

## **IV. TRADE POLICIES BY SECTOR**

### **(1) OVERVIEW**

1. The Maldives is a small economy with limited natural resources (except for fish), moderately high tariffs, and substantial state involvement across many important sectors (to the detriment of the private sector, which remains weak). The tariff protection and state involvement constitute potential impediments to competition and efficient resource allocation. Heavy dependence on a few sectors (mainly tourism and fisheries) makes the Maldives vulnerable to external shocks. Further sectoral reforms would help to create a more efficient and diversified economy. Royalties apply to sales or exports of key products, including garments and fish.

2. Fisheries account for a large part of exports and employment in the Maldives, a net food importing country. Fisheries development was dominated by the operations of the state-owned Maldives Industrial Fisheries Company (MIFCO), whose tuna processing and export monopoly (at national level (section (2)(ii)(a)) was progressively dismantled throughout the 1990s, and ended in 2000. Agriculture, forestry, and mining are much less important, and government intervention is confined mainly to tariffs, import quotas on staple foods, and state trading. While government support measures, especially tariff concessions on imported inputs, have assisted the development of light industries, manufacturing remains relatively small.

3. Services, especially tourism and related activities, such as construction, have an important bearing on the economy's performance, accounting for more than three quarters of GDP. GATS scheduled commitments are limited and exclude activities of main interest to foreign investors (e.g. tourism, telecommunications). Some steps are being taken to improve efficiency through deregulation of key trade-related services (e.g. telecommunications). Tourism is primarily privately owned; resort islands are leased. In the financial sector, most controls over interest rates have been removed and efforts to introduce a capital market are under way.

### **(2) FISHERIES AND OTHER PRIMARY ACTIVITIES**

#### **(i) Main features**

4. Fishing is by far the main primary activity of the Maldives. Agriculture is rudimentary; there are a few forestry resources, and no mineral or oil reserves.

5. The Maldives is a net food-importing LDC; fish is the only basic food where there is self-sufficiency.

#### **(ii) Sectoral and policy developments**

##### **(a) Fisheries**

6. Commercial fishing is based on the Maldives' substantial marine resources within its 200 mile exclusive economic zone (EEZ). However, although the traditional mainstay of the economy, its relative importance has declined substantially, from 15% of GDP in 1990 (30% in the 1970s) to 6% in 2000 (and 2001). Fishing still employs some 25% of the labour force (with more employed in downstream processing for export) and remains an important source of income and subsistence, especially in the atolls. Fish catches stabilized during most of the 1990s at just over 100,000 tonnes annually, but have expanded in recent years to 124,000 tonnes in 1999, 119,000 tonnes in 2000, and 127,000 tonnes in 2001 (Table IV.1). Over half of the catch is exported, as canned and increasingly as other processed (especially dried) tuna (mainly skipjack but also some

yellow fin).<sup>1</sup> Although exports almost doubled over the period 1995-98 to US\$56.5 million, low world tuna prices until recently have adversely affected the industry. Consequently, the value of exports fell substantially in 1999 to US\$38.8 million, while export volumes declined by only 3% to about 69,000 tonnes. Exports have rebounded since then to an estimated US\$45.4 million in 2001.

**Table IV.1**  
**Fishing, key indicators, 1996-01**

Indicator	1996	1997	1998	1999	2000	2001 <sup>a</sup>
Contribution to GDP (%)	7.3	6.7	6.7	6.5	6.1	6.0
Growth of fishing GDP (%)	-6.4	-8.2	0.0	-3.0	-6.2	-1.6
Total fish catch ('000 tonnes)	105.4	107.4	118.1	124.1	118.9	127.2
- of which: skipjack tuna (%)	63.1	64.2	66.4	74.9	67.0	69.2
Total fish exports ('000 tonnes)	65.5	67.8	70.8	68.6	68.9	69.9
- value (US\$ million)	48.7	58.2	56.5	38.8	40.7	45.4
Number of fishermen ('000)	22.1	22.5	22.0	22.1	19.1	16.8
Number of mechanized fishing vessels ('000)	1,971	1,972	1,960	2,000	2,009	1,929

a Preliminary.

Source: Maldivian authorities.

