and unskilled categories (44 per cent), followed by craft (13 per cent) and service (16 per cent) workers.

The workers come from nearby countries such as India (43 per cent in 2004), Bangladesh (24 per cent), Sri Lanka (22 per cent), and Nepal (2 per cent). See Table 3.5.

Sustainable long-term economic development will depend on a well-trained Maldivian workforce and the steady absorption of school-leavers into the labour market. In view of

the relatively high rate of unemployment among Maldivians, localization is essential and should be based on a systematic approach to training and human resource development to meet the requirements of the economy.

Table 3.5: Expatriate work force (no of work permits) by country of origin

Country\ Year	2001	2002	2003	2004	Share in %
India	12872	13871	15624	16657	43
Bangladesh	5466	5792	6279	9337	24
Sri Lanka	8016	8343	8796	8320	22
Nepal	440	411	438	802	2
<i>Sub-continent</i>	<i>26794</i>	<i>28417</i>	<i>31137</i>	<i>35116</i>	<i>91</i>
Indonesia	102	87	224	544	1
Italy	346	390	422	375	1
Thailand	85	255	395	237	1
The Philippines	149	142	170	207	1
Germany	191	119	207	218	1
Malaysia	65	34	32	141	0
Rest of the world	1469	1220	1178	1575	4
Total	29201	30664	33765	38413	100

Source: Ministry of Employment and labour

IV. Exports - Merchandise

Merchandise exports have been growing steadily in recent years until 2004, having increased in value by over 60 per cent between 2001 and 2004 to a total of Rf 1,572 (US\$ 122.7 million). However, there was a significant downturn in the first half of 2005. This was due to two major factors: the tsunami, which seriously affected the fishing sector, together with the closure of the apparel and textiles industries at the end of 2004. Exports are highly dependent on the fisheries sector, which in 2004 reached Rf 1,156 (\$90.3 million). This was 98 per cent of all exports excluding garments and apparel and 73 per cent of total exports including these products. In the first half of 2005, the fisheries sector accounted for 98 per cent of total exports, whilst the apparel sector had virtually disappeared to a mere 1 per cent – see Table 3.6.

Fisheries exports are concentrated on essentially derivative products from one species, skipjack tuna, which, in 2004, accounted for 70 per cent of fish exports in volume terms. However, in recent years, yellow fin tuna landings and exports have increased accounting for 15 per cent by volume in 2004. This represents an increase of more than 20 per cent compared to 2003.

Within this pelagic group of fish, the largest exports by value are of frozen skipjack tuna, followed by canned, dried and a small amount of salted dried. It is noteworthy that fisheries and fisheries exports still focus on low value species, with only a small amount

of added value accruing to the Maldives. While export volumes continue to grow, export values vary according to the international price level, where the Maldives is a price taker on virtually all fish products. Only the fairly small volume of canned fish attracts a small premium of approximately Rf 25.50 (US\$ 2) per case, due to the environment-friendly - but not labeled as such - status of the product where the raw material is caught by pole and line.

The importance of reef fish exports has been declining in the last few years, but the export of sea cucumber remains significant. The decline in reef fish products is a reflection of lower volumes of landings, and increased sales domestically to the tourism resorts. The majority of fish product exports are now handled by the private sector rather than by the parastatal fish company, MIFCO. In both 2003 and 2004, private sector exports accounted for roughly two-thirds of fisheries exports.

Table 3.6: Principal Exports (2003-2005)

Description	2003		2004		2005 (Jan-Jun)	
	Value (Rf mn)	% Total Exports	Value (Rf mn)	% Total Exports	Value (Rf mn)	% Total Exports
Various tuna products	843	58.3	1,056	67.2	682	91.3
Reef fish products	61	4.2	23	0.1	0	0.0
Sea Cucumber (dried)	43	3.0	31	2.0	15	2.0
Other Marine Products	19	1.3	30	2.4	28	3.7
Fish Meal	13	0.9	15	1.0	9	1.2
Sub-Total Fish sector	979	67.8	1,156	72.5	734	98.3
Garments and apparel	462	32.0	409	26.0	8	1.1
Other (mostly scrap metal)	4	0.3	8	1.5	5	0.7
TOTAL	1,445	100.0%	1,572	100.0%	747	100.0%

Source: Calculated from Statistical Yearbook of Maldives 2004 and Customs Services data on export by commodity.

In 2003, exports of garments and apparel accounted for 32 per cent of total exports, some Rf 461 million (\$ 36 million). The decline in this sector started in 2004, when their share of exports had dropped to 26 per cent (\$32million) and then virtually disappeared in 2005. As previously noted, the reason for this was the closure of the factories at the end of 2004 due to expiration of the Multi Fibre Agreement and the removal of quotas (see box).

Box: Impact of international trade rules:

Sri Lankan investors had established a garment and apparel industry in Maldives as a way of overcoming quotas imposed on Sri Lanka. Once the quotas had been removed at the end of 2004 due to the end of the MFA, there was no incentive for them to remain in the Maldives, especially as the local production was much less competitive than that in Sri Lanka. The closure of the industry is a good illustration of the impact that international trade regulations can have on an economy.

There is a small amount of re-exports of desalination parts, scrap metal, velambuli (plant oil used for therapeutic treatments indigenous to the Maldives) and handicrafts.

A. DESTINATION OF MERCHANDISE EXPORTS

In relation to the destination of merchandise exports, the USA was the single most important export market until 2005. The dramatic decline in exports to the USA has been due to the expiration of the MFA. The main markets in 2005 are relatively evenly distributed between the EU, Thailand and Japan, each accounting for between 20-25 per cent of total exports (see Table 3.7). The EU market seems to be following a fairly solid growth rate. But the Japanese market grew considerably during 2005 accounting for almost a quarter of total exports in the first half of the year. Sri Lanka has remained a significant market (around 13 per cent).

The bulk of the frozen products (tuna) are exported to the Thai processing industry, where economies of scale allow more profitable production of canned tuna destined in particular for the EU and US markets.

Table 3.7: Main Export Destinations, percentage by value (FOB)

Country	2001	2002	2003	2004	2005 (Jan-Jun)
United States	40.7%	38.4%	32.3%	26.5%	1.2%
EU, of which:	17.1%	14.0%	15.7%	19.3%	24.4%
UK	9.0%	9.5%	9.7%	9.8%	13.0%
Germany	6.1%	3.3%	3.8%	4.9%	5.2%
Sri Lanka	19.3%	15.4%	13.6%	12.3%	13.4%
Thailand	8.6%	14.6%	16.4%	23.5%	21.2%
Japan	4.6%	11.5%	10.3%	11.7%	24.5%

Source: Calculated from Statistical Yearbook of Maldives 2004 and Customs Services

The EU is the main market for canned tuna from the Maldives, of which the UK and Germany are the most important markets, followed by France, the Netherlands and Italy. Sri Lanka takes mostly dried and salted fish products, with only little value added accruing to the Maldives. But these intermediaries are turned into more attractive fish oils etc. in Sri Lanka. The latter process could just as easily take place in the Maldives. In fact, the level of fish manufacturing is lagging behind and product development is receiving very little attention and support from the GOM.

In regard to market access conditions, Maldives benefits from preferential market access terms in the EU and Japanese markets, through GSP arrangements, and in Sri Lanka through the SAPTA arrangement.

B. FUTURE OF MERCHANDISE EXPORTS

The Maldives merchandise exports are likely to remain based on fish products. The direction of exports will therefore be towards the future main fish product importing

markets. In this regard the EU is the leading worldwide importer, with imports of eight million tonnes in 2001⁸. It is a particularly attractive market for suppliers providing value added products such as fresh on ice products, reef or deep-water fish fillets and tuna loins. The EU market for whole fish is limited. With a growth rate of 3 – 4 per cent per annum, (see Table 3.8), the EU market is likely to remain the most important destination for Maldivian seafood exporters as the products demanded are canned and frozen loins of yellow fin tuna, and reef fish such as snappers and groupers, which are available in the Maldivian waters. However, to gain and extend market share in the EU will require that the Maldivian industry to export value added products to meet the demand for ready meal fish products.

Japan on the other hand remains focused on frozen whole fish for its sushi and sashimi markets. Although growth rates at 4 -5 per cent per annum are slightly higher than in the EU, whole fish products in demand in Japan are based on blue fin and big eye tuna, which are rarely caught in Maldivian waters (see Table 3.9).

In the light of these market trends, Maldivian suppliers endeavouring to take advantage of the opportunities will have to invest in modern facilities to meet processing standards in these markets. Standards are virtually the same for the EU and the United States and with small differences for Japan. However, the government has yet to take the lead in promoting product development or new sustainable fishing technologies for example, for reef fish.

The adjustments required by Maldivian producers should be supported by an appropriate exchange rate policy. This points to the need for a peg to a weighted basket of currencies rather than to the dollar alone.

Table 3.8: Total imports for major importing nations/regions (tonnes)

World rank	Country/ Region	1999	2000	2001	1999-2001 Growth %
1	European Union	7,478,808	7,739,115	8,080,969	8
2	Japan	3,298,137	3,432,517	3,627,677	10
3	USA	1,763,536	1,804,518	1,860,852	6

Source: Seafood International, August 2004

Opportunities on the EU markets are likely to increase further in the short to medium term. In order to protect overexploited fish stocks in EU waters, the Common Fisheries Policy (CFP) imposes even stricter quotas on the allowable catches, and encourages reductions in fleet and fishing effort. This will result in an increased EU demand for imports of fish products. At the same time these trends are further reinforced by considerable efforts to promote fish as a healthy low-fat food product, with an increase in consumption per capita as the most likely result. To derive the full benefits of this opportunity Maldives should enhance product development and promotion.

⁸ The most recent year where comparable data are available according to the leading seafood market intelligence organizations: EUROFISH Magazine (part of the FAO Globefish network) and Seafood International – a leading commercial magazine.

Penetration of international markets that are highly competitive will require some investment in marketing effort. One highly successful campaign is the Norwegian Seafood Campaign, which almost doubled exports of Norwegian seafood products over five years. Although MIFCO has participated in international trade fairs, including the European Seafood Exposition (ESE) in Brussels in 2004, assisted by the Ministry of Fisheries, Agriculture and Marine Environment (MFAMR), a strategic campaign effort embracing government and the private sector will be required for the Maldives. Participation at ESE 2004 was initiated through the Maldivian membership of INFOFISH, an industry body, and was part of a joint effort with other island countries of the Asia-Pacific area. However, the promotion of Maldivian fish products at the ESE had positive results in terms of raising awareness about the high quality of the Maldivian products.

V. Services Exports

Tourism is the Maldives' dominant service export. The Maldivian tourism industry is characterised by pre-travel payments whereby package tours are purchased in the tourists' home countries. Aside from air transport, such pre-paid services by definition include one or more services provided in the Maldives, normally accommodation, food, transfers, tours and specific services as e.g. diving instruction and day trips. However, the payments made by the tourists accrue to a large extent, and at least in the first instance, to the tour operators located in the country of payment and thus only partially enter the Maldivian local economy when the tour operator pays local service providers for their share of the package arrangement. In general, the tour operators include a commission in the order of 10-15 per cent of the package price. This amount remains with the operators in the source markets. Similarly, the cost of international air transport does not accrue to the Maldives since the country does not operate an airline.

Thus the earnings from tourism receipts accruing to the Maldives is the proportion of the package price that is transferred to Maldives operators, together with what the tourists spend while in the Maldives. There is no accounting system in the Maldives to capture all these incomes. The Maldives Monetary Authority (MMA) estimated total tourism receipts to be Rf 6,144 million (US\$ 480 million) in 2004 based on a survey of tour and the Maldivian resort operators. This is believed to be an under-estimate, but is still substantial foreign exchange earning that is more than three times as high as the country's total visible export earnings from all other economic sectors. The estimate also reflects a continuous annual growth rate in the tourism industry averaging almost 14 per cent over the two decades since 1985. There were approximately 616,000 tourist arrivals in 2004 (see Table 3.9), which corresponds to an average total expenditure per tourist of Rf 9,920 (US\$ 775).

Table 3.9: Flow Of Tourists By Nationality, 2001 – 2004

Country of Nationality	No. of Tourists				Share %		Growth %
	2001	2002	2003	2004	2001	2004	2001-04
Total	460,984	484,680	563,593	616,716	100	100	34
<i>Europe</i>	<i>364,105</i>	<i>373,428</i>	<i>443,093</i>	<i>475,707</i>	<i>79</i>	<i>77</i>	<i>31</i>
Italy	115,740	114,955	140,304	140,304	25	23	21
United Kingdom	77,151	80,377	93,989	113,991	17	18	48
Germany	66,149	63,212	70,762	70,762	14	11	7
France	30,542	31,228	41,055	41,055	7	7	34
Switzerland	28,313	31,707	30,787	29,252	6	5	3
Russia	3,983	7,550	12,108	18,075	1	3	354
Other Countries	42,227	44,399	54,088	62,268	9	10	47
Asia	80,825	94,986	101,806	117,008	18	19	45
China/Taiwan/Hong Kong	7,343	12,400	15,021	20,599	2	3	181
India	8,511	11,377	11,502	11,502	2	2	35
Japan	41,895	43,705	42,081	46,939	9	8	12
Korea	6,708	7,696	8,416	9,672	1	2	44
Singapore	2,227	2,520	4,653	4,653	0	1	109
Sri Lanka	6,902	6,909	7,296	7,296	1	1	6
Thailand	1,350	2,002	3,009	3,289	0	1	144
Other Countries	5,889	8,377	9,828	13,058	1	2	122
Africa	2,060	3,002	3,984	5,325	0	1	158
<i>America</i>	<i>6,814</i>	<i>7,489</i>	<i>7,665</i>	<i>9,390</i>	<i>1</i>	<i>2</i>	<i>38</i>
<i>Oceania</i>	<i>7,180</i>	<i>5,775</i>	<i>7,045</i>	<i>9,286</i>	<i>2</i>	<i>2</i>	<i>29</i>

Source: Department of Immigration & Emigration

The 616,000 tourists arriving in 2004 came predominantly from European and Asian countries, with European countries accounting for 77 per cent of the total number of arrivals. The number of tourists from other parts of the world is minimal. Italian tourists lead with 140,000 arrivals in 2004 followed by the British (114,000 arrivals) and Germans (71,000 arrivals).

While the sandy beaches, clear lagoons and the warm sunshine are the primary attraction in recent years product development such as spa and health tourism, safari-sea cruise tourism, surfing, etc., has taken place. This has helped to consolidate the up market niche of the Maldivian tourism industry. Prior to the tsunami, the Maldives had recorded some success in attracting tourists from other European countries, especially France and Switzerland. Recent changes in Central and Eastern Europe have created new market opportunities amongst higher income groups in these countries. For example in recent years, Russia has recorded tremendous growth in the number of tourists visiting the Maldives from 4,000 in 2001 to more than 18,000 in 2004, or a growth of 354%.

Growth in arrivals from Asia has been more stagnant at around 19 per cent over the years, with Japan accounting for 40 per cent of Asian arrivals. Whilst the immediate market dynamics indicate that short-term marketing efforts should focus on EU countries, imminent growth potential from selected Eastern European countries and the Asian region is much greater in the medium to long term given rising incomes in these regions.

Overall, the importance of foreign exchange earnings from international tourism is substantial for the balance of payments of the Maldives. To a large extent, the foreign exchange contribution from tourism covers the trade deficit originating from imbalances in the merchandise trade, which was just under US\$ 260 million in 2003.

Tourism's direct contribution to GDP is significant. This was Rf 2.483 billion (\$ 195 million) in 2003 out of the total GDP of Rf 7,586 million (US\$ 595 million). This corresponded to 32.7 per cent of total GDP. This proportion has remained fairly constant during the last 20 years. However, it should be noted that the contribution of other economic sectors as construction, transport and communications, financial services and government administration (e.g. immigration, customs, airport services, etc) to the GDP is a result of tourism development. Indeed, it can be said that the economy is to a large extent driven by tourism development in view of both the direct and indirect contribution of tourism to the country's GDP.

VI. Trade Policies

Trade policies have had an ambiguous role in the Maldives as a tool for economic development and poverty reduction. However, with increasing liberalization of the economy since the 1980s and challenges of participating in the global economy, the role of international trade has taken on new importance. Trade policies now need to be fully integrated into the development planning process with urgent capacity building needs for policy analysis, implementation and monitoring.

A. THE TRADE REGIME - IMPORT

Any person may import goods commercially for business purposes provided they hold a general import license issued by the Ministry of Economic Development and Trade. Tariffs are the Maldives' main trade policy instrument and are a major source of revenue, accounting for about two thirds of tax receipts. Customs duties were introduced in the Maldives about twenty-five years ago. The average (un-weighted) MFN tariff is 21.2 per cent. Almost all MFN tariff lines (95 per cent) are in the range 5 to 25 per cent (the most common rate). As can be seen from Table 3.10, there are ten ad valorem tariff lines (including zero), whilst cigarettes are charged per stick. The Harmonized System (HS) of tariff classification is used. At the ten digit level there are 9,377 tariff lines, of which just under half are at the 25 per cent rate. Eighty per cent of the lines are between 15 and 25 per cent. The 100 per cent rate applies to motor vehicles, whilst the 200 per cent rate applies to plastic bags. Both these rates are effectively an environment tax that could be better served by an excise duty.

Table3.10 Distribution of Customs Duties

Customs Duty	Lines (@ HS 10 digits Level)	% of lines
0	8	0.09%
5	435	4.64%
10	972	10.37%
15	1,751	18.67%
20	1,292	13.78%
25	4,484	47.82%
35	263	2.80%
50	15	0.16%
100	148	1.58%
200	8	0.09%
0.30 per stick	1	0.01%
Total Lines	9,377	100.00%

Non-agricultural products generally have higher applied rates than agricultural products. The tariff is therefore relatively complex, involving 11 different rates. The structure roughly follows an escalation principle whereby duty rates increase with a higher degree of processing. The average duty on processed goods is around 23 per cent whereas the average on semi-processed goods is around 17 per cent. There is no solid basis for the categorization of the different tariff lines into these 11 bands, although there are explanations for some certain rates. The very high rates are used to restrict imports of products considered to be a threat to the environment (motor vehicles and plastic bags), whilst low rates are applied to products with a social good. All tariff lines are bound under the WTO, usually at rates significantly higher than the applied rates. Most tariff items are bound at 30 per cent, although some are bound at 300 per cent. This gives the government freedom to raise applied rates within bindings. There are some lines, however, where the applied rate is higher than the bound rate. Apparently this was done unintentionally and is in the process of being rectified.

The tariff remains a potential distortion to domestic efficiency. Lower and more uniform tariffs would be more efficient by reducing the risk of resources being attracted into the more protected economic activities. In principle the main rationale for customs duties is to protect the domestic industry. In the case of the Maldives, given the almost complete lack of domestic industry, there is little need for customs duties in this regard. A case could therefore be made to remove customs duties on practically all tariff lines, especially for non-agricultural products. In that case, an alternative, more resource-efficient system such as VAT or a Sales Tax would need to be introduced. This principle was discussed during the main DTIS mission with representatives of the Ministry of Finance, who indicated that they were assessing the possibility of introducing a General Sales Tax as part of a long-term fiscal reform programme. However, should a VAT system be chosen, it should be a progressive system with different rates per product category, and perhaps even with exemptions on items as food. Similarly, a case can be made to streamline the tariff structure to a single rate. In both cases it would be necessary to introduce an excise duty for those goods, which currently attract very high duty rates for reasons of environmental protection (e.g. cars and plastic bags). Excise duties could also be levied

on goods deemed luxury goods (e.g. cigarettes and perfumes). This was also discussed with the Ministry of Finance representatives who indicated that such tariff reform was under consideration.

Although there is currently very limited production activity in the Maldives, there is need to be aware of anti-export bias in the tariff structure that may impact on other sectors, such as tourism. Apparently, this problem is being addressed through the extensive use of discretionary duty concessions and exemptions. The total value of these in 2004 was Rf. 413 million, compared to actual collections of Rf 1,136 m, representing approximately 36 per cent of total revenue. In previous years the proportion of concessions and exemptions has been similar (37 per cent in 2001). In 2004 main beneficiary sectors were tourism and fisheries.

No other duties or charges are levied on imports, although a fixed regressive rate bed-night tax of US\$8 per bed night is levied on foreign tourists (as defined by the World Tourism Organization).

As a participant in the SAPTA, the Maldives gives preferential tariffs on qualifying imports from other SAARC countries. In January 2006, SAPTA is due to move into the SAFTA with a programme to gradually remove all import duties on qualifying imports from other SAARC countries.

Customs Services have not yet fully implemented their WTO commitments, including the GATT definition of value, so minimum prices are still being used.

Although the economy is liberalized, there is wide-ranging state involvement in the economy for social welfare reasons and to meet human development objectives. But this may also create some trade distortion. State-owned enterprises (SOEs) engage actively in trading activities. One of the main objectives for this is to ensure supplies of essential foodstuffs. Import quotas, combined with price-control measures are maintained for staple foods (mainly rice, sugar, and wheat flour). A small number of items (alcoholic beverages, pork, used cars and motorcycles) are prohibited or restricted for religious, safety, or environmental reasons.

No intellectual property legislation exists, but efforts are being made in this area. There is particular interest in the protection of Maldives fish as a geographical indicator. The WIPO undertook a technical mission in 2003 and made recommendations on establishing an IPO office. Some progress has been made in implementing these recommendations, but more work needs to be done in this field.

B. THE TRADE REGIME - EXPORT

The export regime is relatively open. Export controls (on timber), taxes (on ambergris), and regulations are minimal, although some foreign investment royalties apply to exports only (e.g. clothing). Royalties are charged on fish exports at 5 per cent CIF value and

licenses are required for fish exports. The Ministry of Economic Development and Trade (MEDT) regulate general exports through general export licenses.

Specific trade finance is generally not available in the Maldives and there are no export promotion or incentive schemes in operation.

C. MULTILATERAL TRADING SYSTEM

Maldives is a founding member of the World Trade Organization (WTO) and party to the agreements, decisions and declarations constituting the single undertaking. This means that trade in the Maldives is governed by the international rules based system and special provisions for least developed countries apply to the Maldives.

Currently the membership of the WTO is engaged in the latest round of trade talks, the Doha Development Agenda (DDA), which seeks a development-friendly outcome. The results of this round of negotiations will have an impact on Maldives, not least because of its impending graduation from least-developed country status. Although the DDA covers a whole spectrum of issues, the main areas of negotiation that will affect Maldives are:

- Non-Agriculture Market Access (NAMA)
- Agriculture
- GATS
- TRIPS
- Special and differential treatment
- Trade facilitation

A brief review of each area follows.

NAMA

The Maldives as an LDC has no obligations under NAMA other than to bind its rates. Since 100 per cent of its industrial and fisheries tariffs are bound, the country will not be required to make any new commitments under NAMA. The simple average bound rate of industrial tariffs in Maldives is 38.6 per cent and average applied rate is 21.2 per cent⁹. The impact of NAMA negotiations on the Maldives applied tariff (and therefore import prices and tariff revenue) under the Doha Round will be nil or negligible. This is a significant consideration for the Maldives as revenue from import duties is 62.3 per cent of tax revenue and 26.3 per cent of total revenue excluding grants.¹⁰

As Maldivian fish (fresh and frozen fish) exports enjoy duty free tariffs under EBA in the EU market, only a small degree of preference erosion is likely for some fish exports in

⁹ Table III.1(page 32) of WTO Trade Policy Review, Maldives 2003

¹⁰ Calculated on 3 year average (2002-4) from Table 13.3 of Statistical Yearbook of Maldives 2004

the Japan and USA markets.¹¹ Fish from the Maldives face a low 3.5 per cent tariff in Japan.¹² The duty-free-quota-free agreement for LDC exports that was reached at the WTO Ministerial Conference in Hong Kong in December 2005 is likely to result in zero tariffs even in the Japan and USA markets.

AGRICULTURE

Since Maldives operates no agricultural subsidies and bound rates are significantly higher than applied rates for agricultural imports, the impact of the current negotiations on Maldives tariff and revenue are likely to be nil or negligible¹³. Moreover, the Maldives exports no agricultural products and, given the limited land availability, it is not likely to do so in any significant way in the future. Tariff reductions in foreign markets are of little use or consequence. However, Maldives is a net food importer and depends on imports of all food except fish. Therefore, a reduction of subsidies on major food products, which it imports, could increase local prices. For example, if all domestic support and export subsidies in OECD countries were removed, the world price of wheat is estimated to rise by 14 per cent, rice by 3.9 per cent, vegetable and fruits by 2.9 per cent, vegetable oil by 7.9 per cent, sugar by 4.9 per cent, livestock and meat by 8.6 per cent and processed food by 2.8 per cent.¹⁴ Such increases in prices and overall value of imports will also adversely affect the balance of payments and foreign currency requirements of the country.

SERVICES

GATS negotiations are currently focusing on a request-offer system and clarification of some GATS rules. WTO members initially make requests to partner countries to liberalize certain sectors (for example, the EU has requested Maldives to liberalize the provision of waste management services). The Maldives has not made any requests. Following these requests, countries enter into consultations (effectively bi-lateral negotiations) and then make initial offers that will be applied to all WTO members, not just those that made the request. In addition, members are expected to make initial offers on other sectors.

Maldives has not scheduled any sector under the Uruguay Round of GATS but may come under pressure to schedule some sectors. Prior to this however is the need to undertake an assessment of future requirements for services development in the country.

Although Maldives has not scheduled any sector, it operates a relatively liberal regime in some services sectors. Therefore, scheduling some services sectors under GATS should not present serious problems. For example, participation in tourism resorts is open to both

¹¹ Bound rates are close or equal to applied rates in most industrial countries which are Maldives main export destination (US, EU and Japan accounted for 59.3% of exports in 2003 – calculated from Table 15.4 Statistical Yearbook of Maldives 2004.

¹² EU Market Access Database (last updated 7 September 2005)

¹³ Simple average bound rates, at 41.2%, are 57% higher than the actual applied rates of 17.8%. Calculated from Table III.1 (page 32) of WTO Trade Policy Review, Maldives 2003

¹⁴ US Department of agriculture Economic Research Service, “Cost of Agricultural Distortions” (2001),

foreign and local investors (and resorts are allowed to employ up to 50 per cent foreign employees). But there are different regulations applicable to certain island resorts in terms of length of lease. In addition, within tourism, some sub-sectors are restricted to nationals, such as operating safari boats.

TRIPS

Part of the TRIPS negotiations focuses on geographical indications (geographical indications are place names used to identify the origin and quality, reputation or other characteristics of products) that are examining how article 23 of the TRIPS Agreement could be extended beyond wines and spirits. Of relevance to Maldives, could be the inclusion of “Maldives fish” which is sold throughout the region. Sri Lankan producers reportedly copy the process and sell their products as “Maldives fish” in direct competition with Maldives. Listing “Maldives fish” as a geographical indication under Article 23 of TRIPS could be used to prevent the use of this “name”. Protecting the market for Maldives fish is particularly important in the context of poverty reduction given the fact that the fishing industry is a significant employer of the poorer sector of the community, including on the outer atolls. Women are also predominantly involved in processing activities.

SPECIAL AND DIFFERENTIAL TREATMENT

Although the Maldives is scheduled to graduate from its LDC status in 2007, there may still be room for transition arrangements in regard to its status in the WTO. For this reason it is important for the country to continue to follow and be involved in the negotiations on Special and Differential Treatment (S & DT) and the related negotiations for recognition of small, vulnerable economies at the WTO. Even after graduation, a number of S&DT provisions would still apply in areas of interest such as sanitary and phytosanitary regulations.

TRADE FACILITATION

The Hong Kong Ministerial Declaration reaffirmed the mandate and modalities for negotiations on Trade Facilitation contained in Annex D of the Decision adopted by the General Council on 1st August 2004. The Ministers also endorsed the recommendations of the report of the Negotiating Group, (attached as Annex E to the Hong Kong Ministerial Declaration) contained in paragraphs 3, 4, 5, 6 and 7 of the report.

The Negotiating Modalities are particularly significant because they endorse the legitimacy of the development challenges facing developing countries, particularly LDCs, in the area of Trade Facilitation. This is reflected in an innovative approach to negotiations that explicitly recognizes a formal linkage between extent, timing and assumption of commitments, and implementation capacities of developing countries and LDCs in particular. It also conditions implementation on the provision of technical and financial assistance, plus support for capacity building by developed country partners.

The Modalities provide that the results of negotiations shall take into account the principle of SDT on the understanding that this should extend beyond the granting of traditional transition periods for implementing commitments; Members are not obliged to undertake investments in infrastructure projects beyond their means; and that in cases where required support and assistance for such infrastructure is not forthcoming, and where developing or LDC Members continue to lack the necessary capacity, implementation would not to be required. Furthermore, Annex D of the July Framework explicitly states, “Least Developed Country Members will only be required to undertake commitments to the extent consistent with their individual development, financial and trade needs or their administrative and institutional capabilities.”

The most important aspect of this for the Maldives is the aspect of “enhancing technical assistance and capacity building” in the area of Trade Facilitation. This will be very relevant for the Maldives, especially in the aspect of Customs procedures. The other relevant outcome concerning trade facilitation from the Hong Kong ministerial meeting was the endorsement of both the enhanced Integrated Framework and the “Aid for Trade” initiatives, under which technical assistance and financial support is expected to be made available to LDCs for various aspects of infrastructure development. The “Aid for Trade” initiative is complementary to the IF and aims specifically to address supply side constraints to trade.

D. REGIONAL INTEGRATION

Under the terms of the South Asian Preferential Trade Area (SAPTA) Agreement (signed on 11 April 1993 and implemented from 7 December 1995), Maldives enjoys preferential access to six regional markets on selected products.¹⁵ In return, Maldives provides similar access to regional producers to its market. Since its inception, there have been four rounds of trade negotiations under SAPTA covering over 5,000 commodities. However, the extent (product coverage) and depth (level of preference) is limited.

