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MALDIVES ECONOMIC REVIEW

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BRITISH PROTECTORATE STATUS (1887-1965) AND CONNOTATIONS FOR THE MALDIVIAN ECONOMY

ALSO

- INTERVIEW: SAARC SG WEERAKOON: "... PEOPLE OF SAARC REGION HAVE NOT FULLY ENJOYED THE BENEFITS UNDER SAFTA"
- WHAT DO CONSUMERS VALUE IN TOURISM?
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- AN EYE WITNESS'S VIEWS ON THE DEVELOPMENT OF DUBAI: LESSONS FOR MALDIVES
- THE MALDIVES CAPITAL MARKET: A PATH FOR A SHARED FUTURE.
- THE INTRODUCTION OF MINIMUM WAGE IS A GOOD START,AND IS BEST UNDERSTOOD AS JUST THE START
- THE LAST READ: WHEN FOREIGN EXCHANGE RESERVES AREN'T IN RESERVE

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TABLE OF CONTENTS

EDITORIAL

Our cover this time is an insightful story by Shafeenaz Abdul-Sattar titled "British Protectorate Status (1887-1965) and Connotations for the Maldivian Economy", which explores the same period in our domestic history as in her article in MER Vol. 2 Issue 3. Shafeenaz takes another detailed and critical look at the inner workings of the United Suvadive Islands- a must read for all aficionados and analysts of this critical period of our history.

Our special feature in this issue is an interview with the Secretary General of SAARC, H.E. Esala Ruwan Weerakoon, centered mainly on economic and commercial issues of relevance for the SAARC region and the future of SAFTA. We would like to thank H.E. Weerakoon for granting our request for the interview and the candid and open nature with which he responded to our questions.

Ibrahim Zuhuree is back with another well-researched article, 'What do consumers value in tourism?', a most opportune contribution as we enter into the 2022 festivities to mark the 50th anniversary of the tourism industry.

Ali Naseer Mohamed continues his classic strokes reflecting the relevance of external relations to our economy with the question, 'Time to Say "No Thank You" to Foreign Aid?'.

Captain Abdul Azeez offers a first-hand insight to the development model used by UAE in their rapid economic growth, and Anil Adam provides an interesting and useful perspective on 'The Maldives Capital Market: A path for a shared future.'

Following from the expert panel discussion held by us on the 'Dawn of the Minimum Wage', Athif this time offers his thoughts on the facets of the declared minimum wage with an article titled 'The introduction of Minimum Wage is a Good Start and is Best Understood as Just the Start.'

Finally, as usual, Fazeel provides The Last Read. He examines the all too familiar and relevant issue of 'foreign currency shortage' in the economy in his article, 'When foreign exchange reserves aren't in reserve'.

We would like to thank those who have written to our 'Letters to the Editor'; a feature we started in our last issue. As we continue to improve, this time we have also added responses to the letters. Readers may email their questions or comments (in not more than 200 words) to query@maldiveseconomicreview.com. Your questions and comments will be published in our next issue (March 2022) subject to MER editorial policy.

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BRITISH PROTECTORATE STATUS (1887-1965) AND CONNOTATIONS FOR THE MALDIVIAN ECONOMY

Ms Shafeenaz Abdul-Sattar

Background

The Republic of Maldives, previously Maldive Islands, has been a sovereign nation for the best part of her existence. Nevertheless, the Maldivian state sought the protection of several external powers over the centuries through formal communication between reigning sultans and rulers of regional nations. Successive Maldivian rulers paid annual tributes to various powers in the region for protection from outside interference. With the exit of the Dutch from Ceylon in the eighteenth century however, Maldives continued her international interactions without the protection of any foreign power for the better part of the 1800s although the British Indian Empire spread across much of the Indian subcontinent and Ceylon also became a British colony during this period.

Malé main harbour area (c1800s)

Malé Bodu Faaru (mid1900s)

At the time, Malé was a fortified capital island with a wall (Malé Bodu Faaru) that linked forts and bastions along its perimeter. While there were dwellings of large businessmen in Malé over the centuries, it was only during the 1800s that they began to conduct trade in specific market locations or shops, in modern

economic terms. However, visiting foreign traders were not allowed to set up shop within Malé, thus they traded along the outside of the wall along the northern side of Malé and to the south of the main palace or Bodu Ganduvaru. Foreign merchants were first permitted to establish warehouses and shops within the Malé perimeter and settle in the country in 1857, at a time when the power wielded by the Sultan had been undermined by in-fighting among his senior aides. These merchants, most of whom were from localities within the British Indian Empire, were British subjects who were given right of residence as traders in Maldives.