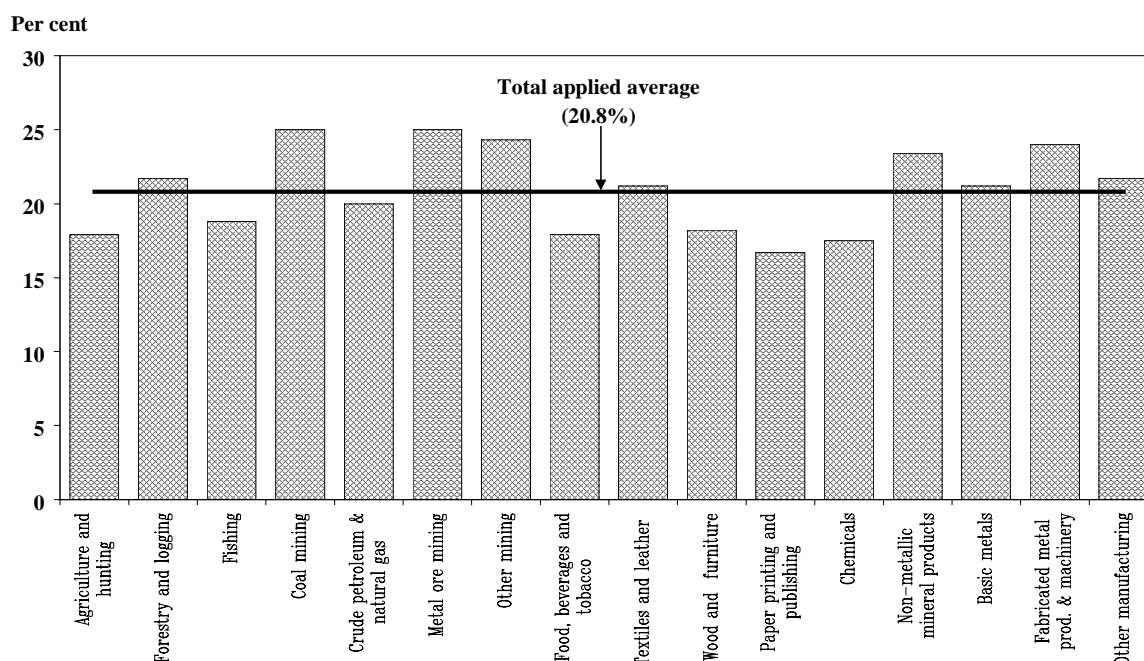
7. The main trade-related measures affecting the fisheries sector have been relatively high tariffs on imported fish products, currently ranging from 15% to 25% and averaging 19% (Chart IV.1, Table AIV.1), as well as until recently exclusive tuna export privileges for the parastatal Maldives Industrial Fisheries Company (MIFCO). Royalties of 2% of sales turnover apply to EEZ fisheries, whether foreign or domestic owned, as a resource rent tax according to authorities. Fisheries policies and management of fish stocks are the responsibility of the Ministry of Fisheries, Agriculture and Marine Resources (re-named in 1999). LDC graduation of the Maldives is likely to adversely affect its fishing exports through lost market preferences, especially to the EU for canned tuna and SAARC member countries, mainly Sri Lanka (Box II.1).

8. The State remains commercially active in the fishing sector (mainly in post-harvest fish processing) through the operations of MIFCO. Although fishing is in private hands<sup>2</sup>, fish processing, distribution, and exports of skipjack tuna (fresh, frozen, canned) have been traditionally reserved for MIFCO (Box IV.1). However, to promote private-sector fish processing, export controls have been relaxed progressively, and the remaining monopoly at the national level on exports of canned and frozen tuna and other processed skipjack tuna products ended in 2000 with the initiation of the Skipjack Industry Development Programme. The export monopoly was partially liberalized in 1990, when dried/salted tuna was excluded, and further in 1996 when private exports of fresh yellow-fin tuna were allowed. Greater competition in the fresh and dried/salted tuna market following these changes has seen such exports increase significantly, mainly to Sri Lanka, and fish exports have diversified into fresh/chilled tuna, including exports to the Japanese and East Asian sashimi markets. Frozen tuna, however, still accounts for some half of marine exports (in value).

<sup>1</sup> The cannery commenced operations in 1978 and was subsequently modernized.

<sup>2</sup> The number of fishermen has declined from 22,000 in 1990 to under 17,000 in 2001 (including part-time). However, the number of active mechanized fishing vessels has tended to stabilize at around 2,000.

**Chart IV.1**  
**Tariff averages by 2-digit ISIC category, 2002**



Source: WTO Secretariat calculations, based on data provided by the Maldivian authorities.

9. Under the new arrangements, coastal fisheries of skipjack tuna for processing have been separated into four geographical zones. MIFCO has retained the exclusive right to export processed fish from two of these zones, while in April 2002, the Government licensed two private parties to export processed tuna from a third zone. The authorities are presently seeking to license other fish processors/exporters for the fourth zone. Fishermen are not restricted from selling fish in any zone. The floor price scheme, whereby the Government sets minimum prices that processors must pay for skipjack tuna, was retained. The Government stated its intent to privatize MIFCO, wholly or in part, under its current National Development Plan, and aims to abolish any taxation or pricing interventions that may discourage local investment in fishing (Box IV.1).