Regional imports have averaged 23.6 per cent of all Maldivian imports over the last five years.¹⁶ This share has been virtually stagnant during this time with decline experienced in 2005. The reason for this decline was the ending of imports of textiles for the garment industry at the end of 2004. See Table 3.11

Regarding exports, the proportion of regional trade is limited to an average of 16 per cent of total exports over the last five years, with just one country (Sri Lanka) accounting for virtually all the regional exports, and India taking an extremely small proportion. As shown in Table 3.12, the trend is a declining proportion of regional exports. With a limited export base, the Maldives has obviously not been able to take any real advantage of the SAPTA agreement. The main exports to Sri Lanka are dried and salted fish.

¹⁵ Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka

¹⁶ 5 Year average (2000-04) calculated from Customs Services Import/Export Statistics 2004

Table 3.11: Percentage share of Maldivian Imports from SAPTA members

SAARC member	2000	2001	2002	2003	2004	2005 (Jan-Jun) %
	%	%	%	%	%	
Bangladesh	0	0	0	0	0	0
Bhutan	0	0	0	0	0	0
India	8.85	10.6	10.7	10.14	10.26	10.10
Nepal	0	0	0	0	0	0
Pakistan	0.32	0.38	0.39	0.37	0.34	0.40
Sri Lanka	13.07	13.07	15.19	13.74	10.67	5.30
Total	22.24	24.05	26.28	24.25	21.27	15.8

Source: Customs Services Import/Export Statistics, 2004 and own calculation

Table 3.12: Percentage share of Maldivian Exports to SAPTA members

SAARC member	2000	2001	2002	2003	2004	2005 (Jan-Jun) %
	%	%	%	%	%	
Bangladesh	0	0	0	0	0	0
Bhutan	0	0	0	0	0	0
India	0.31	0.37	0.13	0.31	0.37	0.61
Nepal	0	0	0	0	0	0
Pakistan	0	0	0	0	0	0
Sri Lanka	17.82	19.3	15.36	13.58	12.31	13.4
Total	18.13	19.67	15.49	13.89	12.68	14.01

Source: Customs Services Import/Export Statistics, 2004 and own calculation

The SAARC countries have agreed to upgrade the SAPTA into a free trade area agreement and signed the Agreement on South Asian Free Trade Area (SAFTA) on 6 January 2004. The Agreement entered into force on 1 January 2006. The Agreement has four annexes. The Annex on areas of Technical Assistance has so far been agreed. Annexes on Sensitive Products (expected to be 20 per cent of trade and 30 per cent for least-developed countries), Rules of Origin and a Mechanism for Compensation of Revenue Loss for Least Developed Member States are still under negotiation.

These three annexes will be crucially important for Maldives, if they are to derive any significant benefit from the SAFTA. For example if fish remains in the negative list as a sensitive product for Sri Lanka, that would remove the main product and main market from which Maldives could benefit. Furthermore if the Rules of Origin insist on high levels of local value added or transformation, Maldives will again be virtually unable to obtain any real benefit from the Agreement (other than on fish). The Agreement would not therefore provide any real opportunities for diversifying into new export areas.

The Sensitive Products lists are to be reviewed every four years or earlier with a view to reducing the number of items. Other measures to complement the trade liberalization that members agreed to consider include the harmonization of standards and mutual recognition of tests and certification, customs simplification and harmonization and other measures to facilitate trade.

Under the Trade Liberalization Programme scheduled for completion in ten years by 2016, the customs duties on products from the region will be progressively reduced and

removed. However, in order to provide early benefit to the least developed member states, India, Pakistan and Sri Lanka are to bring down their customs duties on imports from these countries to 0 to 5 % by 1 January 2009. It should be noted that within the SAFTA arrangements, Maldives has successfully negotiated to continue to enjoy the privileges of an LDC even after graduation.

Since the Maldives generates most of its government revenue from import duties, elimination of duties on around 20 per cent of imports will inevitably adversely affect government revenues. Government revenues on existing regional imports will be lost (static effects).¹⁷ There will also be a loss of revenue on imports from other countries (dynamic effect) as buyers in Maldives switch to “cheaper” duty free regional imports. A 2004 report on the impact of SAFTA on Maldives calculated, on the basis of a partial equilibrium model, that the loss of total tariff revenue could be 26.7% of total customs duties. *“This implies that the loss of government current revenues will be of the order of 7.0%.”*¹⁸

Some sectors of the economy, such as tourism and fishing, should benefit from lower prices on imports of inputs such as food imports and packing materials from regional trade partners like India and Sri Lanka. The construction sector should also be a beneficiary, thus improving the competitiveness of the economy through its imports, especially from India.

On the export side, the preferential, eventually tariff-free, access to the SAFTA market represents new opportunities for developing export sectors. Currently, merchandise exports to the other SAARC members are limited – largely because of the low consumption of fish in those countries. Dried fish exports to Sri Lanka are a notable exception. The Agreement does however present an opportunity in principle for the Maldives to look at developing possible new export sectors.

The SAFTA Agreement is restricted to the liberalization of trade in goods, though one of the stated objectives is the establishment of a framework for further regional cooperation – leaving the way open for agreements on such matters as trade in services in the future.

There is still insufficient analysis and information available to be able to determine the long-term implications of SAFTA membership. However political commitment has been given, so Maldives has to undertake the necessary measures for implementation of its commitments and to instigate measures now to mitigate the threats and to seize the opportunities being created from membership. More detailed analysis is therefore required on these threats and opportunities. Regarding implementation commitments, the Customs Tariff will have to be modified to reflect a new column for qualifying SAFTA imports. This will have to be revised on an annual basis. Systems will have to be established concerning certificates of origin and notifications. New sources of

¹⁷ A detailed static and dynamic analysis of the impact of liberalisation on revenues is required (trade creation and trade diversion) using a partial equilibrium model of Maldives imports.

¹⁸ “Viability of Maldives’ Entry into SAFTA” by Michael Davenport, 2004

government revenue will be required to make up for the losses to be encountered in the next few years.

Furthermore there is discussion underway within the SAARC about establishing a Common External Tariff, a Customs Union and even an Economic Union. This would require the Maldives to establish adequate capacity for researching all these aspects and for formulating policy positions.

E. FREE TRADE AGREEMENTS

The Maldives has, or is negotiating free trade agreements with India, China, Sri Lanka and Qatar.

The main benefit of the FTA with India is that it allows the Maldives to import certain products such as pharmaceuticals that otherwise are banned for export. The FTA does not provide for any tariff preferences.

The arrangement with China, signed in September 2005 allows Maldivian products to be exported on a non-reciprocal zero tariff basis. However, the specific list of products and the origin criteria are yet to be agreed.

A bilateral FTA is currently being negotiated with Sri Lanka. This would give additional preferential market access than what is covered by the SAFTA agreement. The agreement is close to being finalized. The key element for Maldives is to ensure duty-free access for its fish. Sri Lanka already has FTAs with most other SAARC members.

There is also a possibility of a bilateral FTA with Qatar. This is however unlikely to have any significant immediate economic impact but could nevertheless present some opportunities in the future.

F. PREFERENTIAL SCHEMES

Two of the Maldives' major trading partners, the EU and Japan, maintain preferential schemes from which Maldivian exports benefit.

As one of the least developed countries, the Maldives benefits from preferential market access to the EU under the Everything But Arms (EBA) arrangement, which allows duty free exports. However, only two Maldivian exports benefit from this provision - canned tuna and fresh/chilled tuna loins. Other exports to the EU are on a MFN basis.

The EU now accounts for a quarter of Maldivian exports. On graduation from LDC status, the Maldives is likely to lose this preference, as it will no longer benefit from

EBA. Appropriate transition arrangements will be required to ensure preferential access for Maldivian exports of canned tuna to Europe.

Japan also operates a scheme, which grants preferential treatment to 149 developing countries, with special treatment for 47 least-developed countries (in terms of tariff-and quota-free access). Exports to Japan from the Maldives also account for a further quarter of total exports. These exports are mostly fresh, frozen and dried fish. However there are no GSP or LDC GSP provisions for fresh and frozen fish, but there is duty free entry under GSP for dried fish.

Maldives also benefits from the other GSP schemes offered by many developed countries. However, there are currently practically no exports to those countries, so no benefits are being realized.

VII. Trade Implications of Graduation from LDC Status

After some years of study, the UN ECOSOC adopted a report in June 2004 recommending the graduation of Maldives from LDC status from November 2007. However, because of the tsunami, the UN is known to be supportive of deferring this date.

Theoretically, graduation from least-developed country status will affect the privileges and preferences that Maldives currently enjoys under the multilateral trading system as an LDC member of the WTO. As the graduation of an LDC is unprecedented since the establishment of the WTO in 1995, the graduation of the Maldives will establish some important precedents for the trade body in regard to transitional arrangements. Indeed, WTO members (through the Committee for Trade and Development, CTD) have responded cautiously and agreed to grant the Maldives a transitional period based on a roadmap for graduation to be prepared by the Maldives government.

However, in tangible terms, there are two major consequences of Maldives graduating from LDC status: loss of preferential market access; and possible reduction in trade related technical cooperation. In addition, there are also implications for the Maldives in regard to its WTO obligations. Each of these three consequences is considered in turn.

In regard to the loss of preferential market access, the consequences will be serious. Of the 168 items exported by the Maldives (counting the same product exported to different destinations separately and the EU as one country)¹⁹ only three items²⁰ gain any preferential market access as a result the country's LDC status. These are canned tuna and fresh/chilled tuna loins to EU and dried skipjack to Japan.

¹⁹ Calculated from Maldives Customs Service Statistical Year Books 1999-2003

²⁰ Excluding SAARC exports (which will all be duty free under SAFTA)

The preference offered by Japan on dried skipjack applies to both developing and least-developed countries, so a change in status will not affect this preference.

As an LDC, Maldives' exports of canned tuna enter the EU free of duty. This product now represents around 15 per cent of total exports and is therefore very significant.²¹ However, developing country exports to the EU of canned tuna attract tariffs of 12 per cent. Analysis of the relative competitiveness of canned fish production in Maldives indicates that Maldives already sells in Europe at above world (duty paid) price in the order of US\$2-3 per case of 24 cans. The higher Maldives price is also partly a function of quality. But if an additional 12 per cent was required to be paid in duty, current EU importers may well source cheaper supplies.

Fresh/chilled tuna loins constituted 4 per cent of exports in the first half of 2005, of which the vast majority were destined for the EU market. At present, these exports enter duty free but will attract the MFN rate of 18 per cent when the Maldives loses LDC status. Current exporters believe it would be very difficult for them to compete should the MFN duty be payable, due to the high production and freight costs.

Over and above these very real losses, Maldives will experience a loss of "potential" where future export development and diversification could be constrained by the lack of LDC preferences. Already, Maldives has "natural" disadvantages relating to high transport costs with high production costs (all electricity is generated from imported oil), high cost of inputs to production (all inputs have to be imported) and high cost of transport of the final product. Without the additional preferences accorded to LDCs, Maldives will be less able to produce and sell competitively. This is a serious consideration since, after graduation, the Maldives will no longer be able to benefit from the duty-free-quota-free market access agreement for LDCs that was reached at the WTO's Hong Kong Ministerial Conference in December 2005.

A second area of possible loss from graduation is technical cooperation. Several WTO agreements encourage trade-related technical assistance and support to least developed countries to enable them to fulfill their obligations. Accordingly, there is a real risk that after graduation, Maldives would have reduced access to technical assistance and support.

The third consequence concerns WTO agreements. In some of these agreements, the benefits for LDCs take the form of non-binding commitments. These are provisions, which simply encourage developed members to provide "special" consideration to these countries without any specific details or legally required commitments. These include Article XI (2) of the Marrakech Agreement; Article 10 (1) of the SPS Agreement; Article 12.8 of the Technical Barriers to Trade Agreement; Article 3 (3) of Agreement on Import Licensing Procedures; Article IV (3) of GATS; 6 (d) of Annex on Telecommunications in GATS; and Article 66(2) of TRIPS.

²¹ 15% of total exports for first half 2005 and approximately 16% of non-textile exports in the previous four years

Several provisions such as Article 11.8 of the Technical Barriers to Trade Agreement and Article 67 of the TRIPS Agreement encourage support and provision of technical assistance without any commitments.

A number of provisions allow longer phasing in periods for least-developed countries of specific commitments, but in each case, these periods have expired: Article 14 of the SPS Agreement; Article 5 (2) of the TRIMS Agreement and Article 27.3 of the Subsidies Agreement. Finally two provisions are the same for developing countries as they are for least developed countries, but least-developed countries have a specific mention: Article 8 of the Understanding of Balance of Payments Provisions and Article 5(3) of the TRIMS Agreement.

This leaves six areas where least-developed countries receive specific and concrete benefits greater than other developing countries.

Under *Article 15 (2) of the Agreement on Agriculture*, least developed countries are not required to reduce subsidies or agricultural import tariffs. Since Maldives operates no agricultural subsidies (production or export), this is not an issue. Maldives has already bound 100 per cent of its tariffs, including agriculture. These bound rates are generally substantially higher than applied rates, so that any commitments to reduce bindings will have little real effect in the short and medium term.

Under *Article 6.6 (a) of the Agreement on Textiles and Clothing*, least developed countries enjoy more preferential treatment, but this agreement has since expired and has no relevance.

Under *Article 27 (2) of the Agreement on Subsidies and Countervailing Duties*, the prohibition on the use of export subsidies is not applied to Annex VII countries (least developed). However, Maldives does not have any export subsidies and is unlikely to have any in the future, so this provision has little relevance.

Article 66(1) of TRIPS Agreement provides a 10-year implementation period for LDCs that can be extended (subject to agreement from the Council on TRIPS). The Council has granted further extensions to LDCs that have not yet fully implemented their commitments. However, the laws relating to TRIPS have been drafted in the Maldives and are currently being translated into Dhivehi. Parliament is expected to pass this legislation during 2006.

Article 24 (1) and (2) of the Understanding of Procedures Governing the Settlement of Disputes provides for more consideration to be given by members to LDCs and procedures which allow arbitration by the DG of WTO to resolve any dispute amicably, in the interests of a least-developed country.

LDCs have less frequent trade policy reviews and the WTO Secretariat provides technical assistance in the preparation of the government's Report. Since most developing

countries are reviewed on a six-year basis, this is unlikely to provide Maldives with any problems after graduation.

Finally, under the modalities adopted for the Doha Development Agenda negotiations on non-agriculture market access, least developed countries are not expected to make any commitments other than to bind existing tariffs. However, the Maldives will still be able to apply this provision assuming that the Doha negotiations will be completed before the country's graduation as an LDC.

CHAPTER 4

POVERTY REDUCTION AND HUMAN DEVELOPMENT

Chapter Plan

This chapter outlines the poverty profile of the Maldives and assesses progress in relation to access to basic human needs including employment. Relatively high rates of unemployment with significant gender disparities as well as labour market rigidities are among the critical challenges facing the Maldives.

I. Poverty Profile

The Maldives has achieved considerable progress on human and social development over the past two decades. The Human Development Index ranked the Maldives at 84 in 2004, a ranking that dropped to 96 in 2005, due to the effects of the tsunami. Social indicators have improved steadily, reflected in declining rates of absolute poverty, falling infant mortality rate and expanding school enrolments. The intensive proliferation of primary school education on the islands has resulted in a 97 per cent literacy rate.

A series of recent social surveys provide excellent data and information on the Maldives' poverty and human development profile including regional disparities and other inequalities. Vulnerability and Poverty Assessments (VPA) were carried out in 1998 (VPA-1), 2004 (VPA-2)²² and after the tsunami in 2005 (VPA-PT) in addition to a Household Income and Expenditure Survey that was undertaken in 2002-03 (HIES).²³ These have established that the incidence of poverty is below 2 per cent, on dollar a day, purchasing power parity (PPP) terms²⁴. The more recent VPA-2 confirmed this figure and suggested a further decrease. At the time of the preparation of this DTIS, an on-going post-tsunami VPA (VPA-PT) was assessing the tsunami impact.

However, as is to be expected, there is also evidence that despite falling absolute poverty, levels of vulnerability and inequality are dynamic in nature and that progress as regards poverty reduction in the atolls is slower than in Male', the capital.

²² The VPA and VPA-2 surveys sponsored by UNDP, have established an excellent baseline for comparing socio-economic dynamics over time.

²³ HIES 2002-03, MPND, 2005 (sponsored by UNDP, UNESCAP and ADB)

²⁴ The PPP is expressed as what one US dollar could buy in New York in 1993 compared to what it could buy for the same item in other geographical locations in the same year. This is also known as the international dollar and is used widely to establish parity. As prices are generally lower in developing countries, the nominal exchange rate underestimates the purchasing parity in these countries. A direct PPP comparison for the Maldives has not yet been made, but using data from neighbouring countries an indirect estimate is possible indicating an international dollar exchange rate of Rf. 3.516 in 1993.

A. HOUSEHOLD INCOMES

As can be seen from Table 4.1, household incomes are growing rapidly, however, with much higher growth in Male' compared to the atolls. This implies that income inequality between Male' and the atolls is increasing, and that vulnerability is acute in remote areas. However, both within Male' and within the atolls the median household income is growing faster than the mean income. This is an indication that inequalities within Male' and within the Atolls are declining over time.

Table 4.1 Household (hh) incomes and growth (in constant 1995 Rf.)

	Male'				Atolls			
	1997		2004		1997		2004	
	Rf.	US\$	Rf.	US\$	Rf.	US\$	Rf.	US\$
Mean hh expenditures (PPP/day)	34	7.5	57	12.3	19	4.1	26	5.6
Growth rate %			7.7				4.6	
Median hh expenditures (PPP/day)	26	5.7	49	10.6	15	3.2	21	4.5
Growth rate %			9.5				5.4	

Note: The US\$ equivalents are corrected for inflation since 1993. The 1997 international dollar PPP exchange rate is Rf. 4.56 and in 2004 remained practically unchanged at Rf. 4.63

Source: VPA-2

Although it is interesting to assess the poverty gap at island and atoll levels, the VPA team considered the sample sizes too small to identify statistically reliable relationships.²⁵ Hence, a poverty gap analysis was carried out at the regional administrative level of which there are five plus the Male' capital area. The main finding was that that average household incomes are growing in all regions of the country. In the two southern regions, per capita household income has grown by more than 50 per cent during the seven-year period from 1997 to 2004. There is also a north-south pattern in regional disparities with households getting richer going from north to south. Average household income per capita is lowest in the north and increases gradually ending with the highest average per capita household incomes in the south.

For the Northern Region, VPA-2 calculated that 7.7 per cent of the population of the region lives on less than Rf. 7.5 per person per day, with an average expenditure of Rf. 5.3 per person per day, implying a shortfall of 29% towards the Rf. 7.5 poverty line, so that the poverty gap ratio is 2.2 per cent (7.7 per cent*29 per cent), see table 4.2 for similar poverty gap calculations per region.

²⁵ VPA-2 definition: The poverty gap takes both the incidence and the depth of poverty into account. It counts not only the number of poor, but also considers how poor the poor are. The poverty gap ratio is defined as the product of the proportion of the population below a certain poverty line and the average income shortfall of the poor to the poverty line as a proportion of the poverty line.

Table 4.2: Poverty Gap Ratios per Region, 2004 (in pct.)

Poverty lines	Central		Central		South	Male'
	North	North	Central	South		
Rf. 7.5	2.2	1.5	1.6	0.6	0.5	0.3
Rf. 10	4.8	3.9	2.9	1.4	0.9	0.3
Rf. 15	13.1	12.3	7.5	4.7	3.5	0.5

Source: VPA-2

While in Male' the poorest quintile recorded an increase from 6 to 7 per cent of income in the period 1997 to 2004, regional atolls grew slightly more, in the range from 6 to 8 per cent, with an average of 7 per cent.

To estimate income inequality within and between regions and changes over time, the VPA-2 analysis shows that at country level the poorest quintile had not progressed (its share remained at 6 per cent. A similar result is found when using income deciles.

Using Lorenz curves, the VPA-2 reveals no visible change for the years 1997 to 2004 as the curves overlap, implying a very similar overall household income inequality in the Maldives. When looking at Lorenz curves for Male' and atoll level respectively the result confirms that inequality has shrunk over the period in both cases.

In order to track income inequality *between* Male' and the atolls during the period 1997-2004, Gini coefficient scores indicate that income inequality has increased significantly - up from 0.12 to 0.18, that is a rate of 50 per cent. In other words, 25 per cent of the population that lived in Male' in 1997 earned 38 per cent of total household income. But in 2004, 30 per cent of the population living in Male' accounted for 48 per cent of total household income. It can also be concluded that the overall income distribution in Maldives is, and remains, relatively unequal compared to neighbouring countries. The overall income distribution in Maldives, with a Gini coefficient of 0.41 is, and remains relatively unequal compared to neighbouring countries such as Sri Lanka (0.34), India (0.33), Pakistan (0.33) and Bangladesh (0.32). The Maldives Gini coefficient is close to that of Singapore (0.43), Trinidad and Tobago (0.40) and Saint Lucia (0.43), all island states where trade and/or tourism play an important role.

The dynamic nature of poverty and inequality was established by assessing what changes in income levels were experienced by a large sample of households participating in both VPAs. Only a little less than half of these families stayed in the same income group after the seven years. About 40 per cent graduated to a higher income level and 13 per cent fell back to a lower level. Twenty-seven per cent had an income lower than the Rf. 15 per person per day poverty line in 2004. Of these 17 per cent was classified as chronically poor because their income was also below the Rf.15 line in 1997, while 10 per cent who were non-poor seven years earlier and had now fallen back into poverty over the period.

On the other hand, 32 out of the 49 per cent of the poor in 1997 managed to escape poverty during the period and were non-poor in 2004. A similar pattern at the Rf. 10 poverty line further demonstrates that income poverty is a very limited phenomenon.

Focusing only on changes in levels of absolute of poverty does not tell the whole story. These large movements of households over seven years between the different income categories clearly indicate that income poverty is a far more dynamic concept than is usually assumed. It also implies that it is not only important to design programmes to elevate the poor, but it is equally necessary to prevent the non-poor from sliding back into poverty. The most vulnerable group identified were single mothers with a several children, the majority of whom would be girls.

II. Poverty and Access Issues

Sustainable poverty reduction and human development require expanding access to basic human needs such as health, nutrition, water, energy, communications, transport, education and employment. Access to these needs shape the ability of households both as producers and consumers to function in the society and economy at large. The distribution of access is therefore a key factor determining the potential as well as the capacity for trade development. Broadly speaking, access is well distributed in the Maldives but there are gaps. Unemployment in particular is at worrisome levels.

A. HEALTH

In general there has been an improvement in the health situation and in access to health facilities, but at a high cost due to the dispersed population. The policy of relocating sections of the population living on relatively remote islands in more populated areas has served to improve the quality and cost effectiveness of social and health infrastructure delivery. The VPA-2 found that medical services are extended to most islands. In Male' there is 100 per cent access to health care. On the atolls it is 62 per cent.

The Maldives has so far not been seriously affected by HIV/AIDS except for a few cases related to the maritime transport industry. On the other hand, the declining population growth rate is a concern. According to the VPA-2, this has dropped from 2.7 per cent in 1997 to 1.1 per cent in 2004.

B. NUTRITION AND WATER

Malnutrition has been found to be widespread in the country, but has improved over the last seven years as both stunting (low height for age) and wasting (low weight for age) has declined. Gender disparities in stunting and wasting have also improved (where girls clearly suffered more in 1997). According to the VPA, malnutrition on the islands is not specifically related to poverty but more to dietary habits. Diets on the islands are simple and rather uniform. The main staple food is fish, mostly skipjack tuna, rice, few vegetables and fruit such as coconut and banana. These food items (except rice) are

produced locally and are readily available at reasonable cost. All other food items are imported and are more expensive.

A food security policy is rigorously implemented. The State Trade Organization (STO) plays a role in importing staple food items (e.g., rice, cooking oil, sugar etc.) and maintains a four-month supply stock. The tsunami had a devastating impact on this stock as many warehouses experienced flooding.

The entire population has access to clean drinking water. For 90 per cent of the atoll population and 20 per cent of Male' inhabitants, rainwater is the main source. It is collected in tanks, which on the atolls are mostly privately owned. Male' residents also have access to desalinated water.

C. ENERGY

Electricity is the main mode of energy supply. According to the VPA, all inhabited islands had some form of electricity supply in terms of diesel-powered generators, either provided by the public-owned State Electricity Company (STELCO) or by community-owned powerhouses. The capital region, Male', Hulhumale' and Villingili islands, has an interconnected grid

From 1997 to 2004 the atoll average for island population with access to electricity increased from 91 per cent to almost 100 per cent. Only on two islands, namely Hathifushi on Haa Alifu (population 132), and Faridhoo on Haa Dhaalu (population 124) was electricity available for less than six hours a day.

D. COMMUNICATION

Good communications infrastructure and facilities are of key importance for the functioning of any public or business organization. For the Maldives, with its highly dispersed population and insularity, priority has been given to the development of the telecommunications infrastructure over the past decade. By 1998, all islands were connected to the fixed telephone system, meaning that at least one payphone booth was in operation.

The sub-sector with the most significant growth has been that of mobile telephony. The number of subscribers increased from 66,000 at the end of 2003 to 113,000 at the end of 2004. By mid 2005 the number of mobile customers was 130,000, and it is estimated that the number will grow to 165,000 by the end of 2005. The customs data also shows import of 53,000 mobile phones with a total import value of Rf. 81.4 million in 2004. This figure does not include personal imports of mobile phones.

E. TRANSPORT

Transport is mainly based on diesel-powered passenger boats, the dhoni, which most islanders use to travel between islands. Population dispersion and the small size of many inhabited islands make transport a perennial cause of concern in the Maldives. To this

should be added diseconomies of scale that limit the availability of various facilities and services on smaller islands. Another issue that adds to transport difficulties is the accessibility of many of the islands. Accessibility is not only complicated by the lack of harbours or jetties, but also by shallow waters or coral reef. In addition, weather conditions also play a role. Approaches to many islands are not provided with markers that are visible at night.

The VPA-2 found that 27 inhabited islands were transport poor in relation to such criteria as the availability of vessels on the island, frequency of vessels traveling to the atoll capital and Male', and physical and navigational access.

Whilst there is a regular ferry service to and from Male' and surrounding islands and some atoll capitals, there is no regular ferry service in operation to more distant atolls. Availability has decreased as the number of persons per vessel available has increased, which to some extent may be explained by the use of larger dhonis. According to VPA-2, about 43 per cent of the atoll population lives on islands where there is less than one vessel for every hundred people, up from 26 per cent in 1997.

Road infrastructure is limited and is only of significance on Male' and Hulhumale' islands. Most roads on the atolls are gravelled. One notable exception is the 14 km bitumen road 1 that connects three islands on Seena atoll. The small size of most islands does not encourage road development.

Aviation as a means of inter-island transport mostly serves the tourist sector, and the cost is beyond the average person. Five companies (four privately-owned and one government owned) provide passenger services (virtually no goods are transported by air).

F. EDUCATION

Educational achievement in the Maldives in recent decades has been impressive. In effect, all children have access to primary education with some expansion in the provision of secondary education facilities in the atolls. Two-thirds of the atoll population now lives on islands where schooling up to grade 10 (O-levels) is available. That is more than twice as high as in 1997.

One result of this expansion is the remarkable literacy rate of more than 97 per cent in 2004.²⁶ However, with limited job opportunities on the islands and with most tertiary and vocational educational facilities located in Male', young people tend to move to Male' for further training and/or formal education as well as a fruitless search for jobs.

Educational facilities are available in Male' at all levels up to university first degree at the Maldives College of Higher Education. Post-graduate level education is pursued overseas with an increasing number of students competing for the limited scholarships that are available. With a distinctively academic bias in the educational system, there is a shortage of vocational skills such fields such as accounting, auditing, management,

²⁶ Ibid; MPND, 2005.

commerce, information and communications technologies, various crafts and in the tourism industry/hospitality management. There are no courses to provide certification as mechanical engineers in a modern fishing fleet. There is no training in fishing methods and on-board post harvest handling of the catch. This partially explains why work as a fisherman is considered as something for the uneducated with associated low social status that offers very little attraction for the young.

Training in food and fish processing, including quality assurance procedures, is non-existent in the Maldives. The Ministry of Fisheries Agriculture and Marine Resources (MFAMR) offers short courses in fish filleting and packaging that target women.

The absence of, or insufficient training and skills that are relevant to the needs of the economy stifles business development including the growth of small and medium scale enterprises, which is crucial not only to generate employment but also to establish intra and inter-sectoral linkages to the main fishery and tourism sectors. There is scope for expanding and aligning more closely with market needs the training provided by the Maldives College of Higher Education particularly the faculties concerned with hotel, catering and hospitality services, management and commerce, maritime studies, and engineering and technical services.

G. EMPLOYMENT

Despite the progress made in economic performance and other aspects of human development, there are relatively high levels of unemployment.

The main reason for this is because the labour market has developed in a rather skewed manner over time. The public sector employment absorbed 30 per cent of the labour force in 2004. Public sector employment can in fact be considered as part of a social welfare system. Private businesses in dynamic sectors such as tourism, construction and transport and communications have increasingly imported the skills they require from the South Asia region, notably from Sri Lanka and Bangladesh. MTCA and MATI estimate that Maldivian nationals took up only 52 per cent of the 27,200 jobs created in the tourism sector since the 1970s. This is mostly due to the shortage of relevant skills among Maldivians and also to labour market rigidities in terms of cultural and traditional norms, especially concerning women. For example, while in many countries the garment industry is dominated by women, before the collapse of the industry in the Maldives, the Maldivian work force was not able to adjust to an industrial style working environment and most of the employment that was created went to imported labour. Similarly, in the tourism sector, most hospitality related work is not considered suitable for women for cultural and religious reasons.