The foreign trader community that resided in Maldives consisted of Bohras, Indian Parsis, Indian Bahais, Ceylon Moors and a small community from Kathmandu. Bohra(s)

According to local historians, the foreign trader community that resided in Maldives consisted of Bohras, Indian Parsis, Indian Bahais, Ceylon Moors and a small community from Kathmandu. Bohra(s), a term derived from the Gujarati word 'vohru' meaning 'trader' are an ethnic group who have made a mark for themselves as business barons. Maldivians called most of the traders 'Bumbaa meehun' and the traders from Ceylon, 'Soalhiyaas'. The sailing buggalows of the Bohras were manned by 'Kachey' people from India.

By the 1880s, the bulk of the exports and imports transported from and to Maldives were carried on foreign vessels given the large amount of goods imported into the country by the foreign merchants by then. At the time the biggest markets for Maldives' exports of dried fish were Sumatra and Galle, with one third of the entire fish requirement of Ceylon imported from Maldives in 1880 garnering export earnings of GBP 32,919 and total exports from Maldives to Ceylon amounting to GBP 38,602. Despite this, in 1887 there would still have been more local traders than foreign traders in the country, according to Nasheed. More than 10 large merchants in Malé would still have owned trading vessels and each atoll would have had about 30 – 40 traders (Mohamed Nasheed, 'Dhagandu Dhahanaa' & 'Dhe Radhun').

Protectorate Agreement with Britain

By 1887, shops of several foreign owned companies had been established in Malé. Following internal disputes among rival 'bodun' or nobles in Malé with

regard to a set of economic reforms (disputes that according to H.C.P Bell, were 'fostered for their own sordid ends by certain of the Bohra merchants settled at Malé with the object of obtaining undue or exclusive concessions'), successive incidents of arson occurred in Malé towards the end of the year, in which all of the merchants' shops, warehouses and much personal property of locals were destroyed. Being British subjects, the merchants raised the matter with the colonial authorities. During the investigation that ensued, the British realising that an unruly Maldives or one that had agreements with other foreign powers would become disastrous for them, initiated a formal protection agreement in December 1887 by virtue of an Exchange of Letters to 'protect and defend the Maldive Islands from all foreign enemies whatsoever'. Under this agreement Britain was to conduct all Maldives' foreign relations, and heads of state of Maldives had to be accepted by Britain before they could be recognised by any other foreign nation.

There were several consequences of this Exchange of Letters, including a change in rulership in Maldives, widely believed to be in the interest of maintaining domestic stability. Whether this had direct economic implications at the time is unclear, but a calm domestic environment is usually perceived to be a necessary precondition for boosting economic interactions.

Impact on foreign trade

In the years that followed the Exchange of Letters, foreign merchants continued to flourish in Malé crowding out local traders and trading vessel owners, resulting in almost complete dependence of the Maldivian economy on these merchants. Most of the large Bohra shops in Malé were owned by people who resided in Ceylon with property and trade establishments there, with agents placed in Malé to run their shops. Parsis, competitive people who conducted very profitable business with links to Bombay and Colombo also owned some large shops in Malé, and there were also a group of smaller establishments whose owners were based in Malé.

This situation continued for the next few decades, enabling these merchants to control the prices of imports as well as the price at which they bought export products (mainly dried tuna) from the locals.

This situation continued for the next few decades, enabling these merchants to control the prices of imports as well as the price at which they bought export products (mainly dried tuna) from the locals. The monopoly that these British subjects had over Maldives' international trade had enabled them to reach a point where they bought the dried fish that Maldives produced at very low prices (MVR 6-7 per

hundredweight) and controlled the flow of goods in and out of the country. According to historical accounts, they also conducted much misappropriation in their dealings (both in weighing and in accounting) with local fish sellers who had little or no knowledge of accounting or mathematics at the time.

In 1959, the government commenced the initiative to completely eliminate the chokehold of foreign merchants on Maldives.