10. Since late 1999, the authorities have sought to demonstrate the feasibility and viability of long-line fishing in the outer EEZ. MIFCO, while given the mandate for this project, has purchased a modern long-line vessel that can fish in outer waters (75 to 200 miles).<sup>3</sup> This has been unsuccessful so far. However, such efforts may 'crowd out' private fishermen at a time when reforms are creating commercial incentives for greater private-sector involvement, including investment in better vessels and equipment to increase fishing range as tuna stocks move further offshore. The authorities consider that licensing more foreign operators will only provide direct monetary benefits rather than indirect benefits or multiplier factors, as it may also crowd out locals from fishery, more so than the

<sup>3</sup> The Government is also involved in providing fishing vessels under long-term credit schemes using the operations of MIFCO Boat Yard Ltd. According to authorities, this programme has been highly successful, and is currently under review following the establishment of private boat yards that could undertake government orders. MIFCO and MIFCO Boatyard Ltd are limited liability companies operating under the Ministry of Fisheries, Agriculture and Marine Resources.

long liners employed by MIFCO.<sup>4</sup> Fishing nets are illegal in Maldives' waters for environmental reasons, and the major fishery (skipjack tuna) is caught by the "pole and line" method. However, this prevents overseas purse seiners from legally operating in Maldivian waters, thereby possibly removing the opportunity to earn additional licence fees. However, the authorities indicated that the additional revenue the Maldives receives because its canned and frozen tuna products are dolphin- and shark-safe recovers this opportunity cost.<sup>5</sup>

#### **Box IV.1: Fish processing in the Maldives**

The parastatal, MIFCO, plays an important role in the Maldives fish processing industry. However, despite receiving commercial advantages, such as retaining until 2000 an export monopoly at the national level on canned and frozen tuna, it has performed poorly and incurred large operating losses. It is heavily indebted to the Government, and this has been exacerbated by the increased under-utilization of its inefficient processing and storage facilities, especially at Maandhoo. The authorities indicated that they do not automatically underwrite the losses of MIFCO. MIFCO is in need of rationalization, and the Government is examining ways to improve its commercial operations, including privatization. However, progress has been slow due to certain constraints, policy and planning failures, and implementation difficulties. The Skipjack Investment Liberalization Programme, introduced in 2000 to end MIFCO's national export monopoly, will allow greater private-sector participation in fisheries and is an important first step towards MIFCO's privatization.

MIFCO's export monopoly on tuna products seems to have depressed domestic raw fish prices below world levels, thus penalizing local fishermen and acting as a disincentive for expanding their activities. The progressive removal of the export monopoly is to stimulate private processing, and to enable MIFCO to compete in purchasing raw fish for its cannery and other processing activities.

Following the downturn, until recently, in world tuna prices, the Government's administered floor prices for raw fish had helped keep domestic prices above world levels, thereby assisting fishermen at the expense of fish processors. The Government tried to counter these effects by providing loans to private processors wishing to commence alternative fish processing activities, such as salting and drying.

*Source:* WTO Secretariat.

11. Increased efforts to utilize the Maldives' reef fisheries may have led to over-fishing of certain species, such as grouper, snapper, and sea cucumbers, in some atolls, although further scientific assessment is required. Such fishing accounts for over 10% of total fish caught, and remains unrestricted, except for sea cucumbers, for which gear restrictions are in place.<sup>6</sup> A total fishing ban also exists on nine species, including giant clams, whales, whale sharks, dolphins, Napoleon wrasse, and marine turtles.<sup>7</sup> Export bans apply to some marine products. A community-based Integrated Reef Fisheries Management Scheme, initiated in 1988, is now in its second phase. Twenty five protected marine areas have been established; fishing is banned except for bait used to catch skipjack tuna.

<sup>4</sup> Modern tuna fishing is risky and competitive. Attempts by governments of South Pacific islands to establish tuna fishing and canning operations based on direct public involvement and 'domestication' policies have been costly failures. See, for example, the Asian Development Bank (1999) and Petersen (2001).

<sup>5</sup> The authorities also indicated that the negative environmental impacts of the operation of EU purse seiners and Asian long-line fleets in the Indian Ocean have been raised at various fora as both fisheries have a high incidence of dolphin and shark as by-catch.

<sup>6</sup> Collection of black coral, and therefore effectively mother-of-pearl shells, was banned from 1 January 1995.

<sup>7</sup> Shark fishing has also been prohibited inside territorial waters (12-mile coastal zone) within seven atolls for ten years, since 8 September 1998.

12. More effective utilization of fish resources requires improved management, enforcement, and knowledge of fish stocks, including sustainable yields. The authorities aim to develop an enhanced regulatory framework for greater surveillance and control of fisheries as well as the legal framework and research needed for such sustainable management.<sup>8</sup> Existing arrangements are being reviewed with assistance from the FAO, and a revised draft fisheries law and related regulations are being prepared. The formulation of a Ten-Year Fisheries Master Plan has proceeded under the guidance of an inter-agency committee chaired by the fisheries ministry.

(b) Agriculture and forestry

13. The agriculture sector contributed 3% of GDP in 2000, down from 9% in 1990. However, its impact on employment, especially in rural areas, and efforts to attain food security through greater self-sufficiency, in part through import substitution make its importance to the economy much greater. Soils are infertile and arable land is scarce. Most agriculture is subsistence farming of mainly native crops, such as coconuts, bananas, breadfruit, papaya, mangoes, taro, betel, chillies, sweet potatoes, onions, and watermelons. Some 20 uninhabited islands have been leased for commercial farming under the Long Term Island Leased Programme, and are administered by the Ministry of Fisheries, Agriculture and Marine Resources. In addition, island tourist resorts are increasingly producing fruit and vegetables for their own use.