The result is that employment opportunities are lost, accounting for levels of unemployment and underemployment that are relatively high. In this regard, a key part of the explanation of the unemployment problem among Maldivians is the effect of labour market rigidities. Jobless growth has not been the problem in the Maldives; rather, the jobs created by growth have been taken up by imported labour to a large extent.

The VPA-2 defines the population of working age as citizens of 14 years or above. There were 183,970 such persons in 2004. Availability for participation in the labour market was estimated at 54.3 per cent thus resulting in a labour force of 99,917 persons.

However, there are important definitional issues in measuring unemployment in the Maldives. It is usual to define the unemployed as people who are willing to work, available at short notice and actively looking for work. When this definition is applied to the Maldives, it inevitably yields a very low unemployment rate of only 1 per cent reported in MPND statistics. This is because people on remote islands cannot realistically look for work in Male' and on the tourist island resorts where most opportunities are found, given the time and costs involved.

For this reason the VPA disregarded the part of the definition concerning 'actively looking for work' and focused only on 'people willing to work and available at short notice'. On this basis, the VPA-2 reported an overall unemployment rate of 14 per cent for 2004, with unemployment among women at 23 per cent and among men at 7 per cent.

The VPA-2 also reported inequality in unemployment between Male' and the atolls. Unemployment in Male' was 9 per cent in 2004 and 17 per cent in the atolls. When gender is taken into account, female unemployment is as high as 27 per cent as compared to 8 per cent for males. Between the atolls unemployment is higher in the north where Haa Alifu recorded 34 per cent as compared to Seenu atoll in the south with 22 per cent.

Over and beyond these unemployment estimates, VPA results also report 33 per cent underemployment nation-wide, meaning that part of the Maldivian labour force that is counted as employed, but this employment is not full-time employed due to factors such as seasonality etc. Underemployment is higher in atolls with 35 per cent compared to 28 per cent in Male'.

These unemployment assessments are in line with poverty and income disparities that were noted by the VPA. The unemployment assessments are also consistent with the fact that the main income generating activities are concentrated in the central-southern part of the country.

Employment data has also been examined for further insights on the trends they reveal in regard to the two major sectors – fishery and tourism.

FISHERY SECTOR EMPLOYMENT

For the fishery sector, the VPA surveys of 1997 and 2004 indicate that there is a 40 per cent decline in sectoral employment. Census data confirms this declining trend (see Table 4.3). In 1990 sectoral employment was 11,364, or 21 per cent of the national labour force of 55,949 (i.e. persons over 12 years old). In 2000 sectoral employment was 9,019 or 11 per cent of the national labour force of 86,256.

Table 4.3: Fishery Sector employment

Census	Country Total	Sector Total	Sector		Men	Women
			Share of Total %	On-board Vessel Other		
1990	55,949	11,498	21	11,364	134	317
2000	86,245	9,294	11	9,019	275	113
Decline		2,204		2,345	2,000	204
Decline in %		19%		21%	18%	64%

Source: Employed Population 15 Years and Over, NPND 2004, Table 3.9

Meanwhile, the national labour force grew by 60 per cent between 1990 and 2000 but the share of fishery sector employment fell by 10 per cent.

The main explanation for the decline in fishery employment has been the modernization of the fleet in terms of better engines and increasing use of fibreglass vessels. These require shorter and fewer trips to produce the same or even higher volume of catch. But while boats have been modernized, fishing skills have stagnated. Local fishermen use pole and line to catch skipjack tuna, which accounts for approximately 94 per cent of all catches in the Maldives. This is a potentially labour intensive and environment-friendly method of fishing but there is scope for training to improve fishing methods and on-board post harvest handling of the catch. Under present conditions, fishing is not seen as an attractive employment opportunity by the younger generation, notwithstanding the fact that the income generated normally exceeds income from public sector employment. An increasing number of young people are turning their backs on fishery, a key factor, which also accounts for declining employment levels in the sector.

The sector has also lacked dynamism in relation to the marketing of products, fairly weak intra- and inter-sectoral linkages and low level of diversification. The only major improvement in processing activities that has occurred in recent years has been the modernization of cottage style processing of 'Maldivian fish' - dried, salted and smoked skipjack tuna that is exported mainly to Sri Lanka. But the decline of the cottage industry also resulted in the loss of a major employment opportunity and income generating activity for women.

The lack of dynamism of the fishery sector and weak linkages is reflected in the fact that on-board activities accounted for 98 per cent of sector employment in 1990 and 97 per cent in 2000. The multiplier effect on the economy as a whole of the fishery sector is estimated at 1.4 (i.e. for each full item fisherman 0.4 jobs are created in up- and down stream activities and adjacent trades). However, for countries with abundant fish resources and associated processing activities, the multiplier effect is typically above 2.0.

TOURISM SECTOR EMPLOYMENT

The tourism industry, which encompasses hotels and resort islands, restaurant, catering and transport services, is estimated by MATI to employ 27,200 people. Of these, some 12,649 are expatriates, often working in technical areas that are either not attractive to Maldivian workers or where there are skill shortages. Wage rates for foreign labour (mostly from Bangladesh, India and Sri Lanka) is generally half of that paid to Maldivian

workers in comparable grades. Tourist resorts are by law restricted to employing a maximum of 50 per cent expatriate staff, but there is evidence that adherence to this limit is not widely respected.

Statistics on national employment in the private sector do not exist, however, MATI and the MTCV estimate that as much as 13,990 Maldivians, constituting 14 per cent of the labour force, is employed directly in the tourism sector. There is also indirect employment from tourism in such areas as construction, air and sea transport, retailing, and government services such as customs, immigration, airports, etc. The Ministry of Higher Education, Employment, Labour and Social Security estimates the multiplier effect to be in the range of 4-5. But a more realistic estimate is a multiplier of 1-2, though no accurate information is available. It is noteworthy that VPA-2 found that households with one or more members working in the tourism sector are more likely to escape poverty than other households.

As in the fishery sector, there is a clear gender bias in tourism sector employment. According to the available data, there are less than 200 Maldivian women and only about 350 expatriate women working in the tourism industry in 2003. This is an extremely low proportion and is in sharp contrast to many other countries where women workers dominate the tourism sector. Cultural and religious norms are part of the explanation. However, the situation may also be attributed to the special characteristic of Maldivian tourism in which almost self-contained resort islands is the dominant feature. Workers on these islands are usually expected to live on site for up to 11 months of the year in quarters, which were built to accommodate single men, rather than women and families.

The gender bias in tourism employment patterns is also reflected in enrolment of women for training in hospitality and tourism studies provided by the FHTS of the Maldives College of Higher Education. From very low levels in the late 1980s when the FHTS was established, the enrolment of women has now risen to about a quarter of all enrolments. Women trainees are typically enrolled in courses related to hotel front office functions including reception, management, administration, as well as catering services.

III. Trade Implications

The Maldives has experienced significant reduction in absolute poverty. But levels of vulnerability and inequality are dynamic with the atolls at greater risk than Male', the capital. While priority needs to be given to improving household welfare in the northern atolls, a major policy challenge is not only to design programmes to elevate the poor, but also to prevent the non-poor from sliding back into poverty. The most vulnerable group is known to be women, who also experience the highest rate of unemployment. The main trade implications of the country's prevailing poverty profile is that as a small, trade-dependent economy, sustainable employment creation in the export sectors is required to consolidate gains that have been made in poverty reduction and human development.

This also requires policies that take account of labour market rigidities including shortage of relevant skills. These issues are taken up in greater detail in subsequent chapters

Notwithstanding the narrow resource base of the economy, limited land availability and small internal market, there are a number of possibilities for sustainable employment generation in the Maldives. Among primary activities, a more diversified fishery sector including modernized processing activities can help to create culture-friendly employment in the atolls, including among women. The production of horticulture products especially for tourism sector also holds potential as an income generating activity, especially for marginalized groups. Aquaculture, processing of agricultural products, poultry farming, and further development of handicraft-related activities are all culture-friendly employment possibilities that require strong policy support measures.

Among tertiary activities, there is also scope for enhancing the spill over effects of the tourism sector including through a more focused supply response to the demand created by the resorts for a range of hospitality-related skills. The development of the transport, communications, ports and logistics sectors is critical for the core fishery and tourism sectors in terms of delivering efficient services, reducing transaction cost and improving productivity.

CHAPTER 5

BUSINESS ENVIRONMENT AND PRIVATE SECTOR DEVELOPMENT

Chapter Plan

This chapter begins with an outline of the institutional architecture for business support and private sector development as a background to the current situation in the Maldives. This is followed by an assessment of the business environment leading to recommendations for policy and institutional reform. The result of a recent World Bank ‘Doing Business Survey’ is summarised in an Appendix to the chapter.

I. Business Support Institutional Architecture

Who does what in relation to business support services in the Maldives? Which groups are the major stakeholders? In outlining the institutional architecture for business support and private sector development, this section identifies the key issues concerning the business environment and private sector development.

A. MINISTRY OF ECONOMIC DEVELOPMENT AND TRADE (MEDT)

The MEDT is the focal point for trade and private sector support policies in the Maldives (See Box 1). This ministry was previously the Ministry of Trade and Industry. The marriage between trade and economic development in MEDT was announced in a cabinet reshuffle in June 2005, just as the DTIS was being launched.

With overall responsibility for trade policy and economic development - although not for development planning – MEDT is well placed to integrate trade in the country’s development agenda. Other government departments are involved in specific elements of trade policy, such as the Ministry of Foreign Affairs, which has responsibility for regional cooperation and coordinating interface with the United Nations on issues relating to graduation from LDC status. The Ministry of Finance and Treasury is responsible for setting trade taxes.

MEDT has six divisions, with a total of 30 employees. Four of the divisions deal with substantive matters as distinct from budgetary and administrative issues. These are Business and Trade Licensing, Company Registration and Legal Affairs, International Trade and Policy, and the Foreign Investment Services Bureau. The Business and Trade Licensing and Company Registration and Legal Affairs Divisions are mainly concerned

with routine functions of administering licenses and company registration. The main focus of this report is with the International Trade and Policy Division and the Foreign Investment Services Bureau.

B. INTERNATIONAL TRADE POLICY DIVISION

The International Trade Policy Division (ITPD) is responsible for all matters relating to trade policy formulation and coordination including WTO, SAPTA, SAFTA and trade-related aspects of the Maldives' graduation from LDC statutes. With only five professionals (two were on study leave when the main DTIS mission took place) on its staff, the Division also deals with relevant international organisations such as UNCTAD, UNIDO, ITC, etc. Its main responsibilities are as follows:

Box 1 Strategic Functions of MEDT

PROVIDING ECONOMIC POLICY LEADERSHIP	
Mainstream trade in the economic and development agenda.	Proactive role in emphasising the role of trade in the national development plan Bringing trade to the centre of economic agenda through better coordination with policy-making bodies.
Strengthening the leadership role of the ministry in economic policy.	Define the role of trade in all economic and social policy agenda, like UN millennium development goals, ADB's poverty reduction strategies, graduation issues, etc., Clarify trade policy issues vis-à-vis non-trade issues in 'multi-faced' sectors such as fisheries etc Develop research and information disseminating capacity, or 'think-tank' type arrangement in-house or in the private sector.
EXPORT DEVELOPMENT	
Alleviate supply bottlenecks	Use the Integrated Framework for Trade Related Technical Assistance programme in addressing the trade related supply constraints
Industrial development	Conduct an industry situation audit (or formulate an industrial master plan) Identify possible industry clusters
Trade Standards	Introduce quality assurance systems Create a standards depository
MARKET ORGANIZATION AND POLICY SUPPORT	
Commitment to fair trading	Selective intervention in addressing market failures and unfair competition Formulate anti-trust laws
Trade defence interests	Regulate measures that constitute injury to domestic interests. Evaluate market access and trade barriers in other countries important for Maldivian businesses
Trade offence interests and service sector strategy	Stock taking exercise for service sector with respect to all four GATS modes and identify strategic sectors to be opened up for negotiations and for investment,
Enhance competitiveness	Monitor policy issues
Support FDI promotion	Identify areas of market potential that could be used by FISB

Source, Adapted from *Maldives 2020 Vision*

- Formulate trade policy for multilateral, regional and bilateral arrangements in coordination with government, private sector and international stakeholders.
- Coordinate the work of the National WTO Committee (NWTOC)

- Coordinate work of the national SAFTA Committee and represent the Maldives on the Committee on Economic Cooperation (CEC) and Committee of Experts (COE) on SAFTA of SAARC.
- Support negotiations on graduation and monitor the trade impact of LDC graduation
- Conduct international trade negotiations (multilateral, regional and bilateral)
- Manage the Integrated Framework (IF) through the National Steering Committee
- Support capacity building in government and private sector on international trade matters including coordination of trade related technical assistance with international organizations
- Serve as national focal point for WTO, UNCTAD, WIPO, ITC, and UNIDO, and on trade related issues with other international organizations such as World Bank, UNDP, IMF etc.
- Serve as national contact point on standards, metrology, testing, quality and intellectual property systems
- Support the implementation of the EU National indicative programme
- Monitor the industrial master plan and provide support services for the business Park in Hulhumale
- Provide guidance on e-commerce

The ITPD is understaffed in relation to its enormous policy responsibilities. It has no research facility and very little scope for any in-depth policy analysis. Furthermore, the training and experience, including on trade negotiations of its professional staff is limited. Though officials and staff are motivated, the complexity of the roles that they must fill and the limited resources that can be drawn upon means that most are generalists rather than specialists. This often leads to delay before advice and action can be forthcoming.

C. FOREIGN INVESTMENT SERVICES BUREAU (FISB)

There are two main investment categories in the Maldives: tourism and general investments. The Ministry of Tourism and Civil Aviation (MTCA) services tourism investments (foreign and local) while all other investments (also foreign and local) are serviced by the FISB.

The FISB is an autonomous unit of MEDT with its own supervisory board (the Foreign Investment Board, FIB). The bureau is the first stop for investors and has two main responsibilities. It is both the government's service facility for investors and regulatory body for foreign investment.

As a service facility, the main functions and services that are provided by FISB include:

- Marketing and promotion of the Maldives as an investment destination.
- Providing information and guidance on the application process for investors.
- Issuing licenses for investors to conduct business operations in the Maldives.
- Reviewing and approving applications for import duty exemptions by investors
- Ensuring compliance with various regulations, e.g., labour.

Applying for a license to invest in the Maldives is a procedure, which involves several steps (see Box 2). The main benchmarks are the review of the investment application or proposal by FISB and the evaluation of the proposal leading to a decision by FIB. The bureau charges a fee for its services to investors. Investors have to comply with the regulations and complete a techno-economic feasibility report. The report is actually more of a business plan and includes a financial plan and forecast and labour requirements.

In addition to the FISB process, an investor may also require clearance from other relevant ministries.

The FIB consists of the minister responsible for MEDT, a professional staff of FISB and representatives from the following government entities:

1. Ministry of Planning and National Development
2. Minister of Tourism
3. Ministry of Defense and National Security
4. Ministry of Finance & Treasury
5. Ministry of Higher Education, Employment and Social Security
6. Ministry of Foreign Affairs
7. Ministry of Atolls Development
8. Ministry of Fisheries, Agriculture and Marine Resources
9. Ministry of Environment, Energy and Water
10. Audit Office
11. A member of Parliament

Box 2

Foreign Investment Application Process

1. Submission of Foreign Investment application
2. Review of the application by the FISB
3. Evaluation of the application by the FIB
(If application is declined, the process ends at this point)
4. If accepted by the FIB, approval of the Office of the President is sought
5. Issue of Letter of Acceptance to the investor
6. Registration of the company
7. Signing of the foreign investment agreement
8. Commencement of operation

Other ministries or stakeholders with interest in the investment area may be invited to FIB deliberations on the investment proposal under consideration.

The assessment of the DTIS team is that FISB is carrying out its service and regulation functions adequately but is extremely weak in regard to marketing and promoting the Maldives as an investment destination. There is scope for enhancing the promotion function of FISB.

D. MINISTRY OF TOURISM AND CIVIL AVIATION (MTCA)

Investments in the tourism sector fall under the responsibility of MTCA, a well-resourced ministry that administers the Maldives Tourism Act (2/99). This legislation covers all aspects of tourism investment from land allocation, leases, to the operation of guesthouses, hotels and resorts.

Among the ministry's main goals and objectives (on its tourism as distinct from its aviation related functions) are:

- To increase economic benefits from tourism including national income, employment opportunities, net foreign exchange earnings, regional development and revenues to the government;
- To ensure equitable distribution of the economic benefits from tourism to society;
- To make tourism a vehicle for the protection of the natural environment, and the revitalization and preservation of the nation's cultural assets;
- To maintain a strong private sector role in the industry while enhancing the operating environment and facilitating the private sector to achieve the desired benefits of tourism;
- To increase Maldivian participation at all levels of the industry, especially to increase the participation of women in this industry;
- To nurture a society that understands the value of tourism for the nation, and its critical role in the future prosperity of the country and its people;
- To remain competitive in the global market by continuously expanding and diversifying the product, enhancing the quality of services, and become established as a quality tourism destination delivering good value-for-money; and
- To develop support infrastructure and activities, to ensure hassle-free travel and the safety and security of tourists during their holiday.

The ministry has a promotion board – The Maldives Tourism Promotion Board (MTPB) - which is responsible for marketing the Maldives as a tourist destination. The Board operates two overseas offices in Germany and the UK.

E. MINISTRY OF FISHERIES, AGRICULTURE, AND MARINE RESOURCES

Notwithstanding the relative importance of the fishery sector, a comprehensive fishery policy for the Maldives is only now on the drawing board with the World Bank providing technical support. A draft bill has also been prepared. The role of the ministry has been confined to issuing licenses and monitoring implementation of the 1985 Fishery Law No 5/87, now considered to be out of date. Support to agriculture and related activities are minimal.

F. MINISTRY OF FINANCE AND TREASURY

The Ministry of Finance and Treasury is responsible for determining the taxation structure of the Maldives and in particular for setting the customs tariff, an area that impacts heavily on trade policy. The ministry also operates a duty draw back scheme for investors who qualify for exemptions from import duties. Customs duties in the Maldives are set for the purpose of raising revenue rather than for protection or trade regulation. As previously noted, there is no income or corporate tax in the Maldives. Whilst the need for reform of the tax system is well accepted within the Ministry, there is no clear plan as to when and how this reform should be undertaken. The concept of an overarching Revenue Authority has also been discussed, but no decisions have been made or plans put in place to implement one.

G. CUSTOMS SERVICES

The Maldives Customs Service falls under the Ministry of Finance and Treasury. It operates at the main international airport, the port of Male', and at some regional atolls. The service functions fairly efficiently and is structured towards client based services and trade facilitation. However, customs operations are severely constrained by limited physical infrastructure and technology with a lack of adequate equipment and poor computer network facilities.

H. MINISTRY OF PLANNING AND NATIONAL DEVELOPMENT

The Ministry of Planning and National Development is responsible for plan formulation and coordinating implementation. Trade-related issues have not featured in successive national development plans including the current sixth plan, which is about to come to an end. However there is now growing awareness of the need to incorporate trade in the

planning process and the government is committed to ensuring that the DTIS is mainstreamed in the seventh plan which is in the process of being formulated and expected to be completed by the end of 2006.

I. MINISTRY OF HIGHER EDUCATION; EMPLOYMENT AND SOCIAL SECURITY

This ministry is responsible for training arrangements, policy regarding the issue of work permits for foreign nationals, labour market regulation as well as administering social security measures.

There is no university in the Maldives. The Maldives College of Higher Education fills this role providing tertiary education and training at undergraduate level through six faculties including the Faculty of Hospitality and Tourism Studies (FHTS), Centre of Maritime Studies, and the Faculty of Management and Computing (FMC).

All faculties, with the exception of two branches of the FHTS, are based on or near to Male' and share one boarding facility which can house 90 "live-in" students. This places all potential students from outside Male' at a distinct disadvantage.

J. MINISTRY OF PUBLIC HEALTH/PUBLIC HEALTH LABORATORY

The PHL is the only public health regulatory and inspection body in the Maldives. It is simultaneously accredited as the EU Competent Authority to approve export oriented processing plants in fishery and farm-based products. So far three plants in fisheries have been approved.

The PHL also undertakes testing of imports at the request of port health inspectors. However, there is no systematic system of risk assessment, testing, or even legal framework for health and safety protection of food standards. The Ministry of Public Health of which PHL is a part tends to take a reactive rather a preventative approach. Reportedly the PHL is in the process of moving to new facilities, where additional test laboratories will be made available and new equipment installed. In addition to the Male' office, four local offices in the regions have been established.

K. PRIVATE SECTOR STAKEHOLDERS

Private sector stakeholders are organized in five main associations: the Maldives National Chamber of Commerce and Industry (MNCCI), the Women Entrepreneurs Council (WEC), the Maldives Association of Tourism Industry (MATI), the Fishermen's Association of Maldives (FAM), and the Maldives Association of Construction Industry (MACI). With the exception of MATI, these bodies are generally poorly funded with very limited capacity.

MALDIVES NATIONAL CHAMBER OF COMMERCE AND INDUSTRY (MNCCI)

The MNCCI operates on a voluntary basis, largely funded by private entrepreneurs. The membership consists mostly of traders carrying out import and export activities as well as some fisheries and tourism operators. The limited funds available do not permit any real lobbying functions. Staffing is basic consisting primarily of an Administrator and bookkeeper. There is no capacity for research in trade policy or any other issues. There is potential to extend the membership to cover more SME businesses.

The MNCCI is represented on a number of forums established by the government, including the National WTO Standing Committee, but overall there is very little dialogue with government and there is a strong perception in the Chamber that its views are not taken into account.

The MNCCI has the potential to become a service organization for the private sector including in the area of SMEs support. There will be need to strengthen its capacity in core functions such as representation, research and dissemination of international market intelligence and consulting services for its members.

WOMEN ENTREPRENEURS COUNCIL (WEC)

The WEC is made up of women entrepreneurs with the objective of supporting women in business and encouraging women to enter business. The Council does not have a full-time secretariat and will require both technical and financial assistance.

MALDIVES ASSOCIATION OF TOURISM INDUSTRY (MATI)

MATI is the main tourism sector association and has substantial resources and capacity. Its members are drawn from both foreign and local investors in the sector. Marketing is a key function in the tourism industry (most resorts pre-sell their beds through financial arrangements with international tour operators) and requires cooperation among hotel and resort owners. The very high occupancy rates in the Maldives suggest that marketing efforts have been efficient.

Although there is a well-established consultative process with government, many members of MATI feel that they lack influence on government policy. A prevailing view in MATI is one of excessive regulation of the tourism sector leading some investors to

show increasing preference for neighbouring countries such as India, Sri Lanka and the Seychelles.

FISHERMEN'S ASSOCIATION OF MALDIVES (FAM)

The FAM operates on a voluntary basis, funded by its members. Although its membership is low relative to the number of operators in the industry, it includes fishermen, fish traders, processors, and scientists. A current challenge is to increase the membership in each category.

MALDIVES ASSOCIATION OF CONSTRUCTION INDUSTRY (MACI)

This is a somewhat shadowy body and its membership and activities are unclear.

L. JOINT PUBLIC-PRIVATE SECTOR FORUM

The main joint public-private sector forum is a National WTO Committee, which was established in 2002 at the time of the WTO Trade Policy Review for the purpose of facilitating the review. This committee is made up of 25 members from a range of government departments and the private sector, represented by MNCCI and MATI.

Dominated by government representatives, the Committee had not met since the TPR was undertaken until very recently when the Integrated Framework was launched. The Committee has now been transformed into the National Steering Committee for the IF. It is not yet clear how the Committee would support and drive IF implementation.

M. THE FINANCIAL SECTOR

During the last decade the financial sector has grown considerably. However, it is still limited to providing basic commercial banking services. Investment banking and venture capital funds are not among these services and the appropriate legal framework does not exist. Indeed, the IMF has identified significant gaps in the legal framework within which the financial sector operates.

Currently operating in the Maldives are five commercial banks, a government supported credit fund that operates in the Atolls – the Atoll Development Fund, one leasing company, one main insurance group and several offshore insurance companies operating in the Maldives. Each institution has developed its market niche reflecting their respective strengths.

Overall, it is estimated that the commercially most profitable sector, tourism, attracts a 58 per cent share of the market for banking services. This includes small-scale investment activities requiring collateral. However, the lion's share of tourism sector banking activities according to the bankers interviewed is for working capital transactions such as payment of salaries, services including airport transportation of arriving and departing tourists, import of food items and other merchandise, utilities and government charges (bed tax, land lease). Most investment capital for tourism is sourced internationally where interest rates are lower and collateral requirement more flexible.

The trading, fishery, and other sectors exhibit a similar pattern with banking needs related to working capital transactions.

It is also important to recognise that banking and credit, and other types of financial market transactions are relatively new phenomena. The surge in lending was initiated when the interest level was brought down from 18 to 24 per cent to 8 to 12 per cent in 1998. There were and still are large disparities between Male' and the atolls in terms of access to banking services.

MALDIVES MONETARY AUTHORITY (MMA)

The MMA acts as the central bank in the Maldives and as such is in charge of the banking and financial sector, though not with overall responsibility for monetary policy. The legislation to make the MMA a proper central bank was on the agenda of parliament during 2005. The MMA currently sets the rates for the reserves required for commercial banks to retain at 30 per cent of paid up capital and 15 per cent for the Atoll Development Fund.

COMMERCIAL BANKS

In the Maldives, banking is the only sector that is required to pay corporation tax, currently set at 25 per cent of profits.

The five commercial banks are as follows.

- Bank of Maldives Limited (BML) is also known as the "local" bank. It is seventy-five per cent government owned with an estimated 20 per cent market share of commercial bank services. It has over 113,000 customers and is the only bank with a network that extends to the atolls. It has as many as twelve local branches, as well as "dhoni floating banks" and (up-coming) Automatic Teller Machines (ATM) on the atolls. It is the principle means through which the government provides financing for the Atoll Development Funds. BML has also been responsible for the disbursement of donor funds related to Tsunami relief.

- The State Bank of India has a 30 per cent share of the market. Its loan portfolio comprises 60 per cent for tourism sector investments, 15 per cent fishing sector investments, 10 per cent for import-export trade, and 10 per cent housing and education. In 2005, the bank had over US\$ 100m invested in the Maldives and was anticipating a major increase in 2006 with the commencement of a new tourism resort development.
- The Bank of Ceylon has 20 per cent share of the local market. It is Sri Lankan owned and a major part of its operations is concerned with trade financing, Sri Lanka being the Maldives major trading partner. Its loan portfolio includes 48 per cent for commercial transactions and 38 per cent for tourist operations. The bank also has strong links with its Mauritian office especially for tourist sector transactions.
- The Habib Bank is Pakistani-owned and relatively small with 10 per cent share of the local market and about 15,000 account customers, 90 per cent of which are based in Male and the rest in the atolls. It is not involved in relatively small loan transactions preferring transactions that are over US\$ 5 million.
- HSBC is the latest bank to arrive in the Maldives, but due to a very active campaign and novel ideas for credit, has already captured 20 per cent of the local market. Its credit facilities are popular being based on cash flow forecasting to determine credit worthiness rather than requiring collateral with asset based calculations. Eighty per cent of HSBC business is focused on short-term operating capital requirements and bridge finance. These services are augmented by easier arrangements for international payments by drawing upon the bank's extensive international network.

ATOLL DEVELOPMENT FUNDS

The BML has a development banking section through which atoll development funds are managed under the direction of Atoll Development Committees. There are six atolls that are currently involved in Atoll Development Funds (ADF) which are located in Vaavu, Shaviyani, Noonu, Laamu Lhaviyani and Kaafu. These funds were initially established as part of the South Asian Poverty Alleviation Plan (SEPAP) in 1995. The government, the local community and UNDP financed the funds in roughly equal proportions.

Since its establishment, the funds have achieved growth by revolving the initial investment. Typical loans are for Rf. 15,000 (around USD1, 300) without collateral to Rf. 50,000 (USD4200) with collateral for periods for 3 to 4 years at interest rates of 10 per cent (reduced to 6 per cent specifically for post-tsunami livelihood recovery loans). Loans are normally for SME development, but can be used for the purchase of household items. It was reported that at present there is a 95 per cent recovery rate on all loans.

The cash is held and disbursed by the Bank of Maldives (BML) on the approval of the ADC. The BML reported that at in mid-2005, there were 22,400 loans totaling Rf 468 million (USD39 million), of which only 20 per cent accounts for the original capital. UNDP is seeking to increase the funds available as part of the post-tsunami National Regional Recovery Plan by USD 50,000 to USD 300,000 per ADC, depending on the need.

LEASING

There is only one leasing company in the Maldives – the Maldives Finance Leasing Company (MFLC) that was established in 2002 as a joint venture between NDVB - a Sri Lankan company, IFC of the World Bank Group, the Government of Maldives, the Maldives Transport and Contracting Company (MTCC), and private investment partners. The current portfolio is around US\$ 11million, with expansion planned in the near future.

Over 90 per cent of the portfolio is for fishing vessels and other “movable objects” e.g. vehicles, equipment, computers. No leasing is anticipated for ocean-going vessels or aircraft. The maximum exposure on a single lease is US\$ 500,000, for four to five year period. Lease agreements require a minimum 20 per cent down payment. Interest rate is between 9.5 and 11.5 per cent. At the end of the lease period a nominal payment is made to release the ownership from MFLC.

CAPITAL MARKET DEVELOPMENT AUTHORITY

In 2002, a Capital Market Development Authority (CMDA) was established within the MMA, as a first step in the development of a stock exchange and securities market. This is viewed as a means of engaging potential investors so that funds currently residing in low yield deposit accounts are mobilized as equities in local companies. At present three majority-state-owned companies are listed with a limited turnover of the publicly traded shares. As there is no tradition in stock investments and trading, the CMDA has established an investment education unit.