Perhaps indicative of the laissez faire policy of the British government towards Maldives' external trading relationships with their subjects and the detrimental effect on Maldivian traders that continued, the Maldivian government began taking steps to facilitate direct trade with its neighbours from the early twentieth century. In the first instance, a Government Representative's office was opened in Colombo, and a representative stationed there during the 1930s. Then, some years prior to the independence of India and Ceylon from Britain, strong action was implemented to counter the dominant foreign merchants' status quo. In this context, the Dhivehi Rayyithunge Bodu Store was established under an Act of Parliament in December 1942. The Bodu Store was operated under the Treasury as an intermediary that purchased Maldive fish directly from fishermen and sold it on to traders. With its inception, the purchase price of fish from the central atolls was set at MVR 25 per hundredweight and of that from Huvadhu atoll at MVR 35 per hundredweight. These purchases were sold to traders at MVR 30 and MVR 40 per hundredweight respectively.

Other measures followed over the next two decades. Historians have written that although the Bohra merchants were very smart business people who understood commerce well, some of the traders who were not able to comply with the government's stipulations were compelled to vacate their shops and depart from Maldives. Nevertheless, by the early 1950s Maldives owed MVR 5.8 million to foreign traders, on account both of the nation's own excesses and of the situation it was faced with.

In 1959, the government commenced the initiative to completely eliminate the chokehold of foreign

L- Bandaara Miskiiy, mosque built by the Bohra merchants (2019)
R- Chandhanee Magu and Ameer Ahmed Magu junction, c1950s

merchants on Maldives. After it was established that the traders did not have a capital base in the country, in 1961 the government gave notice to the traders that after 31 July 1962, their trade permit would require them to sell goods that they imported or produced themselves and export goods that they produced, and that they would be prohibited from providing capital to Maldivians to trade through them.

The legacy of these regional traders remains to this day, largely through agency associations with long established Maldivian firms.

However, since none of the traders had made any effort at such local production, the permits provided to them for selling imported goods were cancelled effective 1 August 1962, compelling them to settle their affairs and leave Maldives. The government took the stand that it would take responsibility for debts taken for the Maldivian government in accordance with government procedures and it appears that several debts of which no records had been kept were not honoured despite much effort on the part of the traders, with an eventual written response from the prime minister that offered to make up for the payments by providing them items other than tuna (such as dried reef fish, coir rope, shells, fish meal) through their agents in Maldives. However, since every foreigner resident in Maldives was required to pay an annual visa tax of MVR 4,000 by then, and a service charge of 2.5 percent was being charged for each day they left their money unclaimed at the Bodu Store, it was unviable for any of the traders to linger in the country. Thus, these merchants were compelled to sell their shops made of old asbestos sheets, old wood and sticks and ceilinged with mango wood, hand over the mosque they had built to the Maldivian government and depart, paving the way for the development of local traders.

Nevertheless, the legacy of these regional traders remains to this day, largely through agency associations with long established Maldivian firms. Similar to the foreign businesses that traded in Maldives in the nineteenth century, most of their local counterparts would also have originated as family owned and run entities who would maintain longstanding relationships with their suppliers from neighbouring countries. Given the changes in regulatory regimes over the years however, these

international business relationships are presumably more conducive to Maldives' national development goals at present. The mosque that was handed over to the government still remains, and is still frequented by the trading community in Malé, given its proximity to the bazaar area.

Economic interactions with Britain's armed forces

The protectorate status was most overtly felt during World Wars I and II. Although Maldives underwent severe economic hardships and starvation, she remained relatively insulated from the military activities during the First World War as she was under British protection. During World War II, the British actively sought Maldives' cooperation to utilise the strategic location of the archipelago in the Indian Ocean initially to establish a refuelling stop at Dhoonidhoo in Malé atoll for seaplanes of the Air Squadron based in Singapore, and later to establish a strong presence of the Royal Navy Fleet Air Arm in Addu Atoll and a smaller one in Kelaa of Haa Alifu Atoll which were major refuelling points for Allied shipping during the War. This investment of the British in Addu consisted of infrastructure and installations including a lorry road in several islands, a bridge between Gan and Feydhoo, wells and piped water in Gan, an airfield, several buildings for office, housing, medical and entertainment purposes, storage facilities and

Maldives contributed financially to the war effort of the allied forces alongside other friendly nations, sending MVR 35,000 to Britain through her Governor in Ceylon.

cemeteries with an estimated financial investment of 180,000 Sterling pounds. Britain also assisted with procuring food for the residents of Addu for most of the war, albeit at Maldivian government expense. Meanwhile, Maldives contributed financially to the war effort of the allied forces alongside other friendly nations, sending MVR 35,000 to Britain through her Governor in Ceylon. At the end of the war, all the facilities developed for the war effort were vacated and handed over to the Maldivian government.