14. Agricultural products are mainly assisted by tariffs ranging from 5% to 50%, and averaging 18.5% (ISIC categories) (Chart IV.1, Table AIV.1). Import quotas apply to a few staples (rice, sugar, wheat flour) whose importation is largely reserved (70%) for the State Trading Organization, which is entrusted with ensuring adequate supplies of these foodstuffs at affordable prices; their retail prices are controlled (Chapter III(4)(ii)). The authorities indicated that the retail price for staple foods are capped at STO prices plus Rf 0.20 per kg. for Male; freight and transport may be added for sale in the atolls.

15. Agriculture receives minimal domestic support in the form of investment subsidies on infrastructure and support services.<sup>9</sup> Efforts to re-introduce citrus growing, such as lemons and lime, following decimation of the crop by rust disease, have not been successful, except on a few islands. The authorities intend to encourage private-sector expansion of agriculture by providing support for niche crops and developing research and extension services. As an LDC, the Maldives' multilateral commitments on domestic support for agriculture are essentially to ensure such assistance is kept below *de minimis* levels.<sup>10</sup>

16. The Maldives forestry resources have been heavily depleted, mainly as a source of fuel, as well as timber for boat building and construction. Efforts to regenerate forests began in 1996 as part of the Million Tree Planting Programme. Timber exports have been controlled. No further information on these controls was available from the authorities.

(c) Mining

17. The Maldives mining sector is limited to coral and sand mining (1% of GDP in 2000) for use mainly as building materials. Since 1992, coral mining has been strictly regulated in a few areas to protect the environment; however, enforcement of this regulation seems to be lenient.

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<sup>8</sup> Research by the Ministry's Marine Research Centre is currently focused on inshore fisheries, including the Fish Stock Programme and the Mariculture Programme. The Offshore Fisheries Research Programme is concerned with the assessment of tuna and other pelagic resources.

<sup>9</sup> WTO document G/AG/N/MDV/2, 6 January 2000.

<sup>10</sup> WTO document G/AG/N/MDV/1, 6 January 2002.

18. Mining products are assisted mainly by tariffs. These range from 10% to 25%, but average 24.4% (ISIC categories), with most duties at 25% (Table AIV.1, Chart IV.1).

### **(3) MANUFACTURING**

19. Manufacturing remains diversified but relatively small (9% of GDP in 2000) and underdeveloped; the largest activities are export-oriented. As indicated earlier (Chart I.2), seafood, and clothing (based on imported inputs) accounted for 69% of total merchandise exports in 2001. The Ministry of Trade and Industries is responsible for industry policy.

20. State involvement includes MIFCO's tuna-canning and other fish-processing activities, and boat building in its boat yard. The State Trading Organization also operates a number of joint ventures with private interests, making bagged cement, bottled liquefied petroleum gas (LPG), structural products, including the fabrication of roofing material on the industrial estate island of Thilafushi, and supplying fuels. However, most industrial activities are undertaken by the private sector. Other manufacturing activities include garment factories (involving U.S. ownership), and small-scale factories of PVC pipe, soap, paper bags, furniture, aluminium doors and windows, desalination plants, electric panel boards, air conditioners, soft drinks, and foodstuffs. A private company, Multilinx (Maldives) Pty Ltd, operates its main factory on the island of Thulusdhoo, near Male, producing a range of domestic cleaning products, candles, wood glue, cardboard cartons, and plastic bottles.

21. Applied tariffs averaging 20.8% (ISIC basis) are the main border measure. Tariff escalation is pronounced (Chapter III), and peak/prohibitive rates (50%, 100%, 200%) are used according to authorities largely for environmental and/or human safety purposes, such as on imported plastic bags and passenger motor vehicles.

22. The garment industry relies substantially on foreign investment and increasingly on exports to the United States. Foreign-owned garment exporters pay specific-rate royalties as part of their investment agreement (Chapter II(7) and Table II.3). LDC graduation by the Maldives is unlikely to impact heavily on the industry (Box II.1).

### **(4) SERVICES**

23. Services constitute by far most of Maldivian GDP (82%) as tourism is the economy's mainstay (33% of GDP, Table I.1). Other significant activities include distribution, construction, government administration, transportation, and banking services.

24. The Maldives' sectoral commitments under the GATS cover very few subsectors in business services (i.e. certain professional services, computer and related services). Its bindings cover maintaining no limitations on market access or national treatment affecting all modes of supply for accountancy, auditing, bookkeeping, data processing, data base, software implementation and consultancy services relating to hardware installation.<sup>11</sup> The Maldives did not participate in the WTO negotiations on basic telecommunications services (Fourth Protocol) or the extended WTO negotiations on financial services (Fifth Protocol).