INSURANCE

Allied Insurance Company (AIC), a joint venture between government and the private sector including MFLC dominates the insurance sector with a 60 per cent market share. The company offers a complete range of risk insurance services, but is not currently supplying life or health cover. Total coverage within the Maldives amounts to US\$ 1 billion, with annual premium income of US\$ 3.5 million, as confirmed to the DTIS team. After the Tsunami, natural risk elements in policies were increased by 30 per cent even though there were many uninsured losses.

There is no compulsory insurance in the Maldives (even for third party liability). However, it was noted that investments in the tourism sector are covered for most risks

including natural disasters. But many of these investors source their insurance needs offshore in more competitive markets.

N. DEVELOPMENT COOPERATION

Over the years, the Maldives has received assistance from multinational development organizations, including Asian Development Bank (ADB), Islamic Development Bank (IDB), the World Bank Group, and the UN Development Programme (UNDP). Bilateral partners include the EU, Kuwait, South Korea, Malaysia, New Zealand, Australia, Norway, OPEC, Saudi Arabia, Singapore, USA, Canada, China and Egypt.

International NGOs such as the International Red Crescent Federation are significant actors in post- tsunami reconstruction and recovery activities.

International assistance has focused primarily on projects relating to development of infrastructure such as airport upgrading, power generation, water supply and sewage disposal, fisheries development, communication, environment conservation and projects in the social sector such as education, training, and medical facilities. Assistance through the UNDP and other UN organizations has also focused on regional development and regional imbalances.

It is important not to underestimate the impact of development cooperation and technical assistance on the business environment, particularly in a small economy such as that of the Maldives.

II. Assessment of the Business Environment

The business environment in the Maldives is liberal – the result of which is particularly visible in the tourism sector. As a result, the Maldives comes out fairly well in the World Bank ‘Doing Business Survey’ of such issues as ease of entry and establishment or free repatriation of profits (see the Appendix to this chapter). Indeed, given the specificity of tourism sector ‘resource-seeking’ investment, or perhaps more aptly in the Maldives case, ‘resort-seeking’ investment, a benign approach is primarily what is required to attract the necessary flows. But the business environment in the Maldives is also one in which there are significant gaps in the underlying policy, institutional and legal framework for business development and private sector support. This is reflected in the general weakness of the domestic private sector and thin national portfolio of SMEs engaged in value added activities in the dominant tourism and fishery sectors, forging stronger intra- and inter-sectoral linkages, and achieving a more diversified economy.

It is also true that as a small island developing economy, the business environment in the Maldives poses formidable challenges for the investor and entrepreneur. Aside from Male’, the capital, there is no significant population centre. Local markets are also

difficult to reach given the exceptionally wide dispersion of people. There are therefore serious limitations on the extent to which economies of scale can be exploited. High costs of transportation, infrastructure, energy and water, complete dependence on imported technology, and unavailability of a wide range of skills are further constraints on attaining a competitive business environment. These difficulties were dramatized in the collapse of garment manufacturing when the Multi Fibre Agreement (MFA) expired at the end of 2004.

The challenge for the Maldives is to put in place the necessary framework to enable it to take full advantage of its comparative advantage in the tourism and fishery sectors and strong potential in other sectors such as horticulture, port services, handicraft, aquaculture, etc. There is considerable scope for value-added business opportunities in the two main sectors and for dynamic linkages between these and other sectors. As the Appendix illustrates, on some key aspects of the business environment, the record of the Maldives is mixed. This will also become evident from the discussion, which follows, of a number of important indicators such as:

- Political stability
- Economic governance
- Government support services
- Infrastructure
- Labour market
- Land, raw materials and supplies

A. POLITICAL STABILITY

The Maldives has been politically stable since independence. The president and lawmakers are elected for a term of five years according to universally accepted democratic principles. Each atoll is represented in the legislature. A multi-party system was introduced in 2005 and the current transition to multi-party politics is apparently proceeding well although there are risks associated with its very novelty. The presidency retains enormous discretion including on the regulation of investment and business activities with Presidential Decrees sometimes taking precedence over legislation.

B. ECONOMIC GOVERNANCE

Historically the economy has been relatively stable with low inflation and growth driven by the tourist sector. But there is relatively high unemployment among Maldivians, as expatriate labour took up a substantial number of the jobs that were created by this growth mainly because of skilled shortages and other labour market rigidities. The tsunami affected the country's growth prospects but the economy is expected to recover by 2008.

Because the tourism sector is effectively an enclave within the economy, economic growth has not brought about sound institutions of economic governance. Until a few years ago, state-owned enterprises were dominant in virtually all sectors except tourism and the garment manufacture sector. The legacy of this domination is the underdevelopment of business support services resulting in a rather thin national portfolio of small and medium scale enterprises as well as the considerable scope that remains for value added activities within the main tourism and fishery sectors. The financial sector is thinly regulated with significant gaps in existing legislation. In particular, there is the peculiar situation in the Maldives that requires very low levels of reporting of accounts and audited information etc by registered businesses. This information is not required as there is no corporate tax (except for the banking sector) or income tax. This means that in practice, business operations cannot be properly documented. It is a situation that does not inspire confidence and leaves the way open for “creative accounting” if not corrupt practices.

This is also problematic for the credit institutions, as they cannot verify the trading position of a business concern with reliable accounting information such as cash flow, profit and loss statements and balance sheets. As a result, credit in the Maldives is highly dependent on the ability of the creditor to provide suitable collateral. This may also account for one of the factors that have inhibited the growth of SMEs. Although the Maldives has been able to attract significant FDI for the tourism sector, the underdevelopment of the financial sector may also be help to explain why a neighbouring country like the Seychelles performs better in attracting tourism FDI or why Mauritius, also a small island economy in the region, has been more successful at economic diversification. The Seychelles attracts over twenty times more investment in the tourism sector capita than the Maldives.

A key issue to be addressed in the short to medium term is the need for financial sector reforms to ensure more effective financial intermediation to turn local savings into productive assets. A detailed assessment of the financial sector is required as this has been outside the scope of the DTIS.

C. GOVERNMENT SUPPORT SERVICES

Government support for business development has generally been weak. MEDT and FISB are the main contact points for both foreign and local investment and business support.

Indeed, there is at present no government-supported facility to provide technical assistance to SMEs in such areas as the establishment of business plans, credit application procedures, accounting and marketing. Support for income-generating activities with potential for linkages to the dominant tourism sector such as simple fish processing, retail trade, handicraft, horticulture, aquaculture and poultry farming is limited. Other than the credit facilities offered through the Atoll Development Funds, there is no effective

system of micro-credit intermediaries targeting women and the poor as can be found in other countries.

As we have seen, FISB processes and registers investment in all sectors except tourism, which is the responsibility of MTCA. The investor is required to produce a plan for the investment and to obtain approval. A unit within the FISB is responsible for regulation and promotion of national investment. The Company Law, 1996 (No. 10/96) regulates the different types of legal entities under which companies may register, and is common to both foreign and national investors. To this extent, the primary role of the FISB is one of regulation. The FISB does not have the capacity or systems in place to provide effective support for investment promotion or for SME start-ups and related services.

The main legal code on foreign investment is the Foreign Investment Law, 1979 (No. 25/79), which guarantees investor security in both goods and services. Foreign investors may own and operate business enterprises. The Law on Doing Business in Maldives by Foreign Nationals, 1979 (No. 4/79) covers foreign investment in trade (imports and exports) and related services. The same law also covers the operation of a foreign party or joint venture in wholesale and retail activities. Foreign investors are granted rights to invest on equal footing with the local investors, and 100 per cent foreign ownership is permitted. There is a need to revise and modernize the legal framework for investment for it to become more supportive of local business development.

Investment in the tourism sector is managed and processed by MTCA. There are indications that the processes that are involved are relatively efficient if not fully transparent. In particular, incentives and concessions can vary from investor to investor. MTCA, in collaboration with MATI and MPTB is also active in promoting the Maldives as a tourism destination.

Aside from the tourism sector, export promotion services have no government support mechanism, except for the state owned Maldives Industrial Fisheries Corporation (MIFCO) that promotes Maldives fish.

Professional business or trade associations such as the Maldives Chamber of Commerce and Industry (MCCI) and the Fishermen's Association are weakly funded. These bodies act mostly as informal discussion and lobbying partners with very little capacity for gathering and disseminating international marketing intelligence and providing services.

Since corporate taxes and VAT are not levied, there has been no need in the Maldives to establish export processing zones, as these are normally justified by offering tax incentives to the investors. The only related incentive in this regard is the customs duty exemption, which is granted on a discretionary basis, thus reducing the scope of transparency.

D. INFRASTRUCTURE

Infrastructure is a major challenge in the Maldives with its highly dispersed population and insularity. The priority that was given by the government to the development of telecommunications infrastructure has paid off in terms of connectivity throughout the country. Mobile telephony has also grown substantially. But inter-island transport remains difficult with many of the smaller islands lacking adequate harbours and jetties. In addition, ferry services to connect the more distant atolls are inadequate. The main port at Male' is congested and various options that have been considered for further port development need to be acted upon. While the international airport at Hulhumale' has been expended in particular to service the tourism industry, there is scope for upgrading airfields in various parts of the country. A strategic approach to the management of inter-modal transport services is required if the country is to overcome the various gaps in its transport infrastructure.

Competitiveness is also reduced by high factor costs. In addition to transport costs there are also generally higher costs of labour, energy, electricity and water supply relative to the neighbouring countries. These additional factor costs impose further limitations in the competitiveness of investments in outlying atolls and generate time delays in deliveries. Moreover, this is aggravated by the limited port capacity and transport service delivery system, which augments costs for transport companies and their clients. In addition, uncertainty regarding delivery induces the need to keep additional stocks which places further strains on cash flow and credits needed for business operations.

Efficiency and cost of communication services is another important consideration for investors, especially given the geographical characteristics of Maldives. The communications sector has experienced substantial foreign investment during recent years both as regards establishment of service providers, physical infrastructure (cables and masts), and consumer end products. Sales of mobile telephones tripled in the last two years. International fibre optic cables that will provide broadband access are coming to Maldives through India and Sri Lanka and should eventually link the main atoll groups. However, it is likely that the small size of the market composed of public institutions, the business community and private consumers could limit the number service providers and thereby competition in the longer term.

E. LABOUR MARKET

As the country has become richer, wage rates have also increased. Maldivian wages are on average 40 per cent higher than wages in neighbouring countries. As a result, private businesses in dynamic sectors such as tourism, construction and transport and communications have increasingly imported the skills they require from the South Asia region, although to some extent, this is also due to the shortage of relevant skills among Maldivians. There are other major labour market rigidities related to cultural and traditional norms, especially concerning women. In 2004, there were 38,000 expatriate workers in the Maldives, which is 44 per cent of the work force.

F. LAND, RAW MATERIALS AND SUPPLIES

In the case of the Maldives, land is not available in abundance although tourism is reliant on the country's string of islands, pristine beaches and lagoons. Land mass is limited to 300 km² and is dispersed over an 850 km North-South fairly narrow stretch. This peculiarity of land mass and its distribution imposes severe physical limitations on the availability of land as a factor of production. The government owns all land and allocates it, including through leasing, for various purposes such as housing, agriculture, tourist resorts, industry, etc. However, leased contracts are not considered suitable as collateral – a critical issue for commercial bank lending for SME start-ups.

Fish is the major natural resource. There are high costs associated with energy and water, which limit the scope for competitive business activities.

III. Main Recommendations

The foregoing review of the institutional architecture for private sector support and the environment for business development in the Maldives points to the following recommendations for policy and institutional reform.

A. INVESTMENT AND BUSINESS SUPPORT

- There is no clear strategy for both foreign and local investment promotion and business support. The 6th National Development was almost silent on this issue. The preparation of the 7th National Development Plan is an opportunity to focus on viable strategies for investment promotion and business support.
- The arrangements for investment promotion and business support for the tourism sector appear to be working well although greater transparency is required. However, for non-tourism investments that fall within the responsibility of FISB, there should be a clear distinction on the one hand between investment promotion and business support services and, on the other, investment regulation to conform to various requirements.
- To give effect to this distinction, consideration should also be given to the establishment of a cell within the FISB that will be specifically responsible for

investment promotion and business support services including support to SME start-ups in the outer atolls.

- Expertise on the various economic sectors, types of business arrangements such as joint ventures and public/private partnerships and resources will be required to ensure that such a cell has the necessary capacity in place.
- In particular, it should be the responsibility of the investment promotion and business support cell to create awareness in the atolls of the existence of business support services and potential finance or credit facilities. The cell should also be able to undertake needs assessment of existing and potential entrepreneurs, followed by tailor/made training activities to build business skill levels.
- Consideration should also be given to the use of ICT support systems – to support on-going business development activities, with on-line workshops and e-learning materials.
- The new investment promotion and business support cell board should also be responsible for assessing business support issues and for developing measures to enhance the business climate as well as for promoting the Maldives locally and internationally.
- The Maldives has several private sector associations, but outside of Male' most Maldivians are unaware of their existence or their functions. It is therefore essential to create awareness of these associations and for an investment promotion and business support cell to help them develop capacity as networks for business development.
- There is a need to review, revise and modernize the legal framework for investment and in particular, to make it more supportive of local business development. This review should also clarify and make transparent reporting requirements including with respect to financial information.
- There is further need to clarify the legal requirements for joint ventures and public/private partnerships. The government's public sector investment programme, which has averaged USD 25 million annually in recent years, is substantial with considerable scope to leverage partnerships with private investors, foreign and local. The support activities of development partners also have scope for business partnerships.
- Overall, the Maldives government has established a credible record of ensuring that business development is in line with sustainable environmental standards. To the extent that key investment decisions depend on the country's natural resources remaining in their current under-exploited state, there is need for more clear demarcation of coastal zone and elaboration of conservation standards as part of the current 7th NDP process.

B. LABOUR MARKET REFORM

About 44 per cent of the work force in the Maldives is expatriate, due to the shortage of relevant skills among Maldivians and other major labour market rigidities related to cultural and traditional norms, especially concerning women. Wage rates for Maldivian workers are also about 40 per cent higher on average than for expatriate workers and in neighbouring countries. At the same time, there is significant unemployment among Maldivians. The traditional role of the public sector as an employer and the discretionary manner by which salaries, benefits and working conditions are negotiated has led to a perception that this is the best sector for Maldivians to work in. The main recommendations for labour market reform are as follows:

- There is need to align labour policies, training facilities and support services more closely with the needs of business development in the economy.
- In view of the relatively high costs of employing Maldivians, attention needs to be given to productivity issues as well as to the incentives that are required to overcome labour market rigidities due to culture and tradition. The fishery and tourism sectors are cases in point.
- Maldivians are generally well educated, adaptable to learning hi-tech skills and capable of producing good workmanship. These are attributes that should be built upon in making training, transfer of technology and productivity improvements in value added activities an essential part of business support services,

C. FINANCIAL SECTOR REFORM

- Financial information that is transparent and reliable is not currently required in the Maldives. To significantly increase the opportunities for providing credit and bring practices in the financial sector up to international standards, this should change.
- A key driver of change in this regard will be the introduction of value added, corporate and personal income tax which will provide a basis for realistic, internationally recognized accounting and auditing systems with greater transparency and integrity of business operations.
- The cost of borrowing is adversely affected by the MMA reserve requirements for credit providing institutions. This is 30 per cent for commercial banks and 15 per cent for the ADF. This relatively high reserve requirement artificially raises interest rates by 1.5 – 2 per cent. There is scope to reduce the reserve requirement

to 15 per cent and 8 per cent respectively for local lending to become more competitive.

- The ADF is available for very small credits and is apparently functioning well with a 95 per cent recovery rate. But distribution of these funds and general business support to entrepreneurs is weak. Micro-credit lending for income-generating activities need to be more fully integrated with poverty reduction strategies.
- The SME sector lacks financing in the USD10, 000 to USD 200,000 range that restricts the development of medium sized enterprises.
- Collateral, even with the new Land Act of 2002, is still a major obstacle to securing credit, especially for SMEs. Lending institutions do not find land-leasing arrangements to be a viable basis for securing loans. This requires further attention by government.
- There are no venture capital facilities in the Maldives and this should be an area that needs to be created and developed in conjunction with the capital markets for future listings and exit route strategies.
- There is need for a detailed review of the operations of the financial sector leading to a viable development plan for the sector that will be integrated into the 7th National Development Plan. Key issues that should be addressed include the modernization of the sector to meet current development and poverty reduction needs, arrangements and gaps in the provision of credit, institutional development including extending the current limited operations of the Capital Market Development Authority as well as the introduction of a bond market.
- Financial sector reform will also facilitate an international credit rating to be established for the Maldives, which is essential for increasing options for accessing international finance.

Appendix

The mixed record of the Maldives on the foregoing indicators is also clear in the first World Bank Doing Business Survey undertaken in 2004 (www.doingbusiness.org) and assessment of the investment climate (World Bank Investment Climate of the Maldives Concept Paper, 2005). The main issues studied in these assessments were requirements for starting a business; access to land and registration of property; hiring and firing workers; transparency of investment and credit flows; protection available to investors and winding up a business.

A. STARTING A BUSINESS

Starting a business is relatively easy in the Maldives with few restrictions. For foreigners, a one-month visa is issued at the airport and this can be extended to three months for persons wishing to remain longer for business reasons without requiring a work permit, as long as a local sponsor supports the application. The various procedures necessary for registering a business can be completed in less than two weeks (see Table 5.1). Government policy allows free entry of investment funds and repatriation of profits. There is no corporate taxation (except for the banking sector).

Table 5.1: Procedures for starting a business

Nature of procedure	Duration (days)	US\$ cost
Search for a company name	1	15.63
Deposit the initial capital in a bank and obtain a bank statement	3	0
Have a notary certify the company statutes and signatures	1	23.44
Make a company seal	1	15.63
Pay registration fees	1	0
Register with the Registrar of Companies	5	156.25
Total	12	210.95

Source: World Bank Doing Business Survey

B. ACCESS TO LAND AND REGISTRATION OF PROPERTY

Nearly all land is government-owned and can only be utilized on a lease basis. There is one main exception - the new 'freehold' (99 year lease) provisions for reclaimed land in Male' and Hulhumale'. On other islands, leases are negotiable for varying periods from three to thirty five years. A new provision that has been made extends a lease to 50 years if the company is listed in the new stock market. Registration of property is also fairly uncomplicated (see Table 5.2). However, there are severe limitations on the extent to which leased land can be used as collateral for credit. The 2002 Land Act seeks to address this constraint but is yet to be tested. Credit institutions are still adverse to accept land as collateral.

Table 5.2 Property rights for Maldives (2004)

Registration of property variables	Indicator
Number of procedures	1
Time (days)	20
Cost (% of property value)	0

Source: World Bank, Doing Business Survey

C. HIRING AND FIRING WORKERS

Employment of both nationals and expatriates is also uncomplicated although there is legislation in place requiring businesses to maintain a workforce that is at least 50 per cent Maldivian. In practice, many establishments do not meet this target due to labour market rigidities e.g. skill shortages in management and financial services or aversion to certain types of employment for cultural reasons e.g. hotel maids, restaurant waiters, bar tenders in tourism and hospitality services. The overall rigidity of employment index is 7 (of 100) indicating the presence of only limited numbers of restricting regulations (see Table 5.3).

Work permits authorizations and other entry issues are not difficult to obtain or settle. Government policy allows foreign workers to make salary remittances to home countries. There is no personal income tax.

Table 5:3 Labour market issues for the Maldives (2004)

Hiring & firing indicators	Indicator
Difficulty of hiring index	0
Rigidity of hours index	20
Difficulty of firing index	0
Rigidity of employment index	7
Firing cost (weeks of wages)	20

Each index assigns values between 0 and 100, with higher values representing more rigid regulations. The Rigidity of Employment Index is an average of the three indices
Source: World Bank, Doing Business Survey

D. TRANSPARENCY OF CREDIT AND INVESTMENT FLOWS

The Maldives maintains a fairly liberal investment regime but transparency of credit and investment flows is extremely weak (see Table 5.4). Investment legislation is outdated and provisions for surveillance are minimal. Companies registered in the country, are not required to post periodic audited accounts, as there is no income or corporate tax. This opens the door to the possibility for businesses to be involved in corrupt practices including money laundering. It also creates a practical problem for credit institutions, as credit cannot be provided without a basis for assessing a company's trading situation position with verifiable accounts. This may also be one of the reasons why SMEs have failed to develop and thrive. The lack of transparency is compounded by a distinct lack of capacity within the government for business support services, a hangover from the previous preference for public enterprise that prevailed outside the tourism sector.

The principal legislation that governs investment-related issues is:

- The Constitution of the Maldives – the defining basis for law in the Maldives
- The Companies Act of the Maldives 1996 – describes general requirements and activities for setting up, registering a company and reporting results. This

legislation incorporates the initial Law on Registration of Companies 25/82 updates and complements the Law Governing Formation of Public Companies 23/79

- Law on foreign investment 1989 – the enabling Act for foreign investments in the Maldives with descriptions and requirements for foreigners wishing to

Table 5.4: Credit information and investor protection (2004)

Subject	Indicator
<i>Creditor & borrower rights</i>	
1 Cost to create collateral (% of income per capita)	8
<i>Features of credit information system</i>	
2 Are both individuals and firms listed in credit registry?	No
3 Are both positive and negative data distributed?	No
4 Does the registry collect credit information from financial institutions as well as retailers and utilities providers?	No
5 Are five or more years of historical data preserved?	No
6 Is data on all loans larger than 1% of income per capita registered?	No
7 Is it guaranteed by law that borrowers can inspect their data?	No
<i>Credit information index</i>	0
<i>Credit registries coverage</i>	
8 Public credit registry coverage (borrowers per 1000 adults)	0
9 Private bureau coverage (borrowers per 1000 adults)	0
<i>Protecting investors data</i>	
10 Is family ownership disclosed?	No
11 Is indirect ownership disclosed?	No
12 Is beneficial ownership disclosed?	No
13 Is information of voting agreements between shareholders disclosed?	No
14 Are internal audits required before releasing financial statements	No
15 Is an external auditor required?	Yes
16 Is ownership and financial information publicly available to investors?	No
<i>Disclosure index</i>	1

Note. For the Credit Information Index the score of 0 indicates that virtually no information is publicly registered or available. For items 8 and 9 the score 0 indicates that no registration bureaus exist; For item 15 there is no formal requirement for an external audit but International Accounting Standards are applied in a limited number of cases (mostly foreign/local joint ventures). The disclosure index ranges from 0 to 10; with higher values indicating greater disclosure, a score of 1 indicates very limited disclosure.

Source: World Bank, Doing Business Survey

- Investment in the Maldives. There is separate legislation for investment in the tourism industry.
- The Maldives Tourism Act 1999 – details the requirements for resort development with including environmental aspects, etc.
- The Partnership Act of Maldives 1996 – clarifies the law on partnerships in the Maldives.
- The Law of Contract Act 1991 – outlining the principle aspects of contract law as applicable in the Maldives 4/91
- Consumer Protection Act 1996 – outlines principles and provisions to protect consumer rights 1/96
- Sale of Goods Act 1991 – formed the basis for the Consumer Protection Act 1996 1/96

- Civil Aviation Act of the Maldives 2001 – due to the extensive nature of local aviation required to service communities and resorts the Act seeks to set requirements and regulations to regulate air transport operators
- The Law Governing Business Conducted by Foreign Nationals 4/79 which sets out descriptions and activities of commercial businesses owned by foreigners
- The Maritime Zones Act 1996 – 6/96 which sets out the main internal and external maritime zones in the Maldives in accordance with the Fisheries Law 5/87, and clarifies licensing for fishing in the EEZ which also relates to the preceding Law (5/87) and the Marine Research Amendments
- Law relating to Exports and Imports 25/82
- Law on Negotiable Instruments 4/91
- Law on Mortgage 9/93 and related Land Act 2002

Most of this legislation requires review to provide a coherent set of investment and business rules as well as to strengthen surveillance and reporting of business operations, especially as the government’s privatization programme takes off.

E. WINDING UP A BUSINESS

Lastly, if a business venture requires liquidation, the length of time to close a business and the costs involved are worrying to an investor. In such a small country as the Maldives, a total of 194 days to liquidate a business and 6.7 years to full closure is far too long (see Table 5.5). The main reasons accounting for this are inadequate civil court and arbitration systems. As previously noted, the legal system is hampered by a lack of suitably trained attorneys of law, accountants, auditors and judges. Most business cases are settled out of court with no or very little information on the actual procedure. Thus transparency of the procedure practiced is a concern for foreign investors).

Table 5.5: Liquidation and closure parameters (2004)

		Indicator
<i>Nature of procedure</i>		
1	Number of procedures	28
2	Filing period (days)	14
3	Judgment (days)	90
4	Enforcement period (days)	90
5	Total time required (days)	194
6	Cost (% of debt)	8.7%
<i>Closing a business variables</i>		
7	Time (years)	6.7
8	Cost (% of estate)	4
9	Recovery rate (cents on the dollar)	17.1

Source: The mixed record of the Maldives from the Doing Business Survey

CHAPTER 6

CUSTOMS SERVICES AND TRANSPORT INFRASTRUCTURE

Chapter Plan

This chapter focuses on the services that facilitate trade in the Maldives, keeping in mind that tourism and fishery are the most important trading sectors. Currently, over 600,000 tourists a year visit the country, with projections for continuing growth. This requires adequate airport, port and transport transfer facilities to service this volume of visitors in addition to efficient importation processes for the inputs – ranging from construction materials for building and maintenance work on the resorts to food, beverages, and other consumer goods - required by the tourism sector. The fishery sector also depends on the importation of critical inputs such as fuel, boat engines and other fishing gear. Fishery exports are mostly perishable goods and therefore depend on efficient export processes.

The chapter begins by examining the Maldives Customs Services and issues for improving operational efficiency and effectiveness before going on to consider the main functional challenges for transport services and recommendations for reform.

I. Role, Structure and Organisation of the Maldives Customs Services

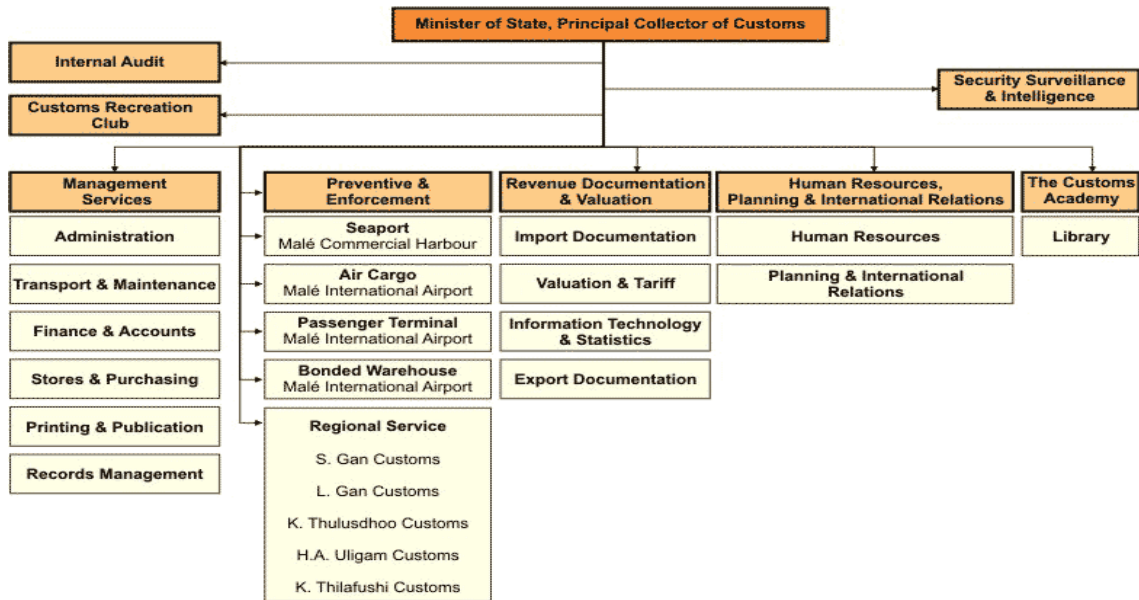
The Maldives Customs Service (MCS) operates under the aegis of the Ministry of Finance and Treasury. The MCS employs 500 officers in two main locations, which are Male' port and Male' airport, in the capital. There are additional officers at some regional airports such as the Gan Airport. The MCS is responsible for collecting import and export taxes. In 2004, total revenue collection was Rf 1,136.6 million (US\$ 89.7 million) with an administrative budget of Rf 41.4 (US\$ 3.2 Million).

The role and responsibilities of the MCS are derived from the Export and Import Law 31/79 and supporting departmental regulations. The main functions of the MCS can be summarized as follows:

- To monitor and control the movement of passengers, goods and conveyances arriving in and departing from the Republic of Maldives.
- To administer all functions relating to import and export.
- To protect and efficiently collect customs revenue.
- To protect the community and ensure compliance with Maldivian law.

The organization chart of MCS is depicted below

Maldives Customs Service



II. Main Stakeholders in Customs Processes

Various public authorities work with the MCS in carrying out policy, legal, administrative, and other practical aspects of import and export procedures. These include the port and airport authorities, providers of quarantine related inspection services, and the maritime territorial enforcement agencies such as the coast guard. The stakeholders involved with customs processes are presented in tabular form below. The user groups are public and private sector importers and exporters as well as transport providers. Virtually all transport of goods to and from the Maldives is by sea.