RAF Gan Medical Centre Statistics for 1964

Personnel	RAF & entitled non-Maldivians	Maldivians
Consultations	3,217	14,337
Outpatient treatments	4,561	21,900
Admissions	369	681
X-Rays	286	2,966
Surgery	60	511
Laboratory Examinations		8,897

Source: Doling, P., From Port T to RAF Gan; An Illustrated History of the British Military Bases at Addu Atoll in the Maldive Islands 1941-1976, Woodfield Publishing, UK, 2003/2004, p 325

Though not a direct result of the Protectorate Agreement, in the mid-1950s Britain opted to lease the facilities it had developed in Gan of Addu Atoll for use by Royal Air Force (RAF) planes as a staging post on the way from and to Britain and the Far East for its engagement in the Indian Ocean region. They further developed Gan and some areas of Hithadhoo

for this purpose, and according to the first United Nations evaluation of the Maldivian economy in 1966, the project had 'a deep impact on the economy (of Addu).' Gan was previously used for crop cultivation by the people of the atoll but the development of the airbase completely changed the scenario, and about 900 men out of a possible working population of about 1500 who were previously employed in fishing and other activities were employed by the base. The RAF imported most of their own needs and local purchases were limited to fish and occasionally some poultry, but the population of Addu received a regular income and other benefits such as medical attention by the RAF doctors. At the time, the best healthcare facilities in the country were at the hospital operated by the RAF in Gan, and although the facility was established to treat only the servicemen, the expatriate civilians, the Maldivians employed on the construction programme and the Adduan employees' families, other locals and even people from Malé were allowed to avail of the facilities there to some extent.

Adduan economy also became a Sterling pound denominated economy.

The Navy, Army and Air Force Institutes (NAAFI), the company that operated the requisite recreational establishments for the Armed Forces and sold goods to servicemen and their families ran a shop on Gan to serve the troops, and to some extent the locals. The NAAFI was later formally recognised as a trading entity under letters exchanged between Maldives and Great Britain on 26 July 1965, which stated that they could 'sell goods for removal from the Agreed Areas only to Traders in Addu Atoll nominated from time to time by the Maldivian Government' and that 'The United Kingdom Government will supply to the Maldivian authorities a copy of an invoice of goods sold to the nominated Traders. They understand that goods so sold to the Traders will be subject to reasonable import duties at rates not in excess of those payable generally in the Maldive Islands. They further understand that the Maldivian Government will collect those duties from the said Traders'.

By the latter part of 1967 there were 30 officially designated Maldivian traders in Addu, and the goods sold to them by the NAAFI had been subject to import duties levied by the Maldivian government since the system had been initially established. Authorised traders could place orders with NAAFI as they would with any other supplier, and although direct trade between visiting supply vessels and the locals was prohibited it was difficult to enforce, partly since these traders also acted as middlemen for large businesses in Malé. It was estimated that locals (including but not only the nominated traders) would have spent approximately GBP 10,000-15,000 on 'bicycles, bales of material and cases of all types of goods found in Eastern bazaars' when a foreign trading ship

anchored at the RAF port in Gan. Furthermore, a RAF check on the prices of goods sold to Adduans by the nominated traders in late 1966 noted that prices of goods had generally increased by 15 to 30 percent in three months, and in several cases had doubled or even more than trebled, and that this could not have been attributed either to taxation or to any regular business expense (Doling, 2003/2004).

With the British resident in Addu Atoll until the mid-1970s there was also some direct inward trade to Malé from London, and according to the State Trading Organisation, in the late 1960s and early 1970s, ships that carried supplies to Gan would also stop in Malé to deliver orders that had been placed by its predecessor Atoll Trading Agency (ATA) for sale through the Maldives Government Bodu Store (MGBS) outlets. (Maldives apparently also faced issues of such items being illegally exported to regional countries where they were in high demand at the time owing to import restrictions.)