#### **(i) Tourism**

25. The Maldives' economic growth has been based largely on tourism development since the early 1970s. The sector is privately driven and the Government has mainly a regulatory and

<sup>11</sup> WTO document GATS/SC/101, 30 August 1995.

facilitation role. Tourism has substantial links to other sectors of the economy, such as construction, transportation, telecommunications, and distribution, which together account for over 50% of output. It provides employment for about one fifth of the workforce<sup>12</sup>; and almost one third of the Government's tax revenues are from rental payments on leased islands used for tourism and a flat rate tax levied on foreign tourists of US\$6 per bed night.<sup>13</sup>

26. Strong growth in tourist arrivals, from approximately 339,000 in 1996 to over 467,000 in 2000, mainly from Europe, had until recently maintained high, but declining occupancy rates of about 70% or more (Table IV.2). However, these rates dropped to under 66% in 2001 due to increases in bed capacity from opening of new resorts, and subdued tourist arrivals. These fell sharply during September to November 2001, but appeared to recover slightly from December.

**Table IV.2**  
**Tourism, key indicators, 1996-01**

Indicator	1996	1997	1998	1999	2000	2001 <sup>a</sup>
Contribution to GDP (%)	34.9	34.0	33.2	33.1	33.4	32.6
Growth of tourism GDP (%)	1.5	-2.6	-2.4	-0.3	0.9	-2.4
Contribution to tax revenues (%)	30.3	29.7	28.5	28.2	27.3	28.1
Direct employment (incl. expatriates)	10,613	10,387	10,624	15,484	14,921	..
Tourist arrivals	338,733	365,563	395,725	429,666	467,154	461,063
(% change)	7.6	7.9	8.3	8.6	8.7	-1.3
Average length of stay (number of days)	9.0	8.9	8.8	8.7	8.4	8.5
Tourism receipts (US\$ million)	265.6	286.0	303.0	313.5	320.7	330.8
per bed night (US\$)	87.41	87.44	87.41	84.31	81.46	84.11
Bed occupancy rate (%)	72.8	77.4	76.2	69.7	68.2	65.6
Bed capacity (number of beds)	13,508	14,031	16,028	17,523	18,730	18,765
(% change)	9.4	3.9	14.2	9.3	6.9	0.2

.. Not available.

a Preliminary.

Source: Maldivian authorities.

27. New tourism legislation was introduced in 1999 (Maldives Tourism Act No. 2/99) to replace the Law on Tourism (Act No. 15/79 and the Law on Leasing Uninhabited Islands for the Development of Tourist Resorts (No. 3/94). The Government leases islands to investors for resort development; land cannot be sold for tourist activities. The new legislation increased the maximum lease period from 21 to 25 years on investments below US\$10 million and retained the period of 35 years for larger amounts, but introduced a 50-year lease period under certain conditions.<sup>14</sup> Build-operate-transfer (BOT) contracts are used, whereby the Government owns the resort at the end of the lease. The current legislation introduced payment of compensation by the Government to the leaseholder at expiry of the lease for the cost of the infrastructure, after allowances for depreciation. Resort development projects are leased by international tender and islands are awarded to the bidder

<sup>12</sup> The tourism industry relies heavily on foreign labour; some 45% of workers are expatriates.

<sup>13</sup> All non-Maldivian citizens (unless holding a resident permit) staying in registered tourist resorts, hotels, guesthouses, and tourist-accommodating vessels pay the bed tax. Since it is a flat rate, the *ad valorem* incidence of the levy, which depends upon the room rate, falls more heavily on the cheapest resorts.

<sup>14</sup> The company must be Maldivian registered and owned; have at least 50% of its shares publicly held, with no more than 1% held by a single shareholder (or 5% for an investment company); and have listed as its main purpose development and operation of tourist resorts in its Memorandum of Association. Certain transitional provisions apply to the extension of pre-existing leases.

scoring the highest merit points. Proposals are evaluated according to feasibility, development concepts, proposed yearly rent per bed, as well as environmental, social, and human resource development considerations. Currently, the lease rent bid accounts for 60% of the evaluation points. Local ownership is preferred in the event that foreign and local bidders tie with the same points in the bid evaluation. The ten additional percentage points previously provided to domestic bidders in the tender evaluation has been abolished. Rent payments on leases are re-negotiated every five years to reflect current market conditions, taking into account rents proposed for new projects and those paid by similar facilities in the same geographical areas.

28. Tourist resorts are owned and managed predominantly by the private sector. Currently, 77 tourist resorts are privately owned and ten are owned by the State (two as joint ventures with foreign interests).<sup>15</sup> The Government is also to have a 20% equity in the proposed Villingilli resort on Addu Atoll. Most resorts (60) are locally owned, and a further ten are private joint ventures with foreign equity. Of the 87 resorts, 45 are managed locally, 28 by foreign interests, and 14 jointly. All resorts, tourist hotels, guesthouses, vessels, marinas, and diving centres must be registered and licensed for five-year periods by the Ministry of Tourism. Foreign investors in tourism must enter into an investment agreement as required by the foreign investment legislation (Chapter II(7)).