Name/Organization	Responsibilities
Customs Administration	<ul style="list-style-type: none"> • To collect customs duty and export duty • To effect proper border control • To carry out quarantine services
Government and Ministry (Presidency, Ministry of Finance and Treasury, Ministry of Economic Development and Trade, Health, Fisheries, Agriculture,)	<ul style="list-style-type: none"> • Responsible for policy concerning import and export • Line ministries responsible for approval of duty exemptions (MEDT), health and phytosanitary issues (Department of Health, Department of Agriculture)
Coast Guard Force (Within the paramilitary National Security Service- NSS)	<ul style="list-style-type: none"> • Operate the entire coastline • Combat smuggling and other illegal activities (narcotics and dangerous drugs)

Maldives Port Authority	<ul style="list-style-type: none"> • Responsible for port services • Provide sea inward and outward manifests for Customs clearance formalities
Maldives Airport Company Ltd.	<ul style="list-style-type: none"> • Responsible to build, operate, develop and maintain airports in the Maldives, Responsible for the operation of atoll (regional) airports
Island Aviation Services Private Limited	<ul style="list-style-type: none"> • Responsible for services and facilities to aircraft and cargo. • Provide air inward and outward manifests for Customs clearance formalities.
Importers/Exporters/ shipping agents	<ul style="list-style-type: none"> • Registered importers/Exporters and shipping agents process cargo declarations at Customs
Direct Trader Input agent	<ul style="list-style-type: none"> • Responsible to process import and export declarations (cargo goods and passenger carrying dutiable items)
Maldives Transport and Contracting Company	<ul style="list-style-type: none"> • The main maritime transport company (joint public/private sector ownership) handling inter-atoll transport • Imports most of the construction material and transport equipment
State Trade Organization	<ul style="list-style-type: none"> • Responsible for import of strategic goods including food items, petroleum products, engines for fishing and other transport vessels.
Private transporters	<ul style="list-style-type: none"> • A fairly substantial group operating as individuals and companies providing maritime and air transport – the latter handles only limited amounts of goods

The Ministry of Finance and Treasury (MFT) is responsible for the overall customs policy framework. However, customs policy is yet to be fully aligned with trade policy, including commitments undertaken by the Maldives in regional trade agreements.

Officials from line ministries such as health and agriculture are seconded to work with customs on enforcement and implementation of regulations such as importation or exportation of plants, live animals and birds and other phytosanitary matters. Approval of duty exemptions – one of the main incentives offered to investors particularly in the tourism sector - and issue of trade licenses is the responsibility of MEDT. The diverse role of these public authorities requires effective coordination to maintain efficiency and avoid delays. In addition, most of the legislation under which these departments operate are out of tune with modern practices and need updating.

The Maldives Port Authority (MPA) is responsible for Male' commercial port. In the near future, the Regional Port Authority, which is under establishment, will be responsible for all regional ports. The Maldives Airport Company (MAC) manages the Maldives International Airport and all domestic airports. However, MAC's mandate vis-à-vis the domestic airports are still unclear.

The main user groups of customs services are composed of the public and private sector importers and exporters. Only registered importers/exporters and transport providers are allowed to process cargo declarations at customs. A fairly substantial group of individual and small companies provides maritime and air transport – the latter handles only limited amounts of goods as virtually all transport of goods to and from the Maldives and within the country is by sea.

There are six shipping agents responsible for providing services and facilities to aircraft and cargoes. They also provide air inward and outward manifests for customs clearance formalities. A similar number of direct trader input agents, one of which is government owned, are responsible for processing import and export declarations (cargo goods and passenger carrying items subject to duty).

Two government-owned corporate companies play key roles in import and transport. The State Trade Organization (STO) is responsible for the import of strategic goods such as basic food items, petrol and a vast number of other merchandise. The STO owns and operates several warehouses in Male' and the atolls. It holds almost monopoly rights regarding the import of engines for the fishing and other private sector transport vessels. The main player in inter- and intra-atoll maritime transport is the Maldives Transport and Contracting Company (MTCC), which are partially privatized. MTCC also imports most of the construction material and transport equipment and carries out major construction activities. Small-scale operators provide inter-atoll transport.

III. Issues for Customs Services Reform

Transaction costs are lower when customs procedures are carried out efficiently. The DTIS research confirmed that there is a perception among private sector users that customs procedures are not applied in a uniform and customary way across the country. Malpractice is alleged arising from face-to-face contact between clients and customs officers. But the overall assessment of the DTIS team is that customs procedures are satisfactory although there is room for improvement.

A. IMPORTS

Goods at import must go through four main stages before they are cleared from Customs control:

- Valuation
- Documentation
- Payment to Cashier
- Examination & Release

These procedures comply with international standards and are generally performed according to the manuals developed by MCS at a satisfactory level. The cashier collects

the correct amount of customs duty using ASYCUDA++ software. But there are concerns arising from valuation and invoice amounts. Table 6.1 below indicates the level of fraudulent invoicing. Standard procedures for appeal are in operation.

Table 6.1: Invoice corrections period Jan-June 2005 (no of invoices)

Month	Price accepted	Price uplifted	Total invoices scrutinised	Uplifted %
January	1,849	533	2,382	22%
February	1,609	427	2,036	21%
March	2,133	579	2,712	21%
April	1,862	503	2,365	21%
May	2,137	537	2,674	20%
June	1,944	490	2,434	20%

Source: Maldives Customs Service - 2005

B. EXPORTS

Goods for export go through the following control procedures:

- Export License
- Export Declaration
- Examination & Release
- Documentation

Again, internationally accepted procedures are followed at a satisfactory level.

C. ISSUES FOR REFORM

The Maldivian MCS has come a long way in terms of carrying out its duties, and the organization appears to be relatively efficient. Management and staff appear to be resilient and committed to carrying out the services under their responsibility. Accountability is satisfactory for meeting agreed revenue targets. A code of conduct has been issued to all customs staff, and this greatly assists the establishment of a high degree of integrity within the organization. The facilities available, rooms and equipment are generally modern and spacious.

Notwithstanding the foregoing, weaknesses were observed. These include the fact that although the MCS is computerized and officers have received training in operating such tools and facilities, there are still gaps at the technical level hindering an optimal use of the technology and IT software systems available. For example, the ASYCUDA++ is not fully utilized and all potential application towards more efficient use has not been explored. In addition, current operational systems and procedures in the cargo control area impede the movement of goods and do not meet the set objective of obtaining maximum revenue at minimum cost. There is also a lack of effective communication and coordination among customs services, the trading community and other agencies (port authority, aviation services, clearing agents, coast guard or police), which adversely affects the efficiency of processes relating to the movement of goods.

Physical transaction based controls impede the movement of goods at both import and export. Valuation procedures used for imported goods are inefficient and do not comply with internationally accepted practices (WTO GATT Agreement) to which the Maldives is committed. This is aggravated further by the actions of poorly trained customs agents (brokers) and which affect the timely clearance and movement goods. MCS has implemented the ASYCYUDA++ entry processing system at Male' Port, Airport and at some regional offices, but its full functionality as noted above is not utilized. In fact, managers make very little use of information systems. The manually based systems that are applied instead provide opportunities for corrupt practices to take place.

As a result there is duplication of input (form programme and transfer to ASYCUDA++), with subsequent software errors identified and reported. Secondly, there is only limited support from the management, which results from inadequate training. It will be necessary to acquire TA from UNCTAD and implement other relevant ASYCUDA modules. It is the ambition to introduce the ASYCUDA World version in the near future. However, this requires management direction to facilitate the implementation process. In the first instance, TA should be acquired to plan for the implementation of the new up-graded ASYCUDA version including the identification of a procurement management strategy.

The main challenges facing MCS in trade facilitation include

- Improving management
- Integrating border institutions (Port Authority, Health, Agriculture, Aviation Authority, Coast Guard)
- Improving risk management
- Streamlining customs clearance processes
- Addressing Customs infrastructure and training needs
- Improving IT platform and utilization
- Developing stronger and more collaborative public–private sector relationships.

Perhaps the most pressing concern is the perceived corruption, a resurging problem that can seriously undermine progress made to date and inhibit future progress.

Development and implementation of a comprehensive and sustainable anti-corruption enhancement programme based on the Revised Arusha Declaration endorsed by WCO Council in June 2003 should be carried out. However, the technology that is currently used needs up grading to suit the above needs. Information technology capacity building requires investment in risk management analysis tools such as the MODSEL module and Direct Trader Input MODBRK module, which allows traders to lodge a declaration from their place of work and obtain information on the status of processing their declarations.

Manifests (air/sea) should be computerized by using the MODCAR module. Maldives Port Authority and airport management may use the module and send their manifests electronically to customs. Warehouse activities should be computerized by using

suspense procedures, thus eliminating manual ledger control, which will also help a quicker turnover in the port area.

The WTO-GATT Valuation Agreement cannot be implemented as the draft legislation has not been passed and the existing Export and Import Law 31/79 (dating from 1979) and Customs Regulations 9/93 do not cover provisions such as Post Customs Clearance Audit. Lack of understanding of customs valuation and its supporting procedures minimize the efficiency of the customs administration particularly in remote locations. Advanced training on customs valuation such as that provided by the World Customs Organization is required. .

Capacity building will be necessary as there is currently little capacity to prepare new curricula related to advanced customs and management courses including post control auditing, classification, valuation, origin of goods, risk management, profiling, and narcotics. TA is needed to formulate curricula and carry out training of trainers.

Finally, there is a lack of coordination among MCS officers and the Coast Guard to actually engage in combating drug trafficking and smuggling. Another reason is the lack of vessels available for inspection and enforcement, and the absence of aerial support. It will be necessary to establish high-level co-operation and common understanding when working for the same purpose. In addition, new efficient equipment will be needed. High-level meetings between the relevant parties should initiate the process.

Meeting the foregoing challenges requires additional financial and human resources for operational purposes. The current level of funding is inadequate particularly for improving communications, upgrading information technology and to provide acceptable working conditions for staff,

In addition, there are serious congestion problems at Male' Commercial Port, the only customs entrance point for goods arriving by sea. This implies the need for government to consider different options for the overall organization of customs services. In particular, there is need to consider some decentralization of services to the regional office in Gan (Seenu Atoll).

IV. Transport Services and Infrastructure

The significant volume of tourists visiting the country need to be processed efficiently on arrival and transferred to the resorts with minimum delay. Aviation is generally geared to handle regular passenger traffic and internal onward transport of tourists to and from the resort islands. For critical inputs imported for the tourism and fishery sectors, transport services are required for goods to be brought from the customs entrance point to the where they are needed or consumed. Fishery exports are mostly perishable goods and require adequate exportation facilities. Within the Maldives, maritime transport is almost

exclusively used. Road transport is very limited outside Male' and Hulhumale' and is only included in passing in this analysis.

V. Air Transport

Aviation transport is limited to just one gateway: MIA. It is the only international airport in the Maldives. However, it is noted that the Gan Airport (Seena atoll) could be upgraded at a projected cost of USD 17 million. This airport already has a new terminal building designed to handle customs procedures. Customs officers are also in place.

MIA's single 3200m runway (aligned north-south) is not provided with parallel taxiways, so aircraft are obliged to pushback onto and taxi on the active runway. Its length and width imposes restrictions for the take-off a fully laden Boeing 747-400 freighter, and will certainly not be adequate for the future Airbus A380 series aircraft. Turning areas are provided at either end of the runway. In peak periods, the consequence is that arriving aircraft sometimes have to orbit, or departing aircraft delay their pushback, until a preceding inbound or outbound flight has cleared the runway. Most traffic is executed in the 6-hour period from 7:30am to about 1:30pm; this suggests a runway intensity of four to five flights per hour during that period, which is close to the maximum that can be expected from a single runway, given the operational constraints.

Extending the capacity to cater for wide-bodied aircraft is possible but expensive. It will require the construction of a new runway in parallel to the existing one. A positive side effect is that the current runway will serve as a taxiway and emergency substitute runway. Construction of a new, longer runway will therefore not only open the airport to additional, larger and heavier aircraft, but will simultaneously relieve some of the operational pressure on the runway.

From an operational point of view, the biggest bottleneck at MIA is the size of the apron area, which cannot simultaneously accommodate five wide-body aircrafts. It also does not comply with ICAO requirements, which stipulate an unobstructed distance of 150m between runway and apron. An apron extension project planned to be undertaken during 2006 will enable aircraft to parked "nose in," thereby achieving the requisite clearance, but will not otherwise increase apron capacity, the lack of which has already obliged some airlines to modify their flight schedules.

Limitations to the MIA navigational and flight control equipment have operational constraints such as the difficulty of integrating VFR seaplane and IFR wide-body traffic; the need to push-back onto and taxi on the active runway; and the lack of radio coverage of seaplane traffic in the outlying atolls. Part of these may be solved when MAC in the near future installs a satellite-based MSSR radar system, with ADBS as a possible future enhancement. Thus the controller's console will be able to display a moving picture of the protected airspace. The lack of radar coverage exacerbates operational constraints and results in excessive intervals between aircraft movements.

A new domestic terminal at MIA will soon open, in which arriving and departing passenger streams are separated.

Phase IV of the Male' International Airport Upgrading Project comprises the following elements:

- Extension and alteration of the existing passenger terminal buildings.
- Construction of a new control tower and associated ATS building and equipment.
- Construction of a new energy centre and provision of diesel-powered electrical generating equipment and associated fuel storage.
- Design and construction of an 11kV ring-main, including sub-stations.
- Procurement and installation of a mono-pulse secondary surveillance radar system.
- Procurement and installation of an extended VHF communication system.
- Institutional strengthening and manpower development.

It is noted that there is no cold or chill storage facility in operation at the MIA, and that the Phase IV project does not include such facilities. This is a major problem for the processors and exporters of fish products. Without chill and cold storage it is very difficult to schedule transports and to tap into the quality sensitive international lucrative markets for fresh on ice products for reef fish and other value added products.

Air traffic at MIA can be divided into three sub-classes, as shown in the following Table 6.2:

Table 6.2: Flight Activity

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004
Scheduled Flights	6,285	6,692	7,202	7,418	6,082	6,284	7,448	7,609	9,072
Charter Flights	968	1,244	1,316	1,267	1,145	809	594	922	1,123
Other Flights	460	634	468	560	464	596	661	645	853
All Flights	7,713	8,570	8,986	9,245	7,691	7,689	8,703	9,176	11,048

Source: Maldives Airport Company

From a tourism development perspective, it is the route fights by the major international airlines that count, as these offer the flexibility and comfort demanded by tourists seeking an up market experience such as that offered by the Maldives. However, only four mainline carriers have MIA on their regular route net (Emirates, Qatar, Air Lanka, Singapore), but with limited numbers of flights per week.

The fairly high numbers of schedule flights, approximately 80 per cent of all activity in the sector, serve almost exclusively the tourism industry. Growth over the period 1996 through 1999 averaged 6.6 per cent per year, and 10.9 per cent over the period 2000 through 2004, and for the whole-period averaging 5.4 per cent per year. Whilst this growth rate is satisfactory, it can hardly be described as spectacular.

Charter flights also oscillated significantly during the period, showing an average growth over the period of 2.0 per cent. Following a downturn in 1988, other flights increased exponentially, with an average growth rate over the period of 10.7 per cent.

A. AIR TRANSPORT PASSENGER ACTIVITY

Passenger activity at MIA can be analysed in terms of three parameters as shown in Table 6.3. The number of transit passengers constitutes about only 10 per cent of total passenger movements, which therefore follows the trend of arriving and departing passengers. Steady growth has been experienced. For the whole period it was an average of 9.1 per cent per year. The number of arriving/departing passengers increased steadily over the period, average annual growth being 9.7 per cent per year. In-transit passenger numbers decreased dramatically during 2000 after having been static during the period 1996 through 1999. A rapid recovery followed, with slower growth of 9.5 per cent per year during the period 2003 through 2004. The whole-period average growth was a modest 3.8 per cent per year.

Table 6.3: Air Passenger Activity (no of passengers)

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004
Arrivals	400,300	447,823	468,766	505,919	548,518	538,576	557,459	636,377	711,322
Departures	403,645	443,311	460,119	513,010	535,658	533,985	552,311	635,150	721,645
In-transit	110,176	103,594	114,825	111,658	40,533	77,689	157,274	120,884	143,746
All	914,121	994,728	1,043,710	1,130,587	1,124,709	1,150,250	1,267,044	1,392,411	1,576,713

Source: Maldives Airport Company

B. AIR FREIGHT ACTIVITY

Transit airfreight is approximately 15 per cent of the total, so the overall trend is dominated by the oscillatory inbound, and to a lesser extent, outbound trends. Volumes of air cargo are small and calculated at 34 tonnes in 2004. Whole-period growth between 1996 and 2004 was 4.7 per cent per year. Inbound airfreight exhibited the same oscillatory pattern, as did flights. The good growth of 13.2 per cent a year during the period 1996 to 1999 was followed by a 7.6 per cent per year slump during the period 1999 through 2002, and by an accelerating recovery of 11.2 per cent per year during the period 2002 to 2004. Outbound airfreight fell off dramatically (at 16.2 per cent a year) during the period 1997 to 2001, but recovered strongly (40.0 per cent a year) to 2004, to end the period marginally (0.9 per cent a year) higher than at the start.

C. MALDIVES AIRPORT COMPANY (MAC)

MAC is a state-owned entity with airport authority functions. As noted above, MAC operates the MIA but its mandate with respect to domestic or regional airports is not clear. Formally, the jurisdiction of MAC includes the four main regional airports. It is not so much the extent of that mandate that is questionable, but the extent to which MAC chooses to exercise it. The preferred option of MAC seems to be to concentrate its activity on MIA and associated commercial ventures, which are commercially profitable.

There is need to clarify MAC's national mandate and cost recovery policy for the operation of regional airports.

Given the relatively small size of the Maldives, there are valid reasons for supporting the integrated operation and development of all airports. Indeed, a strong logistics link between the air and sea modes should be the central feature in MAC's future planning activity that takes into account complementary planning for the seaports. As proposed below, the creation of an inter-modal airport/seaport facility could be the source of separate but integrated planning for airport and seaport utilization.

D. DOMESTIC AIR TRANSPORT

The upgrading of the former RAF base at Gan has made it possible to direct long-haul flights there instead of Male'. But there is no need to duplicate airport and support operations that can be provided at MIA. Rather, what is required is an efficient air distribution network that will enable passengers to move quickly between MIA and the regional airports. From north to south, regional airports exist at Hanimaadhoo (Haa Dahlu atoll), Kaadedhdhoo (Laamu atoll), Kadhdhoo (South Gaafa Dahlu atoll), and Gan (Seenu atoll). Passengers are ferried to and from these regional airports by the domestic air operators. To this extent, MIA currently fulfils the role of international airport hub for the country.

In addition to the number of airlines that operate international flights into and out of MIA, several domestic airline operators also use the airport. These are the government majority-owned Island Aviation Services, which operates a fleet of wheeled aircraft, and Trans Maldivian Airways (locally-owned) and Maldivian Air Taxi (foreign-owned), which operate floatplanes. Although the mix of aircraft and operations complicates MIA's airspace management problem, the air traffic control system is able to cope with the workload. The planned enhancements to the air traffic control system will contribute greatly to creating better managed and safer airspace.

E. ISSUES FOR REFORM

There are thus three simultaneous challenges to be met on air transport policy and arrangements. Firstly, it has to be ensured that MIA is capable of accommodating increasing passenger (and air-freight) volumes. MIA is functioning very well on its present site as the international hub, and the intended improvements to airport and air traffic control will enable it to continue to do so.

Secondly, an efficient air distribution system must be established. Domestic airline operators will doubtless adapt to market trends by providing additional flights to the existing destinations, but also by providing services to new destinations. However, it must be ensured that passengers (and air-freight) can move quickly and efficiently from long-haul flights to domestic flights. It is this "interchange system" that is currently lacking. For example, passengers sometimes have to overnight on Hulhule or Male' before taking an onward connection. The need is for a purpose-designed facility that facilitates the seamless movement of passengers from one mode of air transport to the

other, with all the appropriate support functions such as customs, aircraft-servicing, baggage-handling, retailing, and so on. As recommended below, the possibility does exist to create an airport/seaport facility that will fulfil exactly such an interchange role, not only between long haul and domestic air transport, but also between foreign-going and domestic sea transport as well.

Third, in regard to training and human resource development, the Centre for Maritime Studies has a well-established presence as a capable training establishment, but it is a curious anomaly that there is no comparable training establishment in the aeronautical sector. The project for the establishment of an aviation-training institute that is under consideration at the Ministry of Planning will be able to meet this need. As air traffic increases, and despite the deployment of supportive navigational systems, the operational load on air traffic controllers will increase. There must be the certainty that air traffic controllers are appropriately trained and that their physical working conditions are supportive, and that they are remunerated in accordance with the level of responsibility they bear.

VI. Maritime Transport

Maritime transport is the aorta of the economy. Without it, the main tourism and fishery sectors cannot thrive. Inter-island transportation services are deregulated and supply and demand determines the price of services. Indeed, the tourism resort industry has established its own services using fast going energy efficient fibreglass vessels to reduce costs of transferring passengers. Service providers for transporting goods are small private companies, typically operating a wooden hull vessel (or dhoni) of varying sizes. For the transport of heavy-duty items such as construction material and TEU size containers, only the Maldives Transport and Construction Company (MTCC), the main semi-privatised service provider, is able to handle these using barges piloted by tugs. To many small-scale stakeholders (traders, fishing vessel owners, producers and craftsmen), the services on offer are inadequate as timely deliveries are very difficult to schedule. There are also major issues relating to maritime transport infrastructure that need to be resolved.

A. MALDIVES PORT AUTHORITY (MPA)

The port infrastructure at national and regional levels falls within the jurisdiction of Maldives Port Authority (MPA) and the Ministry of Transport and Communications. There is an on-going procedure to separate the MPA from responsibilities concerning the two recently established seaports located in the north, at Kulhudufushi (Haa Dahlu atoll), and the south, at Gan (Seenu atoll), to which passengers and goods are ferried from the Maldives Commercial Harbour (MCH). A Regional Port Authority is under establishment and will become the owner and operator of these regional ports. The small harbours on the inhabited islands fall within the jurisdiction of the Ministry of Atolls Administration.

Changes in the role and structure of MPA are on going. It is currently a statutory port authority tasked with exercising the dual and conflicting roles of port authority and port operator. The process of separating MPA's roles has begun. The memorandum and articles of association have been drafted for notional, separate and independent port authority and port operator companies, but little further progress has been made. The first step in the process would be to create separate port authority and port operator divisions, which would then be able to begin to keep each other "at arm's length," as appropriate.

B. MALDIVES COMMERCIAL HARBOUR (MCH)

MCH is the only customs entry point for maritime goods in the Maldives. It has limited space available in terms of a single berth 101.3m long and 10.2m deep. The container yard has an area of 21,700m². A covered warehouse for perishable cargo provides another 2,900m². The quay apron is a cantilever structure that is not suited to load-bearing activities. Sundry structures including an equipment maintenance shed exist along or near to the rear boundary of the facility, which is overlooked by the Maldives Port Authority (MPA) office building.

Due to the limited space the MCH is badly congested. Specialized container-handling cranes are not available and ship working relies entirely on ship's-gear, which increases the cost of handling. Reach-stackers and forklift-type stackers move containers and stack these as much as four-high (empties only), but only a primitive spreadsheet-based yard management system is in use. In addition, the port displays a mix of traditional terminal activities, and activities that would normally be handled in off-terminal depots.

Congestion and the absence of a yard management system leads to goods management problems such as identification of containers in- and out-bound, which all add to the transaction costs. The ever-growing numbers of containers coming in aggravates the situation. As only limited volume of goods leaves the Maldives, transaction costs increase further, as most containers shipped out are empty. From a resource point of view, empty containers are no different to full containers as they consume exactly the same space in the terminal, and take exactly the same amount of effort to handle.

The number of ships handled at MCH increased significantly over the period 1995 through 1998, at an average of 15.5 per cent per year, before falling slightly and then increasing again, but at a much slower rate (2.2% per year) through 2004. Whole-period growth averaged 4.9 per cent per year. Ship turnaround time (measured in days) fell steadily from 1996 through 2001 (at an average of 9.8 per cent per year) before increasing through 2004, giving a whole-period average reduction of 3.9 per cent per year. In fact, the number of containers per ship grew over the period, averaging 18.8 per cent per year.

The MHC recorded an astonishing five-fold increase in port productivity, which suggests that the port has already made great strides towards addressing its operational problems. The productivity index relates the amount of cargo handled to the turnaround time of the ships from which it was handled. This is the classic ship-working productivity index, and

is the most common barometer of port efficiency. In this case the data shows two phases of rapid increase in efficiency, by an average of 41.7 per cent over the period 1995 through 2000, and then by an average of 7.6 per cent from 2001 through 2004, giving a whole-period average increase of 35.4 per cent per year. The amount of cargo handled increased by 32.3 per cent per year over the period but ship turnaround time fell at the rate of 3 per cent per year. (See Table 6.4)

Table 6.4: Operating Activity (no of units)

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
TEUs	7,842	9,553	11,246	14,375	16,531	19,081	18,598	19,249	21,729	30,666
Ship Calls	303	307	343	397	394	360	405	406	445	437
Ship Turnaround Time	4.4	4.5	3.94	3.99	3.68	2.92	2.28	2.53	2.61	2.84
TEUs per Ship	26	31	33	36	42	53	46	47	49	70
Productivity	5.9	6.9	8.3	9.1	11.4	18.2	20.1	18.7	18.7	24.7
Cargo ('000 mt)	279	268	287	348	320	255	228	233	320	365

Source: Maldives port Authority

Whilst not a crippling disadvantage, the absence of a capable yard management computer system complicates the yard control task and results in slower stacking-down and access times, and misplaced containers.

The transshipment facilities between MCH and regional ports are also inadequate. Imported goods generally arrive at MCH in containers, which are discharged and unpacked. Following clearance they are loaded onto small trucks and driven approximately 300m along Marine Drive to Male' Inner Harbour, where they are unloaded directly onto the very limited quayside area (and very often into the roadway too). Goods are then laboriously loaded by hand onto the boats, which will take them to the regional seaports and outlying atolls. The congestion caused at MCH is considerable, and the island-bound boats are obliged to wait alongside for an extended period whilst being loaded.

The present system is costly, inefficient and substantial delays occur in getting goods to their end destinations, with negative effects on competitiveness. Disadvantages inevitably accrue at regional level because producers and traders suffer from irregular and costly deliveries.

C. DOMESTIC MARITIME TRANSPORT AND INFRASTRUCTURE

Physical infrastructure in terms of port facilities at atoll level is not always conducive to easy transport. Although most atolls have a 'hub' port allowing transshipment to smaller ports, these are not always equipped with bunkering facilities and storage for perishable goods, such as chill and cold stores. For example for the export of fish products, only five ports are equipped with such facilities and these are located at islands with fish processing activities. The government plans to establish such facilities in six more ports.

As such, the regional ports can only play a role as domestic hubs for onward distribution and collection to/from the atolls and islands.

Significant improvements have been achieved in the accessibility of a large number of islands over the past seven years, due to the government's programme of constructing jetties and clearing access canals. Between the two Vulnerability and Poverty Assessment (VPA) surveys in 1997 and 2004, 36 more islands had been made accessible and 14 more could be reached by a big dhoni. Thus in 2004, of the 192 inhabited islands, only 70 islands remain that can only be reached by a small dhoni. This is a reduction of more than 40 per cent.

D. ISSUES FOR REFORM

The challenges facing maritime transport are similar to those that face domestic air transport.

The first is hub capacity. There is need to ensure that the MCH is capable of accommodating increasing goods (and passenger) volumes. Exactly analogously to the case of MIA, MCH functions as the international hub seaport. It is struggling to cope with current cargo volumes and its physical growth possibilities are limited. A new international hub seaport is a very likely scenario. The question is not so much whether to develop it than where to situate it. Any new port will need to make adequate provision for the needs of island maritime traffic.

Essentially, the concept boils down to accommodating international activity at a single air/sea hub, using regional air/sea-ports as first-level distribution centres, and using local (island) air/sea-ports as second-level distribution centres.

The window of opportunity for implementation of the inter-modal concept is to some extent determined by the remaining lifetime of MCH, which the MPA has estimated to be no more than five years from mid-2005 when these issues were discussed with the DTIS team. Therefore, within this five-year period, the inter-modal concept must be taken through all the stages from initial government endorsement of the concept, to economic and technical feasibility, to government approval of the development project, to funding, to design, to construction, and finally to commissioning. The timeframe is not generous, and immediate action is required if the window of opportunity is not to be lost.

The second issue for reform is interchange capacity. To ensure the quick and efficient movement of goods from foreign-going ships to domestic boats an interchange facility with the appropriate infrastructure and amenities is needed. In this respect, maritime transport faces exactly the same constraint, as does air transport - the interchange facility is lacking. The solution is exactly the same as with the air transport sector, namely the creation of a facility that facilitates the rapid transfer of goods (and passengers where necessary) between the international and domestic segments. Facilities for improved handling of reefer containers and a terminal for handling of fresh product should also be considered.

The third reform issue, feeder capacity, is closely related to hub and interchange capacity. To ensure an efficient maritime transport system, feeder capacity should be enhanced. Inter-atoll and inter-island maritime trade is somewhat less formalized than in the case of the aviation sector, probably reflecting the much lower level of applied technology and the lower barrier to entry. The application of technological advances, in the area of more economical hull and engine designs, could improve the efficiency of the feeder system. However, this should be done in such a way that the traditional role of the boat in inter-atoll and inter-island transport should be enhanced rather than reduced. Improved efficiency may also reduce costs. It may simultaneously entail new job opportunities associated with the feeder system such as piloting and repair and maintenance services.

Fourth, as regards training and human resource development in maritime transport, the DTIS team was satisfied that the courses offered are adequate to the needs of the sector but there is scope for expansion.

CHAPTER 7

THE TOURISM SECTOR

Chapter Plan

This chapter begins by examining the distinctive features of the tourism product offered by the Maldives before reviewing the main trends in the tourism sector focusing on such issues as data on tourist arrivals, accommodation capacity, contribution to GDP and linkages to the economy, foreign exchange earnings and leakages, employment, and training. Following this is an outline of the policy and institutional support framework, an assessment of constraints that need to be addressed, and recommendations for inclusion in the DTIS action matrix.