The most significant economic impact of the RAF base that operated on Gan from 1958 through 1976 therefore was that almost the entire economy of Addu became dependent on the base. Furthermore, since all financial transactions conducted by the RAF and NAAFI were conducted in British currency, the Adduan economy also became a Sterling pound denominated economy during the period the British were stationed there. These factors created ripples throughout the nation with the people of one atoll disproportionately empowered by the presence of an on-site foreign power (albeit for only a relatively short period of time), and the various associated consequences left a deep impact on the Adduans' psyche that remains evident even today.

Economic interactions with Britain's armed forces

Britain was Maldives' main source of foreign funds and technical assistance until the protectorate agreement came to an end when an independence agreement was signed between the two nations in July 1965. The most comprehensive record of Maldivian history and archaeology was penned by British civil servant H. C. P. Bell in the first quarter of the twentieth century and it was with British assistance drawing upon experience gained from other Muslim states, that the constitution of Maldives (which included clauses for governing the domestic economic system) was first drafted in the early 1930s.

The first significant documented request for official development assistance was made by the Maldivian prime minister in the early 1950s to rejuvenate the Maldivian fishing industry, to obtain some powered vessels and to arrange the provision of technical advice for Maldivians on all matters from agriculture to the national economy. Towards the middle of the

1950s, Britain responded by gifting the Maldives with 20,000 yards of sailcloth, 1,000 pounds of cotton yarn, 3,000 ft of ¼ inch diameter rod for making fish hooks, 2,000 bamboo fishing rods, 5 tonnes of crude fish oil and 400 lbs of lead which was sufficient to refurbish several hundred fishing boats. However, with a series of disasters befalling it, Maldives was never quite able to utilise the services of the powered vessel. The lease of the Gan base was also supposed to garner GBP 2,000 per annum for one hundred years for the Maldivian government, but a subsequent agreement in February 1960 shortened the lease period and provided for an aid package of GBP 850,000 over five years or more, which was targeted towards the improvement and expansion of the fishing industry, the improvement of ships to advance communications between Malé and the outer islands, an electrical power scheme and provision of a small hospital at Male. It was also agreed to equip the school laboratories in Malé and pay for the education of a law student and a radiologist in Britain.

Other impacts and the impetus for independence

The Protectorate Agreement mandated Maldivians to use documents issued by the British Empire when travelling overseas (except to Ceylon) to denote their British Protected Person status. A Maldives-Ceylon travel pass issued by the Government of Maldives was the document required when travelling to and from Ceylon.

The main impetus for termination of the Protectorate Agreement (as articulated by senior Maldivian government officials of the time) was the high-handed attitude and utter disregard for the sovereignty and territorial integrity of the Maldivian state

With the Agreement being a direct consequence of the British Empire's desire to consolidate its power in the Indian Ocean region, the success of the independence movements in regional countries obviously prompted the Maldivian government to re-evaluate their defence and security choices. Despite Ceylon and the Indian subcontinent moving away from British rule in the mid-1940s, the government of Maldives opted to remain within the protection of Britain albeit with modifications to the Agreement to remove clauses that mandated her to pay annual tributes to the British Crown. According to veteran

Maldivian diplomats and historians, this was in order to remain free of any attempts by regional countries to claim Maldives as their territory in the absence of a colonial power in the region, particularly given the historical context of security/defence pacts with various rulers in the area in centuries past.

The news of the transportation of a Maldivian national out of the country 'to safety' in British territory was apparently the proverbial straw that broke the camel's back