29. The Second Tourism Master Plan (1996-05) provides for investment of US\$250 to US\$300 million over the period. Fourteen island resorts were opened during 1997-99, involving investment of well over US\$100 million, taking the total to 87 resorts. This Plan recommended expanding capacity to 20,000 beds, but the Government decided to restrict the increase after the first developmental phase to 3,000 beds. Bed capacity increased by almost 40% to well over 18,000 beds during 1996-00. The targeted bed capacity of 20,000 beds will not be met until after 2005. Tourist arrivals are targeted to reach 650,000 and receipts US\$525 million (in 1994 prices) in 2005. The long-term overall objective is to establish a resort on all major uninhabited islands.

30. Efforts are being made to increase the availability of domestic credit for tourism, for example by establishing a state leasing company and allowing leased resort islands to be mortgaged to finance tourism development.<sup>16</sup> The authorities are aiming to increase employment of Maldivians by strengthening training. The Faculty of Hospitality and Tourism Studies was established at the Institute of Higher Education to develop trainees for the tourism industry. The Tourism Advisory Board, consisting of senior government officials and private-sector representatives, advises the tourism minister on issues related to tourism policy and development.

31. A Maldives Tourism Promotion Board was established in February 1998 to promote and market tourism. Chaired by the tourism minister and consisting of public and private representatives, the Board also receives advice from the Tourism Promotion Advisory Committee.

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<sup>15</sup> According to the authorities state-owned tourist resorts represent mainly those that have reverted to the Government following expiry of BOT leases.

<sup>16</sup> Access to domestic long-term financing is limited; local banks normally lend only up to half of the total investment, usually for a maximum five-year term.



**(ii) Telecommunications**

32. The Maldives has almost 28,000 fixed telephone lines, of which 20,000 are in Male (as at February 2002). The teledensity is 10%. There are more than 850 public payphones (138 in Male), almost 23,000 GSM mobile phones (covering about 40% of the population) and about 10,000 internet users (including 1,061 registered internet subscribers). Since October 2001, there have been no fixed charges for internet access; users pay only a time usage fee.

33. Telecommunication services are the monopoly of Dhivehi Raajjeyge Gulhum (Dhiraagu) Pty Ltd, a joint venture formed in October 1988 between the Government as majority shareholder (55%) and Cable and Wireless of the United Kingdom (45%). Its exclusive licence, which covers provision of telecommunications, including national and international telephone services, was extended in 1995 until October 2008. Mobile phone services were introduced in January 1997 using analogue technology and were converted to GSM in November 1999. GSM international roaming services were introduced in May 2000, and currently cover 75 operators in 39 countries. The Government intends to introduce other internet and mobile phone operators by end 2005.

34. No telecommunications legislation exists. However, comprehensive legislation is being prepared to enhance the legal and regulatory framework. This would allow the opening up of the sector to competition in late 2008 when the existing telecommunication licence expires. The Ministry of Communication, Science and Technology is responsible for policies in telecommunications, science and technology, computer development, and postal services. It also currently regulates the telecom sector. Its Telecommunications Policy 2001-2005 (released in August 2001) confirmed the high cost of telecommunication services, especially for international calls and the Internet.<sup>17</sup> Current policy focuses on lowering charges for telecommunication services, especially international calls and the Internet, and reducing the disparity in charges between Male and the rest of the country.

35. In March 2002, the Ministry released for comment a working draft of the Presidential Decree for Regulating Telecommunications.<sup>18</sup> An independent Communications Regulatory Authority is to be established by end 2002 to regulate telecommunications and radio communications, and to separate the regulatory from the policy and service-provision functions of the Ministry.<sup>19</sup> The Authority will also be responsible for regulating anti-competitive practices to promote a competitive telecommunications industry. Any person dissatisfied with the Authority's decision will be able to appeal to the Minister and subsequently to the President. The proposed legislation will ensure competitive interconnection to the public telephone network by new suppliers, and specifies universal service obligations, to be financed by an appropriate fund. The Authority's responsibilities would also include prescribing technical standards and specifications on equipment to ensure it complied with international norms. It will be able to specify certification requirements, including test approval, and to accredit other, including overseas, institutions to conduct these functions. There are no special restrictions on the sale or import of telecommunications equipment by other firms. The Government

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<sup>17</sup> Monthly telephone rentals on most inhabited islands are prohibitive, at Rf 3,450 for the first telephone line. International calls are on average up to eight times above comparable countries, and internet access charges well over double those in most developing countries. Costs of commercial telephone services, especially international calls and internet access, are almost prohibitive.

<sup>18</sup> Maldives Telecommunications Presidential Decree 2002, Working Draft No. 3.2, MCST/MTDP/2002/3.2, 5 March 2002.