I. Distinctive Features of the Maldives Tourism Product

Very few countries in the world can offer tourists an exotic atoll environment, and even fewer countries in the world are made up of coral platforms, with the accompanying image of Robinson Cruise islands and islets with white sandy beaches, unpolluted crystal clear water and abundant marine life. The Maldives has taken maximum advantage of these endowments and generated a unique tourism product focusing on the marine and atoll environment. The geographical location of the Maldives in the middle of the Indian Ocean makes the destination easily accessible by long-haul aircraft from Europe, East Asia, the Middle East, Australia, and even South Africa. Although the North American market is more remote as compared to the Caribbean, promotion of the Maldives in North America can generate interest among tourists looking for more unfamiliar destinations.

The Maldives comprises a total of 26 atolls spreading like a string of pearls over almost one million sq km, and a distance of about 870 km from Addu Atoll half a degree South of Equator to North Thiladhunmathee Atoll 7½ degrees North. The atolls are made up of a total of 1,190 islands and islets, of which only 200 are inhabited.

By way of curiosity, atoll is derived from the Maldivian word atholhu, the only Maldivian word that has become international. It identifies an atoll as a number of islands sharing a common outer reef; there can be one island to several hundreds of islands forming an atoll.

Over time, the Maldives has developed and perfected the concept of ‘one island – one resort’ with a tourist resort occupying a separate island, and being fully self-contained in terms of electricity, water supply, sewage, employee accommodation, laundry, recreation facilities, etc. The self-contained resort concept has been developed from simple thatched cottages in the early 1970s to extravagant and sophisticated five-star resorts featuring luxury villas.

The Maldives, like Tahiti (French Polynesia), has developed the concept of over-water villas, built on stilts on sandy banks in shallow lagoons, enabling an even closer proximity to the marine environment.

Furthermore, in an attempt to broaden its product base, the Maldives have over the past 10 to 15 years offered an increasing number of floating beds on live-aboard safari vessels.

The magnificent marine environment with an abundance of both coral and colourful fish has helped develop the Maldives into one of the world's top diving destinations. At the same time, the many shallow lagoons and easily accessible coral reefs also make the Maldives ideal for snorkeling by the general interest tourist who is primarily attracted by the tropical climate, the coral, white sandy beaches, and the ambience of the islands. In addition, whale, shark and dolphin watching have increased in popularity. Moreover, given the many low-lying islands and coral reefs, the Maldives offer almost year-round ideal conditions for surfing, a niche market that is currently growing considerably. The Maldives is also an expanding niche market for spa and health tourism, safari cruise tourism, and others.

An added experience of the Maldivian tourism product is the smallness of the islands, with the international airport built on a separate island, Hulumale, and the need to be transferred to the accommodation (island), either by speedboat or seaplane.

II. Main Trends in the Tourism Sector

A. TOURIST ARRIVALS

The volume of international tourism measured in terms of international tourist arrivals in the Maldives increased from about 114,500 in 1985 to more than 615,000 in 2004, corresponding to an impressive annual average growth of 9.3 per cent over two decades. The high growth rate becomes even more impressive when compared with global and regional trends. During the same time-frame, global tourism, regarded as one of the fastest growing sectors in the world, recorded an average annual growth rate of 4.3 per cent from about 322 million international tourist arrivals in 1985 to some 691 million in 2003. The Maldives tourist arrival growth rate is also higher than in the Asia Pacific region, which has been the fastest growing tourism region in the world, increasing from 33.6 million in 1985 to almost 120 million in 2003, an average annual growth rate of 7.8 per cent.

Tourists visiting the Maldives come mainly from Europe, which accounts for 70-77 per cent of the total number of arrivals. However, the importance of individual European markets has shifted considerably. Thus the German market that dominated tourism in the Maldives in the 1980s and most of 1990s was overtaken by Italy in 1998 and by the

British market in 2001. In 2004, before the tsunami, Italy, with over 130,000 tourists, accounted for 22 per cent of the total of 616,716 tourists that year. British tourists numbered about 114,000, accounting for 18.5 per cent, followed by Germany with about 73,000 tourists, or 11.8 percent of the total.

Before the tsunami, France recorded a doubling in tourist numbers over five years from about 23,000 in 1999 to more than 46,000 in 2004. Switzerland also recorded considerable growth during the 1990s, almost tripling its number of tourists from about 11,000 in 1990 to some 30,000 in 2004. Similarly, Russia has recorded tremendous growth in recent years from 3,600 in 2000 to more than 18,000 in 2004.

Asian tourist arrivals increased from about 37,000 in 1990 to 117,000 in 2004 but its proportion of the total volume of tourism has remained static at around 19 per cent. Japan has the largest share of the Asian market, accounting for about 40 per cent and 7-8 per cent of the total number of tourists in 2004. Almost 47,000 Japanese tourist arrivals were recorded in 2004.

B. ACCOMODATION CAPACITY

Accommodation capacity of the tourism sector increased from a little less than 6,000 bed spaces in 1985 to almost 20,000 (19,565) in 2004. The capacity comprises a total of 236 accommodation facilities. Of these, the 87 resort islands account for 36 per cent of the number of establishments, but more than 86 per cent of the bed capacity with almost 17,000 bed spaces. Eight hotels, located mainly in the capital of Male', have 3.3 per cent of total bed capacity with 636 beds, while there are 28 guesthouses with a capacity of 425 beds. Finally, 113 registered safari vessels have a total bed capacity of 1,676, corresponding to 8.6 per cent of the total bed capacity. On average, resort islands and hotels have a capacity of just fewer than 80 beds, corresponding to about 40 rooms. By contrast, safari vessels and guesthouses provide on average a capacity of 14-15 beds, corresponding to 7 double rooms.

The government mainly by means of tenders for lease of resort islands has tightly controlled the development of the accommodation capacity. With apparently inelastic demand for a Maldivian holiday, this control of supply of accommodation facilities has perhaps contributed to healthy occupancy rates of the resorts and profitability

C. CONTRIBUTION TO GDP AND LINKAGES TO THE DOMESTIC ECONOMY

For over 30 years, the tourism sector has been the driving force behind economic growth in the Maldives but there is scope for forging even stronger linkages with other sectors in the economy.

Tourism contributes significantly to the Maldives' GDP. Of the total GDP of Rf. 7,586 million (USD 644 million) in 2003, the Ministry of Planning and National Development

estimates that tourism contributed about one-third, i.e. Rf. 2,483 million (USD 195 million), corresponding to 32.7 per cent of the total GDP.

Tourism's significant importance for the overall Maldivian economy can be illustrated by comparing average GDP growth with annual tourist arrivals. The clear relationship between the increasing level of tourism and GDP growth is shown in Table 7.1.

The main linkages of the tourism industry to the domestic economy are through boat building, transportation services, construction, fisheries, agriculture, handicraft production, etc.

Table 7.1: Tourism Arrivals and Per Capita GDP Growth 1985-2003

	1985	1990	1995	2000	2001	2002	2003
Annual Tourist Arrivals ('000)	115	195	315	467	461	485	564
Average GDP at constant 1995 prices (USD million)	158.4	262.1	362.9	539.1	557.7	594.1	644.1

BOAT-BUILDING

Given that the Maldives tourism product is based on the natural marine environment, and the subsequent essential requirement for boats, the country has developed a buoyant boat-building industry, providing a considerable proportion of wood or fibreglass boats used in the tourism industry.

TRANSPORTSERVICES

The tourism industry has also given rise to boat operators who provide airport transfers as well as transport between islands. In some cases, the resorts also provide these services directly but dedicated boat transfer operators provide in effect water-taxis.

Two seaplane operators, the Maldivian Air Taxi (MAT) and Trans Maldivian Aviation (TMA), provide longer transfers to more remote resorts. In both cases, the owners are also financially involved in resort operation. The Trans Maldivian Aviation was recently taken over from the former British owners by two major local resort owners and operators.

CONSTRUCTION

The ties to the construction industry include actual establishment of new resorts and other accommodation facilities, expansion and maintenance of existing facilities. In this connection, particular pressure is put on the construction industry when the government issues tranches of tenders for resort islands, as was the case in 1997 when 14 resorts were up for tender at the same time. During the DTIS mission, 11 resorts were put out to tender.

Similarly, considerable demand was placed on the construction industry after the December 2004 tsunami, where as many as 21 out of the total of 87 resorts were affected. During the DTIS mission, eight months after the tsunami, 11 resorts were still closed for repairs. Seven more were undergoing significant renovations. These periodic pressures on the construction industry often result in the need to use expatriate labour.

FISHERIES AND HORTICULTURE

While fresh fish and fish products are supplied to the tourism sector, the supply of local fruit and vegetables is less reliable. A key constraint is obviously limited land availability for cultivation.

HANDICRAFTS

A characteristic of most handicraft production is that it normally uses a high proportion of local inputs, material and labour, often as high as 100 per cent. However, as the Maldives is a relatively high wage economy, locally produced handicraft tends to be over-priced as compared to mass-produced souvenir items from the Southeast Asian countries.

D. CONTRIBUTION TO FOREIGN EXCHANGE EARNINGS

International tourism is characterized by consumers coming to the destination to consume tourism services on the spot. International tourists pay foreign exchange for the services they consume e.g. accommodation, meals, drinks, domestic transport services, excursions and tours, leisure activities, souvenirs and general shopping. They pay either at the destination or for certain services in advance of traveling. Nevertheless, the payments made by the tourists eventually accrue to the providers and operators of the services consumed.

Tourism in the Maldives is characterized by a high degree of pre-travel payment, since a high proportion of tourists come to the Maldives on package tours that are traditionally bought in their home countries before travel. In addition to the international air transport, package tour will by definition include one or more services in the host destination, normally accommodation and meals, as well as transfers, tours, etc. The proportion of the package price that is transferred to Maldivian operators, together with the amount that the tourists spend while in the Maldives constitutes the total earnings from international tourism. This is also internationally referred to as the total tourism receipts.

Taking into account annual tourist arrivals, average length of stay, as well as estimates of average daily spending by tourists, the value of international tourism is estimated by the Maldives Monetary Authority (MMA) at almost USD 480 million in 2004. While it is believed that this estimate under values the real foreign exchange earnings from tourism, it is nonetheless more than three times as high as the country's total visible export earnings from all other economic sectors of approximately USD 123 million, of which

fish and other marine products account for about two thirds. Moreover, tourism earnings have shown a formidable growth pattern with an average annual increase over the past two decades of almost 14 percent since 1985, when tourism receipts were estimated at USD 41.4 million, increasing to USD 88.7 million in 1990, USD 210.7 million in 1995, USD 320 in 2000 and to almost USD 480 million in 2004. The average annual increase in tourism earnings is even higher than the corresponding average annual increase in tourist arrivals of 9.3 per cent due to an increase in the estimated daily expenditure per tourists from USD 39 in 1985 to almost USD 94 in 2004. With some 616,000 arrivals in 2004, this corresponds to an average total expenditure per tourist of USD 775.

There are grounds for believing that the MMA estimates undervalue earnings from tourism in the Maldives. This has also been confirmed and appreciated by the MMA. For example, a 1997 visitor expenditure survey by the Asian Development Bank showed average daily expenditure, excluding international air transport, of USD 120 for package tourists and USD 152 for non-package tourists. Similarly, the ADB study estimated total average expenditure per tourist at USD 1,367 excluding international air transport. Even without considering the effect of inflation, the estimates made by the ADB study seem to confirm that the MMA estimates are low.

Overall, the importance of foreign exchange earnings from international tourism for the balance of payments of the Maldives cannot be overstated. The Maldives had a net deficit of just under USD 260 million on merchandise trade in 2003. Without the foreign exchange earnings from tourism, this deficit would not have been covered.

E. FOREIGN EXCHANGE LEAKAGES – IMPORTS

The need to import goods and services to support the tourism industry is traditionally referred to as leakages from the foreign exchange earnings of the sector. In the case of the Maldives, the import content of the tourism sector is high for both capital investment and operations.

The primary operational leakages include:

- 1 Imports of consumables such as food and beverage, cleaning materials and equipment for leisure activities, etc.
- 2 Remittances by expatriate staff.
- 3 Payments to service foreign equity and debt capital.

A 2000 UNDP/World Tourism Organization study of social, economic and environmental impacts of tourism in the Maldives estimates that one third of the gross foreign exchange earnings from tourism are used for imports. Using the ADB Tourist Expenditure Survey findings, the net foreign exchange earning in 2004 would then be USD 562 million.

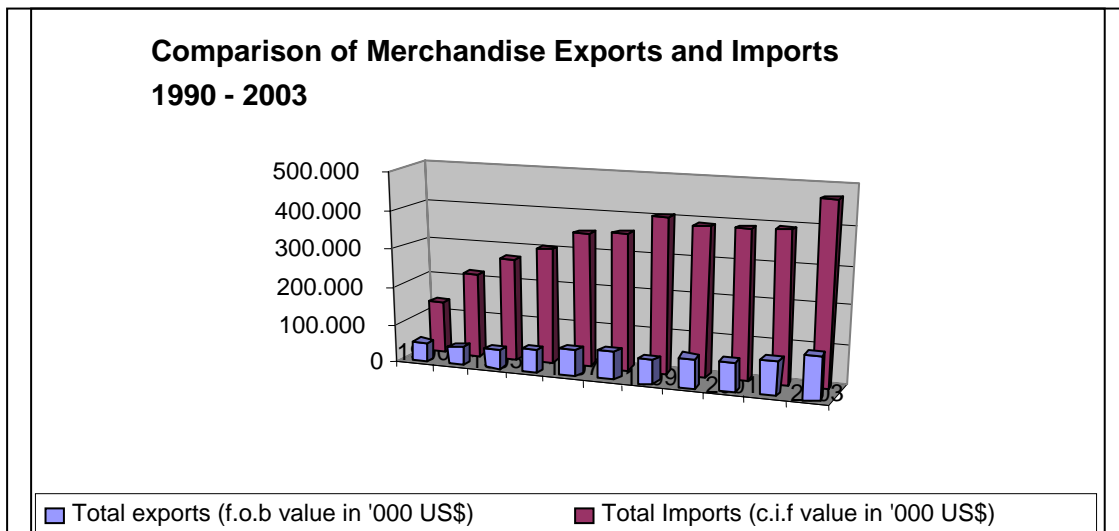
In addition to the operational leakages, there are capital imports in connection with the establishment of new tourist resorts or upgrading of existing facilities, as well as the need

for imports of support infrastructure, notably airport and air services, and to some extent sea transport services. These capital imports obviously vary with different levels of investment, determined to a large extent by the government's lease policies. The above-mentioned UNDP/WTO study estimates that the incremental capital output ratio (ICOR) is around 2:1, meaning an import content of 60-75 per cent of the total capital costs.

In connection with capital investments for new tourism establishments and extension or upgrading of existing facilities, the Foreign Investments Act (Law No. 25/79) provides operators with the opportunity to seek exemption for duties and excise on capital imports.

During normal operation most imports for the tourism industry are subject to a 10-20 per cent import duty.

Overall, the total value of all merchandise imports into the Maldives is stated by the Ministry of Planning and National Development to be about USD 471 million in 2003. This is almost three times as much than in 1990, at which time it was valued at USD 138.3 million. This corresponds to an average annual growth rate of almost 10 percent. By comparison, during the same period the value of merchandise exports has only increased by an average annual rate of 6 percent. The box below illustrates the widening gap in the trade balance, something that can only be sustained by the foreign exchange earnings generated by tourism, and more than offsetting the annual trade imbalance.



F. CONTRIBUTION TO GOVERNMENT REVENUE/GOVERNMENT EXPENDITURE ON TOURISM

The Ministry of Planning and National Development (MPND) estimates total government revenue in 2004 to be about USD 256 million (Rf. 3,260 million). The tourism sector contributes to government revenue both directly by means of three main tourism levies or taxation, and indirectly through taxation of other economic sectors servicing the tourism sector.

DIRECT CONTRIBUTION TO REVENUE

In direct terms, a regressive bed tax is levied on all accommodation establishments, resorts, hotels and safari boats. The bed tax was USD 6 per sold bed until November 2004, when it was increased to USD 8 per sold bed night. In 2004 the tourism bed tax generated Rf. 430 million or USD 33.8 million. At the same time, the Government's income from lease rents of resort islands amounted to Rf. 614.5 million or USD 48.2 million. Finally, a departure tax is levied all travelers departing from Male' International Airport, i.e. both tourists and traveling residents/citizens. The departure tax was increased in November 2004 from USD 10 to USD 12. On this basis the revenue from the 616,716 tourist arrivals in 2004, of which 101,161 arrived during November and December, can be calculated at USD 6.4 million. The tourism sector therefore contributed a total of USD 88.4 million (Rf. 1,127 million) in government revenue, corresponding to 34.5 per cent of total government revenue.

In addition, the government is directly involved in the operation of a hotel, which in 2004 generated Rf. 2.2 million (USD 170,000) in government revenue.

INDIRECT CONTRIBUTION TO REVENUE

Tourism also contributes indirectly to government revenue. In addition to the departure tax, the Maldives Airports Company generates revenue from aircraft landing fees and other aircraft services. In 2004 a total of Rf. 123.1 million (USD 9.7 million) was generated, a significant proportion of which came from air charters carrying tourists.

In 2004, bank profit tax amounted to Rf. 55.1 million (USD 4.3 million). From consultations with the different banking institutions operating in the Maldives, the DITS team learnt that some 50-60 per cent of the banks' business was accounted for by the tourism sector. Consequently, it can conservatively be assumed that half of the bank profit tax, i.e. USD 2.2 million, is generated from tourism.

In 2004, the government generated about Rf. 430 million (USD 33.8 million) in import duty. Although tourism sector inputs are exempted from import duties in regard to new investments and upgrading of existing facilities, a considerable proportion of the import duties are applied to tourism sector imports. It is conservatively estimated that 25 per cent of the import duty can be accredited to tourism, i.e. USD 8.4 million.

Finally, the government is also involved in the operation of Island Aviation Services and Maldives In-flight Catering Services, both of which contributed a total of Rf. 32 million (USD 2.5 million) in 2004. Again, much of this revenue could be considered to be generated from tourism, estimated at 50 per cent or USD 1.2 million.

In summary, in 2004, international tourism in the Maldives generated directly and indirectly a total of USD 104.2 million, corresponding to more than 40 per cent of government revenue. This does not include the contribution of tourism to other

government revenues from the supply of electricity, water and sewerage, telecommunication, etc.

GOVERNMENT EXPENDITURES

As far as government expenditures on tourism development are concerned, the evidence suggests that this contribution is extremely limited. Indeed, the government uses the bulk of the revenue generated from tourism for general economic development purposes.

In 2004, total government expenditure amounted to about Rf. 3,786 million or USD 297 million. Of this amount, only a small fraction was allocated directly to the tourism sector, i.e. USD 4.1 million (Rf. 52.5 million). This corresponds to less than 1.5 per cent of public expenditure and covers such costs as the operation of the Ministry of Tourism (now the Ministry of tourism and Civil Aviation), the Maldives Tourism Promotion Board (MTPB), the Tourism Information Office at Frankfurt in Germany, and a small Tourism Promotion Fund established by the MTPB.

If total direct government expenditure on tourism is compared to the number of international tourist arrivals, the expenditure corresponds to about USD 6.5 spent on tourism promotion and administration per visiting tourist. By comparison, each visiting tourist in 2004 generated an average of USD 143 in direct government revenue. This figure increases to USD 169 if indirect revenues are included, with total revenue to the Maldivian economy being USD 1,350 per tourist.

However, the government budget also includes expenditure that indirectly benefits tourism. For instance, the cost of staff salaries and other operational costs of the Faculty of Hospitality and Tourism Studies are included under the educational budget. Similarly, the government also spends on servicing the tourism sector through airport operation, aviation, immigration, customs, etc.

G. CONTRIBUTION TO EMPLOYMENT

While available statistics on direct and indirect employment in tourism are not sufficiently detailed and accurate, employment in the tourism sector is estimated at between 20,000 to 25,000 persons. Of this number, some 11,500 are expatriates. Since the law requires tourist resorts to employ a maximum of 50 per cent expatriate staff, there is perhaps as many as 12,000 Maldivians employed directly in the tourism sector, constituting around 14 per cent of the total Maldivian workforce.

However, many more are employed indirectly in other sectors providing services and goods to tourism business operators, e.g. construction, air and sea transport, trade, and government services such as customs, immigration, airports, etc. The Ministry of Higher Education, Employment, Labour and Social Security has estimated the tourism employment multiplier effect to be in the range of 4-5. Other estimates are 1-2. Whatever it is, it is clear that tourism makes a significant contribution to employment, the generation of income for the local population and poverty reduction. It is noteworthy that

the UNDP/World Bank vulnerability and poverty assessment survey found that households with one or more members working in the tourism sector are more likely to escape poverty thresholds than other households.

The large proportion of expatriate labour is mostly due to the unavailability of both local skilled and unskilled labour. Training provided by the Maldives College of Higher Education's Faculty of Hospitality and Tourism Studies (FHTS) in such areas as bar tending, catering and food services, cleaning and housekeeping, has not kept pace with the demand of the industry. In addition, the higher wage rate for Maldivians is an incentive to employers in the industry to fill the 50 per cent foreign employment quota that is allowed. Consultations with tourism industry operators indicate that the base salary for Bangladeshi and Indian workers is around USD 100 per month and USD 120 for Sri Lankan workers, in addition to free accommodation, food and a return air ticket. Depending on skill level, Maldivian workers may be paid up to USD 235, as well as free accommodation and food.

Despite its importance for the generation of job opportunities, very few women work in the sector. According to available statistics, less than 200 Maldivian women, and only about 350 expatriate women work in the sector in 2003. Considering that more than 20,000 employees work in the industry, the proportion of women workers is extremely low. This is in sharp contrast to many other countries, where tourism generates high rates of employment for women.

The explanation for this is both cultural and religious. It is still a taboo in the Maldives for women to be involved in such activities as making beds outside the home or working in a bar. But the lack of employment of women in the sector may also be attributed to the special characteristic of Maldivian tourism with almost self-contained resort islands, where workers live in staff accommodation for as many as 11 months of the year, without facilities suitable for family life

TRAINING

The men dominated employment pattern is also reflected in FHTS enrolment numbers. Although the proportion is increasing, women still account for less than a quarter of the trainees.

The FHTS itself was established as a tourism-training institute in 1987 to provide basic and advanced training in operational tourism skills as well as for supervisory and mid-management training.

Since its establishment, the Faculty has expanded the number of tourism related courses on offer, and developed and upgraded course contents to international standards. However, it has been under-funded both in terms of the capacity and quality of its physical facilities and its teaching staff. As a result, the Faculty has not been in a position to supply training to meet the increasing demand from a rapidly growing tourism sector, even after the establishment of two outreach centres outside the capital, Male'. The total

number of trainees that have been turned out by the Faculty since its establishment is 3,200, which compares unfavourably with the estimated level of current employment in the tourism sector.

It is therefore not surprising that several large resort operators have introduced in-house training of its staff. One operator, the Four Seasons Resort, has since 2002 developed a 12-month tourism apprenticeship scheme, the Kuda Huraa Apprenticeship Programme. Although capacity is obviously limited, the number of trainees increased rapidly from five during the first year to 30 in the programme that was ongoing during the DTIS mission and ended in September 2005. The resort is working closely with both the FHTS and the Faculty of Management and Computing to launch a 3-year hotel accounting course.

Another constraint for the further development of the human resources within the tourism industry is the negative perception in Maldivian society of tourism as a provider of respectable career opportunities. Service providers are often derided as ‘boys’, ‘room boys’ ‘office boys’ ‘laundry boys’ ‘pastry boys’ etc. Official statistics also actually use these terms. In addition, a Ministry of Education circular from 1980 still formally discourages secondary school students from working in the resorts during their holiday breaks presumably to minimise interaction with tourists for moral reasons. Unfortunately, tourism sector leaders in government and the industry are not sufficiently focused on changing perceptions. On the other hand, perhaps because of moral safeguards, sex tourism is virtually unknown in the Maldives unlike in other Asian countries.

Although tourism has recently become part of the secondary school curriculum, it appears that there is a general need to increase awareness about the economic importance of tourism for the Maldives and the valuable career opportunities that the industry provides.

III. Policy and Institutional Support Framework

From an early stage of tourism development in the Maldives, the government has been at forefront in providing policy guidance and institutional support through the ministry responsible for tourism and within the framework of successive National Tourism Master Plans. There has been two such master plans, the first was completed during 1980-1981 and covered the period 1982-1992. The second was completed in 1994 and covered the period 1996-2005. Preparation for the third Master Plan was about to begin during the DTIS mission. This section outlines the support framework for the tourism sector, focusing on the main institutional actors.

A. MINISTRY OF TOURISM

In July 2005, responsibility for civil aviation was added to the portfolio of the tourism ministry to create a Ministry of Tourism and Civil Aviation, in accordance with a recommendation in the Second Tourism Master Plan.

Prior to the expanded portfolio of civil aviation, the ministry had a staff of 44 and defined its purpose as follows:

“To develop tourism at a national level, and carry out long-term planning, development, monitoring, and regulatory functions to ensure a sustainable tourism industry for the benefit of the people of the Maldives.”

The vision of the ministry is:

“For the Maldives to be the best example of sustainable tourism development - a nation with an economically profitable tourism industry in harmony with its natural environment, cultural resources, and the values of its people.”

And the mission is to:

”Improve the quality of life of the Maldivian people by optimizing and balancing the economic, environmental, and socio-cultural benefits of tourism, with equitable distribution of these benefits to the society, while minimizing the possible negative impacts of tourism.”

Among the ministry’s official main goals and objectives are:

- 1 To increase economic benefits of tourism including national income, employment, net foreign exchange earnings, regional development, and revenues to the government;
- 2 To ensure equitable distribution of the economic benefits of tourism to the society;
- 3 To make tourism a vehicle for the protection of the natural environment, and the revitalization and preservation of the nation's cultural assets;
- 4 To maintain a strong private sector role in the industry while enhancing the operating environment and facilitating the private sector to achieve the desired benefits of tourism;
- 5 To increase Maldivian participation at all levels of the industry, especially to increase the participation of women in this industry;
- 6 To nurture a society that understands the value of tourism to the nation, and its critical role in the future prosperity of the country and its people;
- 7 To remain competitive in the global market by continuously expanding and diversifying the product, enhancing the quality of services, and become

established as a quality tourism destination delivering good value-for-money, and

- 8 To develop support infrastructure and activities, to ensure hassle-free travel and the safety and security of tourists during their holiday.

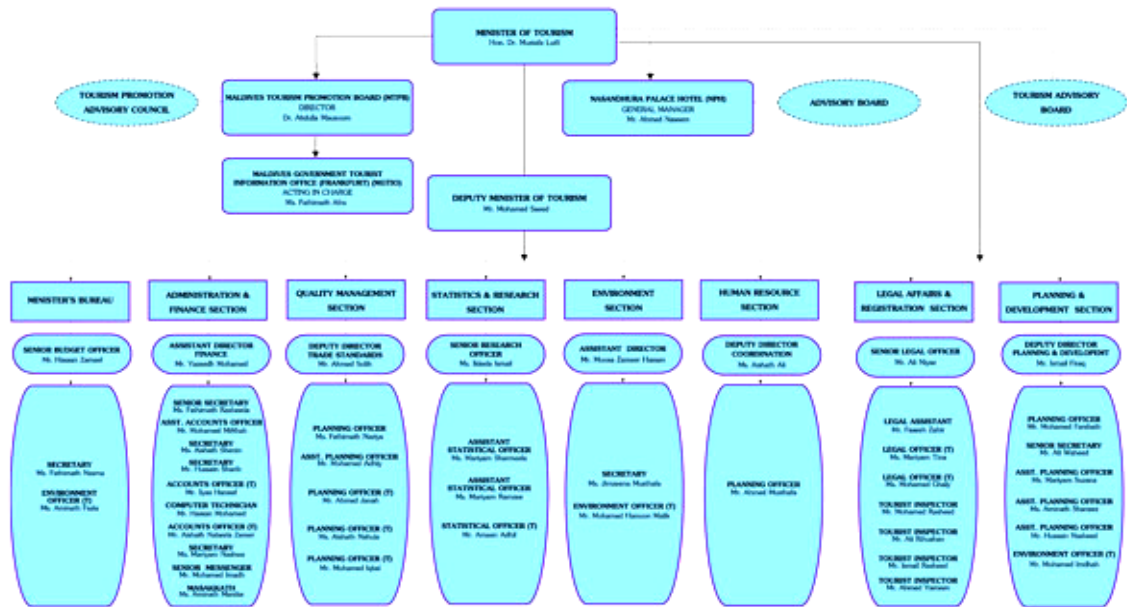
In order to achieve these goals and objectives, the ministry has the following functions:

- 1 Formulation and implementation of development policy
- 2 Long-term planning of tourism development at national level
- 3 Coordination with other government entities and the industry
- 4 Formulation and implementation of laws and regulations for tourism
- 5 Establishment and administration of facility and service standards
- 6 Adoption of sound environmental principles in tourism development and operation
- 7 Statistical collection, compilation and reporting
- 8 Conducting of research studies
- 9 Planning and implementation of human resource development for tourism
- 10 Establishment and administration of training standards, in coordination with the concerned authorities and
- 11 Leasing of land for tourism and registration of all tourism operators and facilities

In carrying out its roles and functions, the ministry is organized follows into eight main sections.

- 1 Minister's Bureau
- 2 Planning & Development Section
- 3 Legal Affairs & Registration Section
- 4 Administration and Finance Section
- 5 Quality Management Section
- 6 Statistics & Research Section
- 7 Environment Section
- 8 Human Resource Section

The organizational structure of the Ministry of Tourism prior to the recent inclusion of the Civil Aviation portfolio is illustrated in the chart below.



Updated on June 2005

In addition to the sections mentioned above, it is noteworthy that the Maldives Tourism Promotion Board (MTPB) is included in the ministerial structure as the marketing arm of the Ministry, together with the Government Tourist Information Office in Frankfurt, Germany, which was established in 1997.