The main impetus for termination of the Protectorate Agreement (as articulated by senior Maldivian government officials of the time) was the high-handed attitude and utter disregard for the sovereignty and territorial integrity of the Maldivian state displayed by Britain during the construction of the Gan base. On their part, the British faced significant delays in the construction process owing to disagreements within the government of Maldives and a reneging on an agreement that had apparently been agreed to by the person Britain viewed as the head of the government at the time. With the subsequent change in working conditions, Britain forged ahead on Maldivian soil in the face of disapproval and disagreement of the Maldivian government, aligning the islanders of the region to their cause and backing them in their dissent against their own government to the extent that a secession attempt was supported until Britain's aim of establishing the base was achieved. (When the Adduans were in desperate circumstances during the initial stages of the Addu revolt, the British arranged for the rice element of their wages to be provided by the RAF and for the cash element to be replaced by a chit system to obtain commodities through the NAAFI as an emergency measure. Later, once the rebel government was more established as the United Suvadive Islands, an entity called the Addu Trading Corporation was facilitated to conduct the Adduans' trade, with the Corporation's turnover on NAAFI supplied goods alone amounting to around GBP 59,000 in 1962.) Furthermore, the leader chosen by the Adduans who had requested British protection in the event of his government's failure was secreted away without due notice to Maldivian authorities. The news of the transportation of a Maldivian national out of the country 'to safety' in British territory was apparently the proverbial straw that broke the camel's back, resulting in the push for 'full' independence by the Maldivian government which had initially only set out to renegotiate the Gan lease agreement in more favourable terms to Maldives.

Post-independence legacy of Protectorate Agreement

The Independence Agreement of 26 July 1965 did not put an end to Britain's efforts to maintain Maldives within her hold to some extent, perhaps due to the strategic geographical location and the nature of her activities in Maldives. The RAF base continued at Gan until Britain's mid 1970s decision to reduce her presence in the region to the east of the Suez Canal, and a stipulation was made during negotiations for the handover of the RAF facilities that the assets of approximately GBP 11 million donated to the Maldivian government would not be given, loaned or sold to any third party (Doling). However, the assets left behind and the large cohort of trained locals could be utilised by the Maldivian government for alternative economic gain.

It was also the British telecom company Cable and Wireless, a significant player in ex-British territories in the post-colonial era, that sought and secured the project to establish the telecommunications backbone of Maldives after the RAF left Gan, with the sole right to operate and develop the nation's international telecommunications for the first ten years.

Diplomatic relations have been maintained with the United Kingdom (UK) since gaining independence. Maldives joined the Commonwealth in 1982 as a former protected state and over the years (except during a few years of recent political turmoil) availed of the significant development assistance facilities and opportunities for member nations of the organisation. Economic relations between the two nations have perhaps been on more equitable terms in subsequent years with the UK being one of the most reliable source nations for the Maldivian tourism industry and a significant market for Maldivian tuna exports in recent decades. The telecom operator also eventually became a joint venture with the Maldivian government that resulted in considerable technology transfer and human resource development.

ABOUT THE WRITER

Ms Shafeenaz Abdul-Sattar holds a Bachelor of Business Management degree (with Psychology electives) from Charles Sturt University-Riverina, Australia, and a Master of Commerce (Honours) degree (majoring in Economics and Government) from the University of Sydney, Australia. In the 1990s/2000s she held posts at the UN Population Fund (UNFPA) and the Maldives Monetary Authority. Later she took up project work in the non-government sector following the Asian tsunami of 2004. Since then she has undertaken managerial, consulting and project-based work with various organisations. Her interests include research and analysis on economic and sociopolitical development of Maldives from historical perspectives.

LETTERS TO THE EDITOR

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Minister Fayyaz said lack of access to finance is a constraint hindering SME growth (MER vol 3 issue 1, September 2021). SDFC is a good initiative to address this. But how does SDFC get its funds? Is SDFC able to ensure repayment? What is the repayment rate? Is the repayment rate at a sustainable level for SDFC to continue lending?

I am interested to get answers to these questions.

Abdul Hameed. Maldives

Responded by SDFC

SDFC was established in 2019 to ease access to finance for MSMEs and startups, which are comparatively riskier segments than the customer base of traditional financial institutions in the Maldives. The strategy was to provide concessional financing to SMEs in a regulated environment to ensure the sustainability and self-sufficiency of the institution in the long run. Hence the plan was to build a sufficient capital base and portfolio within the first 4 years of its operation. This would enable to have sufficient recoveries and capacity to obtain external financing to sustain current level of annual loan disbursements. From 2019 to 2021 we were able to disburse MVR 742 million to our customers which was facilitated through stable capital injection from the Government.

However due to the covid-19 pandemic, there was a setback in our initial projections as we provided moratorium of 10 months to our customers in 2020 and disbursements and completion of projects got delayed during this period. However, we are seen positive changes in 2021 with over MVR 400 disbursement in the year with increase in repayments.