<sup>19</sup> Under the current arrangements, the Director General of the Ministry is also a board member of Dhiraagu, the monopoly service provider. The Board consists of three other government officials, the Ministers of Foreign Affairs (chairman) and of Trade and Industries, and the Managing-Director of the state-owned Maldives Transport and Contracting Company.

will require telephone charges to be cost-based, and service providers will have to maintain separate accounts for different services to avoid cross-subsidization.

36. A draft Science and Technology Master Plan was released in November 2000. Modernizing telecommunications is an integral part of this Plan and of the country's Sixth National Development Plan. The Government will continue to provide science and technology services where "natural monopolies" exist and competition is judged non-viable. Such services will be regulated to ensure that revenue sufficiently covers "reasonable current costs" to provide for new investment, and "reasonable" return for joint ventures or parastatals. Where competition is deemed appropriate, markets will be opened gradually, with public entities either privatized or allowed to compete as parastatals without any special market advantages. The Government's main goal is to maximize citizens' interests by providing a market environment where private, parastatal and government organizations work together effectively. Although the Government's role is expected to diminish, it will continue to fund science and technology research, including the proposed establishment within the Ministry of the National Science Foundation. The creation of a national computer centre is also envisaged.

### **(iii) Transport**

37. The Maldives is heavily reliant on sea and air transport. High transportation costs for these services penalize exports directly (such as tourism), but also indirectly by raising costs of essential imported inputs.

38. The Ministry of Transport and Civil Aviation is responsible for all modes of transport.

#### **(b) Land**

39. Road transport is the least important means of transport in the Maldives. Apart from Male, which has almost 10 km. of roads, most roads are unpaved and lorries are rarely used to carry goods. Buses do not operate, except for transporting workers in Addu/Gan. Although the Government caps taxi fares at Rf 15 per trip in Male, all taxis charge Rf 10. The number of taxis in Male is controlled, and is to be reduced from 570 to about 500 vehicles.

#### **(c) Maritime**

40. The state-owned Maldives Port Authority, which operates under the jurisdiction of the Ministry of Transport and Civil Aviation, owns and operates the main international sea freight port at Male. The Male Commercial Port provides a range of shipping and wharfage services, including vessel repair, maintenance facilities, cargo sheds, and a container yard. However, the port needs to upgrade its cargo handling equipment and to increase efficiency. The privatization of Male port is being considered. More than half of the atoll capitals have effective harbours, aided by a harbour-dredging programme started in 1995. There is considerable inter-atoll sea transport. In 2000, sea cargo amounted to 850,000 tonnes, down from 863,000 tonnes in 1999. About 95% of international freight is by sea. Inter-island transport remains expensive. Additional ports are to be developed in the north and south of the country in 2003.

41. The 1967 maritime legislation has been changed continuously. The majority of ships used are Maldivian-owned and registered. Several vessels (1,000 to 6,000 GRT) operate weekly between Male and some Gulf and Asian countries. Smaller vessels (500-1,000 GRT) operate between Male and Southern India and Male and Colombo. Private operators mainly conduct international shipping and the state-owned Maldives National Shipping Limited (MNSL) also has three vessels carrying cargo

regularly from Singapore to Male. There are no cabotage restrictions, and no plans to privatize MNSL. The Maldives is a member of the International Maritime Organization.

42. Transporting tourists from Male to island resorts is a vital tourism service. It is carried out by about 200 registered yacht dhonis. Almost all of these dhonis are privately owned, and new entrants are not restricted.

(d) Air

43. Air Maldives Ltd, the state-owned national carrier, operated domestic services until its bankruptcy in February 2000. A new state-owned company, Island Aviation Services, now provides domestic air passenger and cargo services. The only international airport is at Hulhule Island, across from Male. There are four regional airports servicing the atolls of Haa Dhaalu, Laamu, Gaafu Dhaalu, and Seenu. These airports are owned and operated by the state-owned Maldives Airports Company Ltd (MACL). Regional airports are government owned and are operated by MACL. Government policy allows the private sector to invest and develop airports; a private firm has gained approval to operate a domestic airport in Ari Atoll, Maamigili.

44. Air services are essential for the tourism industry. Several major international carriers, such as Alitalia, Emirates, Malaysian Airlines, and Singapore Airlines, provide regular air services to the Maldives. There are also a number of charter operators. At present, only the designated national carrier, has traffic rights to operate international passenger services, but all bona-fide local airlines may be permitted to operate international cargo flights. Foreign carriers have no cabotage rights.

45. In negotiating air services agreements, the Government does not impose any restrictions on capacity, frequency, equipment or on the number of designated carriers. Foreign carriers may not operate regular domestic services. Domestic carriers, which must not have more than minority foreign equity, set their own fares. The Department of Civil Aviation will intervene only in cases of anti-competitive behaviour, such as excessive fares. No restrictions apply to the number of domestic carriers or the routes or frequency of services provided. The Maldives is a member of the Convention of International Civil Aviation.