B. MALDIVES TOURISM AND PROMOTION BOARD

The main tourism-marketing organization is the Maldives Tourism Promotion Board (MTPB) headed by a Director General who reports directly to the minister responsible for tourism and is guided by the Tourism Promotion Advisory Council, which includes public and private sector representatives.

The declared vision of the MTPB for Maldives is to:

”Be the most exclusive destination in South Asia
 Be the top tourism earner in South Asia
 Be an example of sustainable tourism development in small island nations”

The mission of the Maldives Tourism Promotion Board is to:

“ *Promote quality and sustainable growth in the tourism industry of the Maldives to foster a well utilized and financially healthy private sector industry - in this way enabling the industry to deliver long term economic, social and cultural benefits to the people of Maldives, whilst at the same time contributing to enhancements in*

Maldives' unspoiled marine environment to the benefit of the people and visitors of the Maldives.”

The main objectives of the Board include:

- 1 To strengthen and enhance the exclusive image of the destination in the source markets.
- 2 To position the Maldives as a 'premium' destination worldwide.
- 3 To achieve the growth targets set for the destination in the marketing plan for each year.
- 4 To diversify the source markets as well as the market segments to the destination.
- 5 To undertake market research to monitor the world economic conditions and travel trends in order to identify market opportunities.
- 6 To monitor and support the private sector in their operations to maintain viable bed occupancy levels and to iron out seasonal fluctuations in visitor arrivals.

The MTPB employs 15 staff at its Male' headquarters. In addition, it has a smaller number of staff at the Government Tourist Information Office in Frankfurt in Germany. The MTPB is also represented through agents in the United Kingdom, Germany, France, Austria, China, and Hong Kong.

C. THE MALDIVES ASSOCIATION OF TOURISM (MATI)

MATI is a non-profit, non-governmental organization, created to represent private businesses operating in the tourism sector. It coordinates its activities with the government and collaborates with other organizations nationally and internationally to attain its objectives. It is generally regarded as a highly effective lobbyist.

Membership is open to the owners/operators of tourist accommodation facilities in the Maldives (resorts, hotels, guest houses, safari operators), Maldivian companies engaged in travel trade related activities, travel agents and tour operators both national and foreign, water sports, scuba diving companies, picnic islands, banks and financial institutions, airlines, suppliers to the tourism industry and tourism and travel writers.

An Executive Board made up of 12 members and a professional Secretary General heads MATI. Its mission statement is as follows:

“To be truly representative of the Maldives tourism and travel industry, and to enhance the professionalism and profitability of stakeholders through the effective representation in industry and government affairs, programmes of human resource development, marketing and promotion, research, information gathering and strategic alliance building and by identifying and satisfying the needs of the global traveling public, to promote travel and tourism to and from the Maldives.”

MATI is represented on key government committees and regulatory bodies concerned with the sector. It lists as its core tasks:

- 1) Gathering information from members on their specific needs, analyzing and reviewing that information to take appropriate action where possible.
- 2) Creating programmes within budgetary limits to help meet members' needs through benefits and services.
- 3) Providing relevant services, such as research on tourism and travel related activities, product development, education/training support and marketing support.
- 4) Preparing annual business plans for approval by the Executive Board to identify and respond to the common and collective interests of members.
- 5) Forecasting future trends in tourism and addressing those issues both domestic and international that will impact the Maldives tourism and travel industry and the interests of other stakeholders in the industry.
- 6) Liaising with the Government and providing to the domestic and international audience the industry's position on important issues through a clear and consistent communications programme.
- 7) Forging alliances with appropriate agencies and organizations towards realizing maximum benefits to all stakeholders in the Maldives tourism and travel industry.

D. THE FACULTY OF HOSPITALITY AND TOURISM STUDIES (FHTS)

The FHTS was established as a tourism-training institute in 1987 and provides basic and advanced training in a variety of operational tourism skills including for mid-management and supervisory functions. Since 1998, the Faculty has operated under the umbrella of the Maldives College of Higher Education (MCHE), which in turn is an arm of the Ministry of Higher Education, Employment, Labour and Social Security.

The vision of the FHTS is to:

“Perform and be acknowledged as the outstanding academic institution within the field of hospitality and tourism studies of the nation and as one of the finest within the region.”

The Faculty’s mission, among other things, states:

“Focus on determining and giving necessary training, from the basic to the highest level...The training is for personnel required by the hospitality and services industries, and ...other individuals who wish to enhance their knowledge of different areas of the hospitality field.”

However, in its background and publicity material, the FHTS recognizes that its training output falls far short of the demand from the industry “hence the industry was short of service staff even from the very beginning”. An inadequate funding base for the faculty is the main explanation for this shortcoming.

The Faculty works very closely with both the MATI as the private tourism sector association and with individual tourism operators. This enables the FHTS to better respond to industry needs and requirements.

E. SUMMARY

Table 7.2 below lists the most important public and private tourism stakeholder organizations, and summarizes their responsibilities and involvement in tourism development.

Table 7.2: Stakeholder Responsibilities and Involvement

	Ministry of Tourism and Civil Aviation (MTCA)	Maldives Tourism Promotion Board (MTPB)	Faculty of Hospitality and Tourism Studies (FHTS)	Maldives Association of Tourism Industry (MATI)	Ministry of Finance & Treasury (Inland Revenue)	Maldives Monetary Authority (MMA)	Ministry of Economic Development and Trade (MEDT)	Ministry of Planning and National Development (MPND)	Ministry of Transport and Communication (MTC)	Ministry of Higher Education and Labour (MHIEL)	Tour Operators in Source Markets	International Scheduled and Charter Airlines	Domestic Transport Providers	Civil Society	Donor community
Policy formulation	1	2	3	3	3	3									
Legal framework	1	2		3											
- Legislation	1	2		3											
- Regulations/standards	1	2		3						2					
Enforcement	1	1	1												
Planning framework	1	2		3			3	3	3	3	3	3	3		
State budget/finance	1	1				3		3							2
Policy and plan implementation	1	1	2	2		3						3	3		3
State budget/finance	1	1	2		1	3									
Regional development	2			3			2	2	2	2			3		3
WTO agreements	3				2		1								3
Trade issues	3				2		1								3
Awareness and support	1	2	2	2						2	2				

Key: Level of involvement of each entity indicated as follows

- 1. Main responsibility**
- 2. Secondary responsibility**
- 3. Advisory role**

IV Needs Assessment and Recommendations

Overall, the assessment of the DTIS is that institutional capacity for the development, management and implementation of tourism policy in the Maldives is adequate, although there are significant gaps. There is also an almost total absence of civil society involvement or engagement with tourism policy. This section identifies the main gaps or constraints and makes specific recommendations to overcome them.

A. INSTITUTIONAL AND LEGAL FRAMEWORK

The table below illustrates the main gaps or constraints in relation to institutional strengthening and the legal framework governing the tourism sector.

	Constraint (C)		Need (N)
	Current Tourism Act (Law No. 2/99) does not sufficiently clearly stipulate the roles and functions of the ministry responsible for tourism, the Maldives Tourism Promotion Board and the private sector		Review of existing tourism act and accompanying regulations with a view to recommending amendments to ensure clearly defined roles and functions of key tourism stakeholders.
	The Ministry of Tourism and Civil Aviation and other Government bodies involved in the monitoring and enforcement of tourism industry policy, regulations and standards are not sufficiently equipped and funded to undertake these tasks		Enhance inter-ministerial coordination and cooperation relating to the monitoring and enforcement of tourism related regulations and standards, and ensure sufficient resources for effective implementation

Main Recommendation No. 1: Strengthening of tourism institutional structures and legal framework

It is recommended that the tourism institutional structures and legal framework should be strengthened through a thorough a series of three main interrelated activities, as follows.

- 1 Review and update of the existing Tourism Act and accompanying tourism related regulations;
- 2 Ensure sufficient resources to undertake necessary monitoring and enforcement of tourism related regulations and standards and meet the requirements for industry support;
- 3 Establish an Inter-ministerial Tourism Coordination Committee.

TOURISM ACT

A key objective of the proposed review and update of the existing Tourism Act and accompanying tourism related regulations is to ensure that the legislation clearly defines the roles and functions of the key tourism stakeholders, notably the Ministry of Tourism and Civil Aviation, the Maldives Tourism Promotion Board (MTPB) and the private sector. In this connection it is recommended that public-private sector partnership in the industry be strengthened, through an enhanced role of the MTPB with its own Board of Directors drawn from the public and private sector as well as civil society, to replace the present Advisory Council, which does not appear to be an effective body.

RESOURCES

The government should review its level of funding of such activities as monitoring and enforcement of tourism related regulations. It is important that these functions are well resourced. Indeed, it is recommended that an adequate proportion of the revenue that is derived from tourism should be ploughed back into sector to ensure its sustainable growth. Tourism currently generates directly and indirectly about 40 per cent of total government revenue, while only some 1.5 per cent of government expenditure is spent on tourism development. In particular, investment in tourism education, hygiene, safety, and environmental standards as well as in market research is needed to ensure the long-term sustainability of tourism.

It is also essential that the various types of tourism taxation or levies (e.g. bed tax and airport departure tax as well as lease agreements for resorts) should be reviewed if a new tax regime, including for instance, corporate tax or a value added tax (VAT), is introduced.

Meanwhile, government should look into the possibility of making the bed tax progressive to take into account the relative differences in investment and profit levels, though this may be somewhat complicated and will require a system of grading or classification of the resorts.

INTER-MINISTERIAL TOURISM COORDINATION COMMITTEE

The establishment of an Inter-ministerial Tourism Coordination Committee (ITCC) will enhance inter-ministerial coordination and cooperation relating both to the monitoring and enforcement of tourism related regulations and standards, and relating to other issues and subjects affecting tourism development and involving other government ministries and departments, such as immigration and customs, transport and infrastructure, hygiene and safety, etc. It is recommended that such an Inter-Ministerial Committee be established at a high or deputy minister level to ensure that it approaches issues from both policy and operational perspectives.

B. RESORT DEVELOPMENT

The following table outlines the main constraints relating to further resort development and what can be done to overcome these constraints.

	Constraint		Need
	Government releases international public tenders for island resort development in tranches, 14 resorts in 1997 and 11 in 2004. There were too many resorts in these tranches.		Continuing and enhanced planning for sustainable development of tourism through the preparation of a Third Tourism Master Plan
	The tranche approach to the development of resort islands puts unnecessary pressure not only on capital resources but also construction capacity, need for additional employment, transportation, etc.		Tenders should be both well paced balanced regionally to ensure optimal use of resources
	Current tender procedures focus mostly on tender price, i.e. the annual lease per bed space, and prevent the possibilities for diversifying the resort in different standard categories		As part of the master planning process, future resorts should be categorized according to market forces and the development of further accommodation to match differentiated demand for different categories of accommodation and facilities. At the same time, review existing tender procedures with a view to differentiate tenders for different categories of tourists resorts
	Current detailed and fully open tender procedures result in very costly tenders for the industry as a whole, e.g. 206 tender bids for only eleven resort islands, corresponding to almost 20 bids per island.		Review and simplification of existing tender procedures required.

Main Recommendation No. 2: Need to adhere to substantive planning rather than employ the tranche approach

The development of resorts requires a broad planning framework rather than the tranche approach. It is recommended that the tourism master planning process that was commenced in 1980, and resulted in the preparation of two 10-years Tourism Master Plans in 1983 and 1995 respectively, be continued through the preparation of a Third Tourism Master Plan (TTMP).

However, in order to ensure the best possible planning foundation for the preparation of the TTMP, it is strongly recommended that certain essential tourism related studies be conducted prior to the commencement of the Master Plan. In particular, this concerns the preparation of an accurate visitor expenditure survey, a consolidation of earlier tourism

HRD studies and conduct of necessary additional assessment of tourism employment and training needs.

It is also recommended that the TTMP focuses on the following issues:

- a) Revision of tender and lease procedures for resort islands;
- b) Ensure a more even development of tourist resorts and facilities to avoid unnecessary pressure on available capital, human and marketing resources;
- c) Reduction of the proportion of package tourists and dependency on charter flights;
- d) The 7th National Development Plan should make provision for increased inter-sectoral linkages to enhance poverty reduction and further economic development;
- e) Incorporation of benchmark targets for increasing employment of Maldivians in the sector.

C. STATISTICAL DATA

The table below provides an overview of the issues relating to the measurement of the economic impact of tourism.

	Constraints		Need
	Insufficient and unreliable statistical information about the tourism sector including on employment.		Adopt international definitions of tourism terms and concepts as recommended by the World Tourism Organization
			Design and conduct a comprehensive visitor expenditure survey that provides more accurate information on the average total and daily tourism expenditure by market area and segment
			Implementation of a Tourism Satellite Accounts (TSA) system to monitor the economic impact of tourism on a continuing basis as part of the National Accounts system
			Design and conduct a comprehensive tourism employment survey in cooperation with the ministry responsible for labour market issues. This survey should be undertaken regularly twice a year, in peak and off peak seasons

Main Recommendation No. 3: Improved system for collecting tourism statistics

While general tourism statistics in the Maldives are reliable and admirably up-to-date in respect of tourist arrivals and bed occupancy data, the statistics on tourism earnings appear to be underestimated and insufficiently detailed and accurate with an average total that is too low. Similarly, the statistics relating to direct and indirect tourism employment are unreliable. Given the significance of tourism for economic development in the Maldives, it is strongly recommended that the system of tourism statistics, including on tourism employment should be improved.

More specifically, the following activities are recommended to ensure more accurate information on the economic significance of tourism:

- a) Full adoption of international definitions of tourism terms and concepts as recommended by the World Tourism Organization.
- b) Design and conduct of a comprehensive visitor expenditure survey that provides more accurate information on the average total and daily tourism expenditure by market area and segment.
- c) Implementation of a Tourism Satellite Accounts (TSA) system to monitor the economic impact of tourism on a continuing basis as part of the National Accounts system.
- d) Design and conduct of a comprehensive tourism employment survey, to be undertaken on a regular basis twice per year, during the peak and off-peak seasons.

In particular, the findings and results of the visitor expenditure survey should also be used as input for the proposed implementation of a Tourism Satellite Accounts (TSA) system to monitor the economic impact of tourism on a continuing basis as part of the National Accounts system. Spearheaded by the World Tourism Organization, TSA systems are becoming widely used to improve accurate reporting on the economic importance of tourism in national economies. With the position of the Maldives as a top-class tourism destination, the country should also be at the forefront with modern methodologies. This was also a recommendation in a 2000 study on the Economic, Social and Environmental Impact of Tourism.

The Ministry of Tourism and Civil Aviation currently collects information on tourism employment on an ad-hoc basis. It is recommended that a regular tourism employment statistics system, based on international standards, be designed and instituted to provide employment information on a regular basis, twice a year, during peak and non-peak seasons. The availability of such data will also facilitate proper human resource development planning for the tourism sector (please also see the recommendations on employment and training below).

D. ESTABLISH AN ENABLING BUSINESS ENVIRONMENT

The following table identifies the constraints relating to the provision of an enabling business environment for the tourism sector and specific requirements for air travel support.

	Constraint		Need
	Current tender procedures result in costly tenders for the industry as a whole, e.g. 206 tender bids for 11 resort islands, or almost 20 bids per island.		Review and simplification of existing tender procedures to reduce the requirements of the tenders
	In order to operate effectively, the tourist resorts need heavy infrastructure investment in own electricity and water supply systems, sewage system, communication, staff quarters, harbours, etc.		Government through support for destination marketing should reciprocate the special requirement for the private sector to invest in utility infrastructure.
			General need to diversify source markets within Europe and increase the market share of the Australian and Asian markets, need also to diversify market segments

Main Recommendation No. 4: Establishment of an enabling business environment

Wherever governments are seriously committed to tourism development, it is essential that they create a positive investment climate and a general enabling environment for the private sector to operate in.

In the Maldives, it is essential to ensure appropriate and transparent investment incentives and resort lease procedures for the tourism sector (see Chapter 5). It is desirable that all investments are processed by the same agency rather instead of the current arrangement where tourism investments are processed separately.

But there is need to go beyond the traditional focus on the investment climate and provide support especially with respect to continuing effective destination marketing.

E. AIR TRAVEL SUPPORT

The table below summarizes critical issues in regard to air travel support for the tourism sector.

	Constraint		Need
	Insufficient investment in airport navigation and safety equipment		Survey the needs and requirements in respect of navigational, safety and other support facilities at Male' International Airport to ensure top-class airport and aviation facilities to service international air services.
			Survey options for attracting more scheduled commercial flights through invitation of high profile aircraft operators such as like Virgin, or through financial guarantees for certain agreed load factors
			Detailed analysis required of current proposal to establish a national airline jointly with the private sector and a foreign airline to avoid waste of investment
	Two regional airports are built at high standards with 1,200 m tarred runway. But this is insufficient for long haul carriers		Regional airports should be up-graded to handle international wide-bodied aircraft, i.e. the runways extended and navigational and safety equipment up-graded, in step with the development of tourism resorts in the regions.
	There are few airstrips at atoll level to distribute tourist arriving at Male' or (in the future) from regional airports, which has led to the use of amphibian planes to service the resorts.		Survey the options for establishing more and cheaper regional airports or airstrips suitable for smaller STOL (short take off and landing) aircraft.
	Insufficient coordination in use of aircraft between wheel-based Island Aviation Services and the two domestic charter airlines, both using same types of seaplanes		Survey the options for standardizing the aircraft used by both the public and private domestic airlines.

Main Recommendation No. 5: review air travel support needs

There is need for a comprehensive appraisal of air travel support for the tourism sector. The following are among the key issues to be taken into account.

- a) Possibilities for attracting more scheduled commercial flights through invitation of high profile aircraft operators, or through financial guarantees for certain agreed load factors, or through other means.
- b) Detailed analysis of the feasibility of establishing a national airline, in cooperation with the private sector and a foreign airline, or otherwise.
- c) Assessment of the needs and requirements in respect of navigational, safety and other support facilities at Male' International Airport to ensure top-class airport and aviation facilities to service international air services.
- d) Survey the options for establishing more and cheaper regional airports or airstrips suitable for smaller STOL (short take off and landing) aircraft.
- e) Study the options for standardizing the aircraft used by both the public and private domestic airline.

F. EMPLOYMENT AND TRAINING

The table below identifies the constraints relating to employment and training in the tourism sector. The recommendations also focus on the contribution employment can make to poverty reduction.

	Constraint		Need
	Insufficient supply trained tourism sector workers due to limitations in teaching capacity, physical training facilities and funding.		Long-term government investment in tourism education to ensure that the Maldives retains its leading role in sustainable tourism development. This requires expanding and strengthening FHTS to become a centre of excellence that over time will be able to fully meet the demand for trained Maldivian staff in the tourism sector.
	Insufficient knowledge of employment and training requirements of the tourism industry within different skill levels and categories.		Preparation of a detailed human resource development (HRD) plan based on a consolidation of former tourism HRD studies to ascertain employment and training needs, setting clear targets for the proportions of expatriate and local staff at different skill levels in the short, medium and long term. There is also need to gradually reduce the proportion of expatriate staff, as well as to increase the employment of Maldivian women
			General review and updating of existing labour regulations concerning engagement of expatriate staff
	Negative perception in the society about the tourism sector as a provider of respectable carrier opportunities		Incentives required to encourage Maldivians to work in the tourism sector; provision of lodging facilities for outer island students should be part of the government's investment in tourism education; training centres at regional level also required.
	Low proportion intake and output of women students at FHTS; limited lodgings available for students from the outer atolls.		
	Industry traditionally only meant for single young men. Thus insufficient facilities and services in resorts for women and families		Implement resort classification system encouraging resort operators to develop better facilities and services

Main Recommendation No. 6: Scale-up of government funding for tourism education

Although the Maldives has experienced significant development of its tourism since the early seventies, training and education of tourism staff has by no means followed suit. In order to ensure the sustainable development of tourism in the country, the government must fully recognize the need to invest in tourism education. The investment required does not only concern the Faculty of Hospitality and Tourism Studies (FHTS), though this is an important aspect.

To guide the scale-up of government funding for training, it is recommended that a comprehensive Tourism HRD Plan be prepared. The Tourism HRD Plan should build on earlier studies undertaken in tourism HRD, including the most recent March 2005 IDA study on Human Resource Needs, the World Tourism Organization 2004 Technical Assistance Mission Review of Human Resource Development in Tourism and the findings and recommendations made under the ongoing ADB funded Employment Skills Training Programme.

It is essential that the proposed investment in tourism education takes advantage of earlier studies undertaken in tourism HRD and is coordinated with ongoing HRD initiatives such as the ADB funded Employment Skills Training Programme and builds on these initiatives.

As far as the FHTS is concerned, there is need for regional campuses, to ensure a much greater intake and output of trained personnel for the tourism industry, especially at all operational levels. In Male' where the FHTS has its main campus, there is need for adequate lodging facilities for students from the outer atolls.

However, it is equally important that the private tourism sector also recognizes the need to provide training facilities and opportunities. In particular, there is much scope for the private sector to participate in structured apprenticeship training schemes and to work more closely with FHTS.

Investment in tourism education covers a broad spectrum of short, medium and long-term activities, including raising awareness on the economic and social benefits of tourism to the country, at primary and secondary schools, in the outer islands, and even in government agencies and departments.

In particular, it is necessary to combat the negative perception in the society about the tourism sector as a provider of respectable career opportunities, and to encourage young Maldivians to seek employment and career opportunities in tourism. Accordingly, it is recommended that a comprehensive tourism awareness programme be designed and implemented. This should include incentives such as a conducive working environment to encourage and ensure the participation to Maldivian women.

It is important that such an awareness programme is targeted at all levels of the society and designed to have long-term effect. This will require incorporation of the key interventions in the school curricula at both primary and secondary levels (building on the recent introduction of tourism in secondary school curriculum).

CHAPTER 8

FISHERY SECTOR

Chapter Plan

The chapter begins with an overview of some distinctive features of the fishery sector in the Maldives, followed by a discussion of sectoral trends, policy and institutional issues. The chapter concludes by outlining the key recommendations for reform.

I. Distinctive Features of the Fishery Sector

The geographical characteristics of the Maldives as an archipelago with a 960,000-km² exclusive economic zone (EEZ) make marine resources an important natural asset. The vast EEZ contains a variety of pelagic species (i.e. fish living in the open ocean) such as tuna species and mackerel, near shore reef fish species and demersal or bottom living species. There are two main commercially active sub-sectors: marine catch fishery and fish processing. There is at present no aquaculture on any commercial scale.

Tuna species make up as much as 85 per cent of the catch, with skipjack (SKJ) tuna accounting for 70 per cent of the total landings of about 158,600 tonnes in 2004. Yellowfin tuna accounted for 16 per cent. Other tuna species (big eye, frigate, kawakawa, dogtooth, and bonito) accounted for 5 per cent. Reef fish (found near the shore and include grouper, mullet, snapper shark, sea cucumber, and lobster), demersal species, and other deep-water species (such as marlin, sword fish and sea cucumbers) accounted for the remaining 10 per cent.

The government has consistently promoted sustainable, environmental friendly fishing methods such as pole, line, long line, trolling, and hand line. Gill netting is only allowed in areas designated for bait fishing. These are also labour intensive methods. Maldives can attract premium on its fish exports if it can successfully establish a 'Maldives Fish' environment-friendly brand. On-board activities account for more than the 90 per cent of sector employment with processing and other value-added activities accounting for the rest.

II. Main Trends in the Fishery Sector

The economic role of the fisheries sector in terms of contribution to GDP has changed little during the last 10 years, 1995-2004 (see Table 8.1 and Graph below). Including processing activities, the sector contributed Rf 451 million in 1995 (measured in 1998 constant prices), rising to Rf 713 million in 2004, corresponding to a GDP share of 11 per

cent and 9 per cent respectively. Average sector growth over the entire period was 58 per cent. But processing activities performed better, growing by 76 per cent during the period compared to marine catch fishing, which grew by 52 per cent.

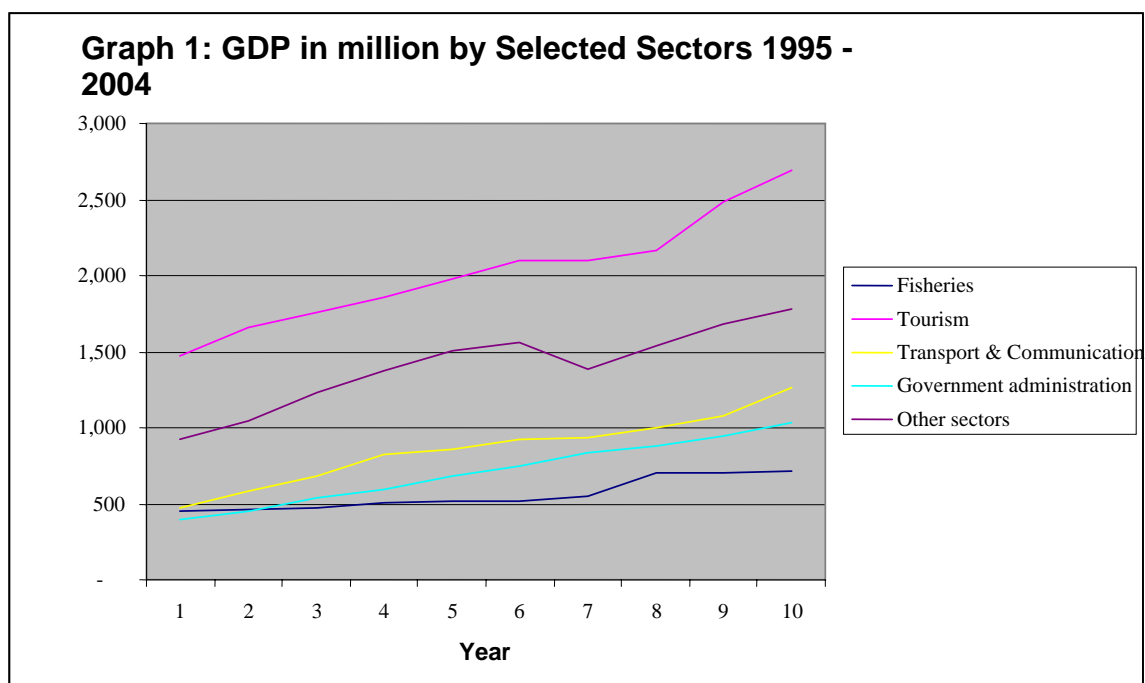
However, growth rates for more recent years show that overall sector growth declined from 28 per cent in 2001-2002 to a negative 0.6 per cent in 2003-2004, with fish

Table 8.1: GDP for Selected Sectors (Rf in million, 1998 constant prices)

Sector	1995		2000		2004		% Growth 1995-2004
	Value	% Share	Value	% Share	Value	% Share	
Fishing	335	8	381	6	508	6	52
Fish preparation	116	3	132	2	204	2	76
<i>Sub-total fisheries</i>	<i>451</i>	<i>11</i>	<i>513</i>	<i>8</i>	<i>713</i>	<i>9</i>	<i>58</i>
Tourism	1,474	35	2,094	33	2,689	33	82
Transport & communication	478	11	919	14	1,262	15	164
Government administration	400	10	751	12	1,029	13	158
Other sectors	918	22	1,555	25	1,775	22	93
Total	4,172	100	6,346	100	8,180	100	96

Source: Ministry of Planning & National Development

Note: Estimated using production approach



processing under-performing more than fishing (see Table 8.2 and Graph above). These annual changes reflect mostly fluctuations in international prices gained on exported fish products, where prices in 2002 were high and the landing also higher than for 2003 and 2004. However, the main trend indicates a declining contribution of fisheries to the national economy.

Activities such as vessel building and repair and maintenance ought to be included in sector data but these are statistically recorded under manufacturing.

Compared to the most dynamic sectors such as transport and communication, with a period growth rate of 154 per cent, government administration (162 per cent), and tourism (82 per cent), the fishery sector is not fulfilling its potential, although exports have held reasonably well.

Table 8.2: Sector Growth Rates 2001-2004

Sector	%Growth 2001-02	%Growth 2002-03	%Growth 2003-04
Fishing	22.9	0.7	2.0
Fish processing	43.2	-3.7	0.1
Sub-total fisheries	28.4	-0.6	1.5

The December 2004 tsunami resulted in some damage to the fishery sector although recovery was impressively rapid. Over 100 fishing vessels in the medium size range and 20 artisanal fishing vessels are reported lost or seriously damaged. An additional 22 vessels are out of commission due to damage to engine and fishing gear. With an average crew of eight per vessel, this amounted to direct income loss for about 1,100 fishermen. Fishery infrastructure such as harbours and safe anchorage, and boat sheds was also damaged on several islands. Traditional fish processors, mainly women, were also affected.

According to the estimates prepared by MFAMR, the total cost for repair and rehabilitation of the damage to the fishery sector was around Rf. 321 million (or US\$25 million). These damage assessments and cost estimates cover repair and/or replacement of fishing vessels, engines, fishing gear and accessories, fish processing equipment and infrastructure (see Table 8.3). But, recovery has been fast as the landings of the third quarter of 2005 were higher than for 2004.

A. TRADE PATTERNS

Unlike tourism where the government is active in promoting FDI and in marketing the Maldives as a destination, the fishery sector has seen virtually no FDI and attracts relatively little government support. In addition to fishermen carrying out fishing as a

traditional occupation operating from the islands, there are about 43 licensed fishing companies operating in the Maldives EEZ. Although registered in the Maldives, these companies typically operate vessels registered in other countries. There is very little information available on the activities of these companies, and consequently inadequate transparency on fishery operations in the EEZ.