Despite the setbacks and delays in projects, going forward we expect that we will be able to build sufficient capital base and portfolio to generate repayments and have financial capacity to attract external funding to continue lending.

I agree with Athif (MER vol 3 issue 1, September 2021, pp. 7-13) when he says it is time to pause leasing additional islands for development of resorts. Leasing more islands is easy to continue the current structure of the economy, but it does not tally with the government's declaration that the economy is being diversified under the Strategic Action Plan. It does not strengthen the resilience of the economy either.

I wish the government, whoever may be the president, would stop choosing simply convenient ways to run the economy.

Laila. Maldives

Responded by Ibrahim Athif Shakoor

May I say Aameen to your hopes. The appeal to take a pause and reflect before selling off additional space for tourism development, is best understood as a multi-sectoral appeal looking at environment, social considerations, retaining ownership of scare land for the future generations and also include pure commercial RoI considerations.

As a tourism employee, I read Zuhuree's article (MER vol 3 issue 1, September 2021, pp. 26-32) about the evolution of tourism in Maldives. It is clear he has done a lot of research in this area. So, I want to ask him this question. What do you think about the introduction of homestay tourism in Maldives? What will happen to other segments? What effects can it have on our community and culture?

Shaheeda. Maldives

Responded by Ibrahim Zuhuree

What do you think about the introduction of homestay tourism in the Maldives?

Institutionalisation of homestay may be an outcome of a major shake up to the tourism industry due to COVID-19. However, recently we have been experimenting with a form of homestay with Airbnb. Also, given that VIA is still the main international access point and most of the islands near the airport are leased as resorts, expansion of tourism to other atolls also means transport costs for tourists are high. There will be an increasing market for lower-priced lodging options to compensate for this cost, thus 'homestay'.

Introduction of homestay is likely to drive down the price of lodging in the Maldives, mainly because it has a lower cost of entry and exit. Lower price is likely to attract lower-quality tourists to islands. However, we do not know how the spending habits of such tourists will be, so although the number of tourists may increase, it is too early to say if actual economic benefits to the society will be net positive.

What will happen to other segments?

One island one resort segment is very different from guest house or homestay. So, I do not expect major disadvantages to other segments. However, we are likely to see some market share reduction from resorts and guest houses farther from international airports. Again, changes to the absolute number of tourists are not only the factor in international tourism; instead, tourists' spending habits could be more critical. Resorts or guest houses may be better off moving 'cheap tourists' to lower-end markets because it would be challenging to earn extra revenues through value-added products (e.g, special dinners etc.) from these tourists.

Some industry experts suggest that lower-end tourism such as homestay may reduce the brand value of 'Maldives' and there are costs associated with the free-rider problem. Please see chapter 4 of my study at: http://saruna.mnu.edu.mv/jspui/bitstream/123456789/1956/1/AN%20EMPIRICAL%20ANALYSIS%20ON%20INTERNATIONAL%20TOURIST%20FLOW%20AND%20HOTEL%20ROOM%20PRICES-THE%20CASE%20OF%20MALDIVES_izuhuree_saruna.pdf

What effects can it have on our community and culture?

Despite a common fear, I do not expect major cultural disadvantages due to the introduction of homestay tourism. Maldivians have been exposed to foreigners' for a long time and our values remain intact. In fact, homestay tourism is expected to bring benefits to host families as it offers social interaction and preservation of local culture, a sense of local pride, income and employment (esp. for women), and educational opportunities such as becoming more multilingual.

Just like when the guest house tourism was introduced, homestay is likely to expand the transport network in the country further. Transport is one of the fundamental requirements in the Maldives, and expansion of the network will bring multiply effects to the economy and the well-being of the people.

On the other hand, the homestay has some negative externalities for the community. For example, an individual host family may not be able to consider the costs such as waste (a tourist produces 5-6 times more waste than a local person), inflation, and loss of beach.

Will homestay be a catalyst for human capital development in the local community? Will it be more inclusive than guesthouse tourism? A good indicator of the success of homestay could be an increase in female entrepreneurship in the local community. We know that due to cultural reasons, resorts are not a choice of work for many females, and even guest house tourism has failed to incorporate women into the tourism production cycle.

In conclusion, without proper analysis or case study, it may be too early to say the benefits of homestay far outweighs the costs.