(iv) Financial services

*Banking*

46. The financial sector of the Maldives is poorly developed, and comprises mainly banking. There is one majority (60%) state-owned commercial bank, the Bank of Maldives; three branches of foreign state-owned banks, the State Bank of India, Habib Bank Limited (Pakistan), and the Bank of Ceylon; and since March 2002, a branch of the Hong Kong Shanghai Bank Corporation. The Bank of Maldives provides commercial development loans through its Development Banking Cell. It was established in 1990 to promote development projects, mainly on the atolls. For example, it operates the Atolls Credit and Development Banking Project and the Southern Atolls Development Project.

47. There are no restrictions on the operation of foreign bank branches or subsidiaries, either in the number of licences available or in their activities. An offshore banking licence awarded to First International Bank (Maldives) Pty Ltd was revoked in August 2000 due to non-operation.<sup>20</sup>

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<sup>20</sup> Two previous offshore banking licences had been awarded; one was revoked in 1995 due to non-payment of licence fees and the other operator closed down voluntarily in 1994.

48. The Maldives Monetary Authority (MMA) regulates the banking sector based on Bank for International Settlements (BIS) norms on asset classification, loan provisioning, and capital adequacy. The MMA continues to strengthen its prudential regulation of banks, including the introduction of on-site and offsite supervision (Regulations for Banks and Financial Institutions, 1998). From January 1998, a minimum capital adequacy ratio of 8% was introduced, and the minimum required capital of banks increased to Rf 30 million.<sup>21</sup> Banking legislation has been drafted. Regulations for finance leasing companies are in place, and relevant legislation is being drafted.

49. Interest rate controls, except for the cap on local currency lending rates, were removed in 1995. Banks are no longer required to direct credit into special activities. The main collateral for loans is real estate, but the lack of private land ownership and the poorly developed financial sector severely limits bank loans. Even in tourism, where banks are heavily exposed, loans are generally limited to five-year terms.<sup>22</sup>

50. Financial intermediation is almost non-existent. Inter-bank transactions are limited, and the capital market is still in its early stages of development. There have been only three public offerings of shares, including of the Bank of Maldives in 1997 and of the STO in 2001. There is no established market for debt securities, government securities or commercial debt instruments. The MMA has no open market operations. It offers banks 90- and 180-day Certificates of Deposits to control their liquidity. There is one leasing company, the Maldives Finance Leasing Company Pty Ltd, which started operations in May 2002. The Ministry of Finance and Treasury operates a non-funded pension plan and a provident fund for government employees. There are no restrictions on the provident fund investing overseas.

51. The MMA is responsible for developing the capital market. It established a facility within its Capital Market Development Section for secondary trading of securities in April 2002. Securities of three companies (BML, STO and MTCC) are publicly traded. Securities legislation and amendments to the Companies Act as well as other relevant capital market laws are to be enacted. The Government is considering creating a Capital Market Authority to regulate the capital market. Formation of a stock exchange is also envisaged.

### *Insurance*

52. There are two insurance companies one of which, the Allied Insurance Company, is fully owned by the STO. It was originally formed in 1985 as an equal joint venture between STO and Commercial Union Assurance of the UK, but this was terminated in 1985. Allied provides general insurance services, but not life insurance; its main business is marine and cargo insurance, and fire coverage for some tourist resorts. All underwriting is reinsured overseas: Germany (50%), Switzerland (20%), and India (30%). The government-owned Sri Lankan Insurance Corporation has operated a branch in the Maldives since 1977. It provides non-life insurance, such as ship, cargo, fire, theft, and health coverage. Several regional insurance companies and insurance brokers and agents also operate, including Janasakthi Corporation, Ceylinco Insurance, and the Union Insurance of Sri Lanka.

53. No specific legislation or regulations exist for the insurance sector. Specific insurance licences are therefore not required. Allied Insurance operates under a licence from the Ministry of Trade and Industries and the Sri Lankan Insurance Company operates under a Memorandum of

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<sup>21</sup> The previous minimum capital requirement was 7.5% of banks' liabilities to the public or Rf 10 million, whichever was greater.

<sup>22</sup> Transferable leaseholds are generally not available and legal uncertainties make loan recovery difficult.

Understanding between the respective governments. Brokers and agents operating in the Maldives do so without a licence. Regulations and legislation on insurance are being drafted.

**(v) Public utility services**

54. As indicated earlier, these are mainly supplied by state-owned or parastatal enterprises/monopolies. The Male Water and Sewerage Company, a joint venture with Danish interests, has a monopoly on the supply of fresh water and the operation of the sewerage system in Male. There are no legislative or regulatory restrictions on private investment in these activities in other areas. The Maldives Water and Sanitation Authority regulates water and sewerage activities. The State Electric Company Limited (STELCO) provides 24-hour electricity to Male using a power plant of 21.5 megawatts (standard capacity of 6 megawatts). It has a further 22 power stations that provide electricity, to varying degrees, to 22 islands. About 70% of the population has access to electricity for more than 12 hours per day. The Maldives Electricity Board regulates the electricity sector. All resort islands and most factories generate their own electricity and other infrastructural requirements, apart from telecommunications.

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