Table 8.3 Tsunami Damage Estimates

Source:	No.	Type of Facility	Unit	Damage to Infrastructure ¹		Total Damage to Infrastructure		
				Full	Part	Rf Million	US\$ Million ²	
Joint WB/	1	Fishing vessels	No.	120	320	147.50	11.48	
FAO	2	Fish processors ³	No.	374	0	17.80	1.38	
dama	3	Reef fishery ⁴	No.	0	5	1.88	0.14	
ge	4	Infrastructure ⁵	No.	8	2	1.55	0.12	
Asses	5	Business loss ⁶				152.57	11.87	
smen	Total						321.32	25.00

t,

February 2005

¹ Damage estimate is based on MFARM's revised estimate, received on 13 January 2005.

² \$1.0 = Rf12.85

³ 337 Cottage fish processors and 37 commercial processors lost equipment and materials.

⁴ Reef fishery damages include lost equipment, harvesting fleet materials and lost ocean cages

⁵ Infrastructure includes damaged boatsheds, MRS, and FAD centre

⁶ Direct income losses from fishing and other businesses estimated here. MFAMR estimate of MVR 405.04 million as business losses also include financial costs for vessels and loss in GDP.

IMPORTS

Most capital goods such as inboard or out-board engines, fishing gear or mechanical parts and all fuel and lubricants required for operations are imported.²⁷ The import bill in value terms for mechanical items was Rf 71 million in 2004, less than 1 per cent of total imports amounting to Rf 8,215 million.

The main importer of inputs and equipment for the industry is the State Trade Organisation (STO). Private importers have only a small share of this business. According to interviews conducted by the DTIS team, there was widespread disappointment among with the performance of STO as prices for comparable equipment in Sri Lanka are as much as 15 to 30 per cent lower. This view of monopolistic methods at STO is reinforced by the fact that it is able to provide loan financing for the purchase of equipment it imports.

EXPORTS

In the first half of 2005, the fisheries sector accounted for 98 per cent of merchandise exports, whilst the apparel sector had virtually disappeared and accounted for a mere 1

²⁷ Fishing vessels are produced at five substantial boat yards in addition to a number of smaller boat building businesses. Two different types of vessels are built in the Maldives: wooden hulled (the traditional masdhonis) and cast glass fibre vessels. Most repair and maintenance is also carried out in the country.

per cent – see Table 8.4. The sector also contributes directly to the government budget through the collection of a 5 percent weight-based export charge tax known as “royalty.” In 2004 this amounted to Rf 57.8 million.

Table 8.4: Principal Exports (2003-2005)

Description	2003		2004		2005 (Jan-Jun)	
	Value (RF mn)	% Total Exports	Value (RF mn)	% Total Export s	Value (RF mn)	% Total Exports
Various tuna products	843	58.3	1,056	67.2	682	91.3
Reef fish products	61	4.2	23	0.1	0	0.0
Sea Cucumber (dried)	43	3.0	31	2.0	15	2.0
Other Marine Products	19	1.3	30	2.4	28	3.7
Fish Meal	13	0.9	15	1.0	9	1.2
Sub-Total Fish sector	979	67.8	1,156	72.5	734	98.3
Garments and apparel	462	32.0	409	26.0	8	1.1
Others (mostly scrap metal, desalination parts, velambul)	4	0.3	8	1.5	5	0.7
TOTAL	1,445	100.0%	1,572	100.0	747	100.0%

Source: Calculated from Statistical Yearbook of Maldives 2004 and Export by Commodity and Customs Services

Fisheries exports are concentrated on essentially derivative products from one species, skipjack tuna, which, in 2004, accounted for 70 per cent of fish exports in volume terms. However, in recent years, yellow fin tuna landings and exports have increased accounting for 16 per cent by volume in 2004.

Within this pelagic group of fish, the largest exports by value are of frozen skipjack (SKJ) followed by canned, dried and a small amount of salted dried. It is noteworthy that fisheries and fisheries exports still focus on low value species, with only a small amount of added value accruing to the Maldives. While export volumes continue to grow, export values vary according to the international price level, where the Maldives is a price taker on virtually all fish products. Only the fairly small volume of canned fish attracts a small premium of approximately US\$ 2 per case, due to the environment-friendly - but not labeled as such - status of the product where the raw material is caught by pole and line.

The importance of reef fish exports has been declining in the last few years, but the export of sea cucumber remains significant. The decline in reef fish products is a reflection of lower volumes of landings, and increased sales domestically to the tourism resorts. The majority of fish product exports are now handled by the private sector rather than by the parastatal fish company, MIFCO. In both 2003 and 2004, private sector exports accounted for roughly two-thirds of fisheries exports.

In terms of the destination of Maldives' fisheries exports, the main markets in 2005 are relatively evenly distributed between the EU, Thailand and Japan, each accounting for between 20-25 per cent of total exports (see Table 8.5). The EU market seems to be following a fairly solid growth rate. But the Japanese market grew considerably during

2005 accounting for almost a quarter of total exports in the first half of the year. Sri Lanka has remained a significant market (around 13 per cent).

Table 8.5: Main Export Destinations, percentage by value (FOB)

Country	2001	2002	2003	2004	2005 (Jan-Jun)
United States	40.7	38.4	32.3	26.5	1.2
EU, of which:	17.1	14.0	15.7	19.3	24.4
UK	9.0	9.5	9.7	9.8	13.0
Germany	6.1	3.3	3.8	4.9	5.2
Sri Lanka	19.3	15.4	13.6	12.3	13.4
Thailand	8.6	14.6	16.4	23.5	21.2
Japan	4.6	11.5	10.3	11.7	24.5

Source: Calculated from Statistical Yearbook of Maldives 2004 and Customs Services

The bulk of the frozen products (tuna) are exported to the Thai processing industry, where economies of scale allow more profitable production of canned tuna destined in particular for the EU and US markets. The EU is the main market for canned tuna from the Maldives, of which the UK and Germany are the most important markets, followed by France, the Netherlands and Italy. Sri Lanka takes mostly dried and salted fish products, with only little value added accruing to the Maldives. But these intermediaries are turned into more attractive fish oils etc. in Sri Lanka. The latter process could just as easily take place in the Maldives. In fact, the level of fish manufacturing is lagging behind and product development is receiving very little attention and support. The government has yet to take the lead in promoting product development or new sustainable fishing technologies for example, for reef fish.

For the foreseeable future, merchandise exports from Maldives are likely to remain based on fish products. The direction of exports will therefore be towards the future main fish product importing markets. In this regard the EU is the leading worldwide importer, with imports of eight million tonnes in 2001²⁸. It is a particularly attractive market for suppliers providing value added products such as fresh on ice products, reef or deep-water fish fillets and tuna loins. The EU market for whole fish is limited. With a growth rate of 3 – 4 per cent per annum, the EU market is likely to remain the most important destination for Maldivian seafood exporters as the products demanded are canned and frozen loins of yellow fin tuna, and reef fish such as snappers and groupers, which are available in the Maldivian waters. However, to gain and extend market share in the EU will require that the Maldivian industry export value added products to meet the demand for ready meal fish products.

Japan on the other hand remains focused on frozen whole fish for its sushi and sashimi markets. Although growth rates at 4 - 5 per cent per annum are slightly higher than in the EU, whole fish products in demand in Japan are based on blue fin and big eye tuna, which are rarely caught in Maldivian waters.

²⁸ The most recent year where comparable data are available according to the leading seafood market intelligence organizations: EUROFISH Magazine (part of the FAO Globefish network) and Seafood International – a leading commercial magazine.

In the light of these market trends, Maldivian suppliers endeavouring to take advantage of the opportunities will have to invest in modern facilities to meet processing standards in these markets. Standards are virtually the same for the EU and the United States and with small differences for Japan.

If and when the Maldives graduates from LDC status, it will no longer be eligible for certain preferences including fish exports. It is expected that canned, fresh and chilled tuna exported to the EU will be affected.

DOMESTIC TRADE

The domestic trade in fish and fish products is driven by:

- Consumption by Maldivian people
- Consumption at the tourist resorts

The statistical information does not provide data for these two groups. However, FAOSTAT has estimated consumption per year of 161 kg per person in raw fish equivalents. This indicates the importance of fish in the local diet in which SKJ is the preferred species, sold as fresh fish.

The main domestic market outlet is Male', where SKJ attracts higher prices per kg than yellowfin tuna. The secondary markets are the regional hubs. Other parts of the catch are consumed locally at the home islands of the vessels. Fish may be sold directly from the beach or in increasing numbers from harbour-side markets. On inhabited islands, excess catch is processed or sold to middlemen for processing. It was reported to the DTIS team that traditional hot smoking of fish is still carried out on the islands for the taste and as a way of preserving the fish.

Figures for resort consumption or purchase are not directly available. However, according to the interviews conducted by the DTIS team with resort chefs and vessel owners, quantities sold to the resorts are relatively small. The highest demand is for reef fish and lobster. The chefs recognize the high quality of these products from Maldivian waters. But problems with the regularity in supply have been encountered, causing the chefs to be very conscious about alternative supply sources. This explains why some of the resorts have started to buy reef fish from contracted fishing boats. It was noted that imports of fish products still supply many of the resorts and restaurant catering consumption.

B. EMPLOYMENT AND TRAINING

With some 200 inhabited islands fishing has been and remains the main traditional occupation. There is no systematic data gathering on employment in the fishery sector that covers both traditional fishermen and the registered companies. But based on national census data, employment in the sector in 2000 was 9,234 persons, about 11 per

cent share of overall employment. This represents a decrease of 19 per cent from 11,943 in 1990, a trend that has been observed since 1980 (see Table 8.6).

While the total workforce grew by more than 30,000 between 1990 and 2000, the share of the fishery sector in overall employment decreased by 10 per cent. The explanatory factors include:

- A higher level of efficiency in fishing due to gradual modernization of the fleet in terms of better engines and a few new fibreglass vessels. These require shorter and fewer trips to produce the same or even higher volume of catch.
- Low level of value added activities, weak linkages with other economic sectors, and decline of the traditional cottage style processing.
- Fishing is not seen as an attractive career opportunity by the younger generation, as the profession is not associated with educational and social esteem. Current conditions on board are basic. These factors outweigh the income generating aspect, which for fishing exceeds a standard government salary check

Table 8.6: Sector Employment

Census	National	Sector	% Share	On-board	Other	Men	Women
	Employment	Employment		Activities	Activities		
1990	55,949	11,498	21	11,364	134	11,181	317
2000	86,245	9,294	11	9,019	275	9,181	113
Decline		2,204		2,345		2,000	204
% Decline		19		21		18	64

Source: NPND 2004, Table 3.9

Local fishermen use pole and line to catch skipjack tuna, which accounts for most of the catch in the Maldives. This is a labour intensive and fairly sustainable method of fishing. On-board activities accounted for 98 per cent of sector employment in 1990 and 97 percent in 2000.

Other employment activities in the sector relate mostly to fish handling and processing activities, associated administrative work, repair and maintenance. The small increase in these non-fishing jobs indicates that the multiplier factor can improve if more value-added activities are carried out.

Fishing as a traditional business is mostly practised from wooden hulled vessels with basic facilities for the crew. As most fishing is with pole and line carried out on a day-trip basis, conditions on board are not suitable for women, and the pole and line technology that is applied requires muscle power.

Accordingly, women employment in the sector is mostly in processing and administrative activities. In the few processing factories that are in operation, women carry out tasks such as filleting, trimming, packing, in addition to quality control procedures,

documentation, and administration. However, there was a substantial decline in women employment in the sector of around 64 per cent between 1990 and 2000. The main reason is the general decline of the traditional cottage style processing of 'Maldives Fish' (dried, salted, or smoked).

There are also differences in sector employment patterns between the atolls. While more than one in three workers in Ghaafu Alifu is employed in fishing, less than one in twelve workers in Haa Dhaalu, Shaviyani, Noonu and Gnaviyani are employed in fishing.

The DTIS team established that 672 foreign workers worked in the sector in 2003 – a number that has been gradually increasing over the years. These jobs are mostly in management and processing activities requiring skills.

Training facilities are limited in number, scope and quality. The main facility is the Centre for Maritime Studies (CMS), which offers training in navigation and associated functions. MFAMR offers a short course in fish filleting and packaging that is targeted at women. The Faculty of Engineering and Technology offers training in general mechanical engineering but this is mostly geared towards careers in the merchant fleet and inter-island tourist transport.

However, there are no courses to provide training for fishing captains, master fishermen, mechanical engineers in a modern fishing fleet, on-board post harvest handling of the catch, and quality assurance systems such as the Hazard Analysis Critical Control Points (HACCP), or ISO 9001 and 14001 series quality assurance standard documentation systems. This partially explains why employment as a fisherman is considered to be work for the uneducated, associated with low social status and offering very little attraction for the young.

III. Institutional and Policy Issues

Fisheries policy and regulation is the responsibility of Ministry of Fisheries, Agriculture and Marine Resources (MFAMR) while the Marine Research Centre (MRC) is responsible for scientific research and analysis. Some of the staff in both agencies is highly qualified. For example, the MRC has a staff of 26, eight of whom hold academic degrees. But the overall capacity to carry out policy analysis and implement development plans is considered insufficient. There is scope for upgrading the level of technical training and bringing modern methods of fishery policy management into work of the two agencies.

Other participants in fisheries policy are the Maldives Industrial Fishing Company (MIFCO) a state-owned enterprise, the Maldives Fisherman Association, and the Public Health Laboratory (PHL).

MIFCO acts as a wholesale buyer especially in the southern atolls. It is also a processor and exporter (in competition with private companies). In all, there are four commercial

fish processing and canning plants in the country, one of which is run by MIFCO. In addition, MIFCO carries out some international promotion of Maldives fish exports.

The Maldives Fisherman Association draws its membership from the traditional occupation. Although part of its mandate is to represent this group in the policy process, its capacity is extremely weak and its influence is marginal.

The PHL is responsible for the application of sanitary and phyto-sanitary (SPS) regulations. However capacity is limited and an up-grade is needed to establish it as an accredited SPS laboratory linked to appropriate research faculty to ensure linkages between basic and applied research.

The fishery law that is currently in force dates from 1985. Together with the Regulation For Issuing The License To Fish In The Exclusive Economic Zone Of The Republic Of The Maldives. It stipulates the allowed fishing methods and zones. Further regulation is carried out through the issuing of fishing licenses through which the legal requirement that fishing must be carried out through lining and pole and line methods are conveyed. This requirement makes the Maldives high sea fishery extremely ecologically friendly.

At the time the DTIS field research was carried out, MFAMR had a draft bill before the parliament that took into account modern international agreements and practices as well as standards for monitoring and enforcement. The bill encompasses all aspects of aquaculture for which there is no provision in the existing legal framework. Some parts of the bill are already being applied such as the proposed licensing system for high sea fisheries, allowed fishing methods, fees and quota systems. In addition the World Bank is undertaking preparation of a Fisheries Master Plan which, when completed by the end of 2006, will provide the main levers of fisheries policy and the key tools for regulating the sector.

Current regulatory practices including application of fees and quotas are not fully transparent. The fact that statistical data on sector operations are not collected systematically (see below) also contributes to the lack of transparency. Fees are applied for reef or near shore and high sea fishing. The near shore license fee is a mere Rf 120 (approximately 9 USD) per vessel per year. The license fee for high sea fishing is based on the size of the vessel (gross registered tonnage) and the quota rights bought. Although the DTIS team requested information on the details of the license fee for high sea fishing, this was not forthcoming.

There is no efficient inspection of the EEZ, although there is the perception that illegal fishing by foreign companies is practised. This is a direct loss to the economy. But on top of this, the opportunity to develop the sector on the basis of a greater variety of raw material and products is also lost. The main constraint is related to the lack of modern inspection vessels. The Coast Guard acquired the vessels that are currently in operation second-hand more than 20 years ago.

The system for data collection in operation for policy design, planning, implementation,

monitoring and evaluation dates from 1959 with an up-grade in 1970. It is considered accurate for fishing carried out through traditional pole and line methods. But it relies on skippers or boat owners reporting daily catches to government offices or representatives on the 200 inhabited islands. This system of total enumeration of the tuna catch has been in place for over 35 years now, resulting in time series data by species, boat type, atoll and month. However, there are gaps as there is both under-reporting and systematic data is not collected on species such as yellowfin from long lining, lobster, sea cucumber etc. as found by the 2003 Country Report on Fisheries and Statistics in the Maldives sponsored by the IOTC. In practice, shortages of resources and trained personnel affect the quality, regularity and timeliness of collection and dissemination of comprehensive fishery statistics as confirmed by DTIS interviews with MFAMR, MRC and vessel owners. There is also no systematic data collection on sector employment.

In addition, fish stock assessment based on up-to-date scientific methods is not carried out due to MRC's lack of access to a research vessel. It is expected that in future, the Indian Ocean Tuna Conference (IOTC) Indian Ocean-wide tuna-tagging programme may help to provide better data. This programme is designed to assess and monitor tuna stock crossing the ocean, but results are not yet available. As a result of insufficient data, planning EEZ tuna fisheries management is at a rudimentary stage. This is a major concern as management measures and instruments have to be defined in an appropriate regulatory framework to ensure sustainable practices. As previously noted, the Draft Bill of 2001 contains the necessary elements for a modern fishery sector regulatory framework, but is yet to be enacted.

There are further policy gaps. International market trends for specific commercially interesting product categories are not closely aligned with fishery policy. There is no clear policy on investment in the sector, whether local or foreign, in sharp contrast to the elaborate policy framework that is in place for the tourism sector. There are ad hoc provisions such as customs duty waivers fully or in part on vessel construction materials and engines. But there is no strategic policy approach or prioritization of value-added support measures and high value products such as:

- Fish fingers, sausages and burgers based on trimmings from filleting
- Ready-made meals and other consumer packs
- Smoked and cured products etc.

Accordingly, expansion and modernization of the fishing industry has lagged. One consequence is that post-harvest losses are substantial ranging from 15 to 25 per cent of the catch due to inadequate processing and cold storage capacity. Onboard preservation is also limited as only modern vessels have space for flake ice to preserve the catch. There are also only a few flake ice plants that are in operation. Mariculture, which is concerned with product preservation, is surprisingly underdeveloped in relation to the size and potential of the sector. This also implies that capacity to meet international quality standards is limited.

There is a lack of suitable infrastructure to support the industry and the supply of quality products. The shortcomings include:

- Designated fishery ports with facilities for bunkering;
- Facilities for flake ice production to reduce post harvest loss;
- Adequate facilities for catch storage (chill and cold) to receive the landings; and
- Slipways and workshops for repair and maintenance.

In particular, slow domestic transport increases the cost of post harvest products and reduces international competitiveness. Inter- and intra-atoll transport is almost always by boat with frequent difficulties in scheduling departure of products. For export products the situation is aggravated as the waiting time for reefer containers is often more than a week at the only export harbour at the main port of Male'.

Domestic airfreight of fresh-on-ice fish products is costly as carriers designed for refrigerated products are not available. In fact, the three air transport companies that operate in the country only accept fish products for transportation if there is un-utilized space. In any event, on-carrier facilities for chilled or frozen products are non-existent, and there is no cold room at Male' airport – the only export airport. At present exporters have to time consignments carefully and ship the iced product just in time for the scheduled carrier take-off. However, it is anticipated that the situation will improve when the new terminal at Male' airport is completed in late 2006. It will accommodate a cold storage facility. As fresh-on-ice products attract higher prices in international markets, decent facilities at the airport are critical.

The non-alignment of policy with commercial opportunities is further reflected in the almost total absence of aquaculture – the cultivation of certain fish species – in the Maldives although the reef provides a natural habitat. This is in sharp contrast to recent developments elsewhere, for example Vietnam, where major successes have been recorded as regards aquaculture. In Vietnam, export of cultivated shellfish and white fish products increased 10-fold over six years creating new jobs in the primary, secondary and tertiary sectors of the economy.

Another gap concerns the inadequate policy measures to promote the sector as an employment and business opportunity. Although fishing as such is potentially lucrative and generates average returns that are higher than income from public sector employment, as an occupation it is held in low esteem in Maldives society. The younger population shuns fishing, a trend confirmed by the findings of VPA-2, which shows that the average crew age is increasing. As previously noted, the provision of appropriate training facilities as the basis of modernization and professionalization of the occupation can help overcome this trend with significant gains for the development of the sector. Credit and business support facilities for the occupation are also required (see chapter on business environment and private sector development).

Finally, inadequate policy measures to promote the sector as an employment and business opportunity is also reflected in the weak linkages to the tourism industry. Although resort

and catering industry chefs demand fresh reef fish, crustacean products and the more expensive tuna species such as yellowfin and bigeye for their clientele, supply has been uncertain and inconsistent, leading in some case to fish imports!

Another linkage to the tourism sector that is underdeveloped is recreational fishing. With fishing as a traditional occupation, there is no shortage of expertise to support the establishment of this service as a tourist activity. In addition, visits by tourist to the islands where fishing is the leading occupation can provide a ‘cultural village’ experience including demonstrations of traditional fish processing. As women are mostly engaged in this activity, this can also enhance income generation opportunities for them.

IV. Recommendations

Based on the foregoing discussion, the matrix below relates the main problems and constraints with action that is recommended to deal with them. Further elaboration of the matrix is also provided.

Problem	Constraint	Recommendation
<p>There is only second hand fish stock assessment data available to MFAMR for policy and planning purposes.</p> <p>There is little capacity to carry out fishery inspection in the Maldivian EEZ</p> <p>Post harvest losses are substantial leading to quality and value addition losses, as well sector under-performance in relation to employment creation.</p>	<p>Stock assessment for reef fish and tuna has not been carried out for more than 20 years.</p> <p>The Coast Guard is responsible for this service but lacks suitable vessels and equipment.</p> <p>The present fishery practices, policy regime and traditional methods limit activities to near coast fisheries, with high sea fishery licensed to foreign companies</p>	<p>MRC should be provided with a multipurpose fishing vessel for fishery research and to lead an in depth assessment of the stock by species.</p> <p>The Coast Guard need two new multi flex vessels for carrying out fisheries inspection, to enforce environmental protection requirements, and provide sea rescue services.</p> <p>Coherent sector policy is required. Draft Bill should be adopted to provide a modern regulatory framework</p>
<p>Business development in fisheries is underdeveloped.</p> <p>The export of fish products is limited to low value products.</p>	<p>Access to investment and operating capital is difficult as the level of interest and collateral requirements are prohibitive.</p> <p>Advisory services to potential and existing investors are virtually non-existent.</p> <p>There is no export promotion organization or coherent basis for co-operation between the companies and MFAMR or other relevant authorities.</p>	<p>A whole range of support services is required.</p> <p>A comprehensive approach to investment and export promotion including business support services for the traditional fishery is required.</p>
<p>Training of fishermen is traditionally done on a learning-by-</p>	<p>Though there are several educational centres and faculties,</p>	<p>Training programmes should be developed to meet the needs of a</p>

doing basis. Maintenance technicians to service and repair vessel, engines gear, and processing equipment mostly receive on the job training.	no tailor- made education or training courses have been developed for fishery sector value chain, fishing vessel operation and maintenance.	modern fishery sector including fish capture technology, mariculture and aquaculture
The natural environment provides the Maldives with opportunities for sustainable aquaculture, which would enhance trade and export through diversification.	There is at present no commercial aquaculture activity or training offered in the Maldives.	The potential for aquaculture should be studied this entails identification of suitable zoning systems.
Export of high value fish products by air is limited.	There is no cold room at the airport, which reduces capacity to handle fresh fish products.	There is need to link domestic and international air transport services more efficiently to support exports. A cold storage facility should be provided at the airport.

A. POLICY FRAMEWORK

The ambition for the Maldives in the fishery sector is to become a significant exporter of quality fish products. This requires a policy and legal framework with appropriate measures to support the modernization of the sector. It is anticipated that the Fishery Sector Master Plan in preparation with World Bank support and due to be made available during 2006 will make a significant contribution in this regard. The draft fisheries bill also needs to be adopted to provide a modern regulatory framework.

Capacity building is required for MOFAMR and MRC to put in place the research, monitoring and scientific systems to ensure sustainable management of fish stocks. Enhanced capacity of the coast guard for inspection and enforcement in the EEZ is also required. Improved transparency as regards the issuing of licenses to companies operating in the EEZ will contribute to sustainable management of the stock and compliance with regulations.

Stock assessment and management capacity suffers from lack of access to primary basic scientific data especially as regards the EEZ. Policymaking, design and implementation of fisheries management systems without stock data and assessment are inefficient.

Therefore, stock assessment has to be initiated as soon as possible with capacity to monitor the stock on a regular basis.

The simplest method is to carry out trial fisheries. MRC and/or CMS should acquire a multipurpose fishing vessel for this purpose. This type of vessel would benefit both institutions in regard to research and training. A joint effort would ensure a high utilisation rate.

It is expected that the trial fishery will identify further resources of high value fish at deep water. Through training, the fishermen will acquire the ability to conduct deep-water fishing.

The main benefit accruing to MRC from this vessel would be its potential to provide data for scientific interpretation and hence policy design and planning. In particular, such knowledge is valuable to assess Maximum Sustainable Yields for reef fish stocks at different water depths.

Similarly the policy framework should include means of policy monitoring and enforcement of territorial rights. At present fisheries inspection is rudimentary due to lack of necessary means. The result is a loss of valuable fish biomass to illegal fishery and a loss to the Maldivian economy. To reduce illegal fishery a new inspection vessels should be made available to the Coast Guard. These vessels should be based on international design standards. As a concept the Danish Standard Flex vessel, which performs fishery inspection in the Danish EEZ, would suit the purpose. It has powerful engines that can track down intruding fishing vessels and flexibility in design allows the following range of services:

- Fisheries inspection;
- Emergency medical transport;
- Fire and oils spill fighting;
- High sea rescuing.

If properly equipped, the Coast Guard would enhance its capacity to effectively control the territorial waters and make sure that fishing is carried out by licence holding fishing vessels.

B. INVESTMENT AND BUSINESS SUPPORT

That business and investment support functions are limited is reflected in the fairly low level of investment and underperformance in the sector. The DTIS recommendations for improving the business environment and facilitating private sector development are particularly relevant for the modernization of the traditional fishery. (See chapter 5).

C. EXPORT PROMOTION SERVICES

With the Maldives Fishermen's Association facing serious capacity deficiencies, there is no organisational framework for collaboration between Maldives' fish exporters for product promotion. There is need for government assistance in establishing an export group and for a variety of support services to be provided to it.

The goal would be to increase the export volume and value destined for the high end of markets, which will result in a direct increase in income generation for the industry. Additional employment will be created in the industry at sea and on shore.

The export group will need seed financing for its activities during the first few years to prepare documentation and establish a network. The export group should be seen as a facilitator with the main responsibility to carry out export promotion and market research. It should participate in the major international fish fairs and trade fairs.

D. PRODUCT DIVERSIFICATION AND QUALITY IMPROVEMENT

Modernization of the sector further requires extending the range of primary production through catch and aquaculture and in developing new high value processed for export as well for as the local tourism sector and the local market.

With the objective of enhancing export diversification and linkages, a product development programme should be implemented. This would include expanding the range of primary production through catch and aquaculture, and in terms of developing new high value processed products for the export and tourism sector markets. The programme will contribute further towards atolls development and gender equalisation if the activities are executed regionally.

A new laboratory and processing hall should be made available for the common use of the processing industry against a complementary user fee. The laboratory should be fully equipped with facilities for testing the products under development, and to carry out quality control. A least cost approach would be to expand the role of MRC to encompass product development (which is a slight diversion from the recommendation of the KF study where an entire new facility/laboratory would be established). Towards this end, MRC should act as a facilitator as it would link demand driven product development to its own scientific knowledge concerning the availability of the sustainable raw material base. Some potential products based on existing demand patterns in European and Asian markets are the following:

- Filleting and freezing (block/IQF);
- De-boning;
- Sausages, fish burgers and fish fingers;
- Smoking;
- Vacuum packing and wrapping;

- Can seaming and retorting;
- Fishmeal production.

With the establishment of a product development centre, MRC will become a more active player supporting the industry, and it will contribute to an increase in the value of the products developed from the resource endowment.

E. AQUACULTURE

A pilot aquaculture project should be designed with the objective of developing a sustainable aquaculture sector, with a view towards supplying local markets as well as for exports. When validated with positive results, the scheme should be extended to villagers – especially women – as an income generating activity.

Given the generous number of lagoons and sheltered areas in the atolls, mariculture development should be initiated with government support but operated by the private sector. Mariculture has great potential to deliver quality white fish, shellfish and other marine products to the tourism industry and for export. It can also contribute to reducing regional disparities and poverty as it can be implemented in the outer atolls thus providing job opportunities to local communities. Mariculture is particularly suitable for women- friendly work.

With the objective of developing a sustainable aquaculture sector in commercial scale from brood stock management to harvestable consumer size fish, a pilot aquaculture development project should be designed.

Due to its experimental nature, the pilot project should be placed under the auspices of MRC. MIFCO has already expressed interest in being a partner, and negotiations between MFAMR and MIFCO should take place soon to assess whether an extension of the existing aquaculture project will be fruitful.

F. EDUCATION AND TRAINING

The vision to modernize the fishery sector should be complemented by comprehensive education and training facilities to provide the necessary range of skills. Close collaboration between the industry and the existing training facilities will be required to design the programmes. Efforts are also required to make fishery-related occupations attractive to the young.

The education system should be adapted to meet the requirements of a modern fishery sector and industry. Present capacity constraints may be overcome if existing training institutions and faculties cooperate more closely. There is a need for the following tailor-made courses for the fishery sector:

- Captain and master fisherman certification;

- Marine engineer education;
- Fish processing and quality control education;
- Fish processing engineering education (operation and maintenance)

These courses would enable the students graduating from the faculties to operate and maintain modern fishing vessels and service the processing industry. The multipurpose vessel recommended above (see under policy framework) can also be used for training skippers and fishermen in different fishing technologies and post harvest treatment of the catch.

G. INFRASTRUCTURE GAPS

The fishery sector in the Maldives currently faces a number of infrastructure gaps ranging from inadequate docking and repair facilities, ice-making plants, cold storage amenities, and domestic and international air transport services. Attending to these constraints is an important part of achieving the modernization of the sector.