CLARITY AND RANGE

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INTERVIEW:

SAARC SG WEERAKOON:

"... PEOPLE OF SAARC REGION HAVE NOT FULLY ENJOYED THE BENEFITS UNDER SAFTA"

Maldives has been a member of SAARC since its establishment on 8 December 1985. 36 years on, questions loom large over the usefulness of SAARC as a regional cooperation body. MER's Ibrahim Athif Shakoor and Fazeel Najeeb sat with the Secretary General of SAARC H.E. Esala Ruwan Weerakoon of Sri Lanka, seeking to shed light on some of the questions related to economic cooperation in the SAARC region. MER thanks the Secretary General for agreeing to this interview, and the officers and officials at the SAARC Secretariat for their cooperation.

How active is SAARC as a regional body in South Asian economic development? Could you provide some examples?

SAARC, as you know, was established in 1985 with the objectives of promoting the welfare of the peoples and improving their quality of life through collaboration in almost every sphere, including economic, social, scientific and other important areas. Since then, a lot of progress has been made by SAARC towards achieving these objectives. As you may already know, SAARC has very well-defined and extremely well-structured intergovernmental mechanisms, including the Summit (Heads of State or Government), the Council of Ministers (Foreign

Ministers), the Standing Committee (Foreign Secretaries) and the Programming Committee (Joint Secretaries/Directors-General), which are known as the Charter Bodies. In addition, various Technical Committees, Working Groups, Experts' Groups and ad-hoc inter-Governmental Committees promote regional collaboration in specialised areas. Regional cooperation in SAARC is also pursued through a number of SAARC's Specialised Bodies (South Asian University, New Delhi; SAARC Development Fund, Thimphu; South Asian Regional Standards Organisation, Dhaka; and SAARC Arbitration Council, Islamabad) and Regional Centres (SAARC Agriculture Centre, Dhaka; SAARC Tuberculosis and HIV/AIDS Centre, Kathmandu; SAARC Energy Centre, Islamabad; SAARC Cultural Centre, Colombo; and an Interim Unit of the SAARC Disaster Management Centre, Gujarat).

Favourable bilateral trade and investments arrangements between the countries in the region have encouraged the Member States to engage in trade outside SAFTA.

SAARC has made steady progress in different areas, including in reducing extreme poverty and empowering women. However, we are yet to fully realise the potential of intra-regional trade or economic integration.

How effective is SAFTA in terms of active regional trading? How does SAFTA trading compare with non-SAFTA trading intra-region and externally?

As you know, the SAARC Preferential Trading Arrangement (SAPTA) was signed in 1993 and the South Asian Free Trade Area (SAFTA) was signed in 2004 to replace the former. Since it came into force in 2006, SAFTA has made substantive progress, primarily in terms of reducing custom tariffs and downsizing the number of items in the sensitive list. However, the progress in reducing tariffs and number of items in the sensitive list is not as expected. Similarly, incidences of non-tariff and para-tariff barriers and lack of adequate facilitation and infrastructure, along with high cost associated with trading, have worked as major constraints to intra-regional trade under SAFTA. Moreover, more favourable bilateral trade and investments arrangements between the countries in the region have encouraged the Member States to engage in trade outside SAFTA. Poor intra-regional investment flows have also impeded trading of goods in the region. Moreover, so far, we have not been able to cover trade in services.

Has the administration of SAFTA experienced any trading disputes between its contracting states and how have they been managed and resolved?

The SAFTA Committee of Experts functions as the dispute settlement body/mechanism, although the first preference is through amicable bilateral discussions between and among the concerned Member States. So far, however, no trade dispute under SAFTA has been brought to the notice of the SAARC Secretariat by any Member State.

What is the progress on SAARC Agreement on Trade in Services (SATIS), and what if any, needs to be done to make better progress?

At the Sixteenth SAARC Summit (Thimphu, 28-29 April 2010), the SAARC Agreement on Trade in Services (SATIS) was signed. At the same Summit, the Leaders called for early conclusion of negotiations on the schedules of specific commitments under the Agreement to open up new vistas of trade cooperation and further deepen the integration of the regional economies. The Agreement has been ratified by all the Member States and has entered into force on 29 November 2012.

We are hopeful that the Member States would indicate their readiness with the Final Offer List pertaining to SATIS.

As per the decisions and as reiterated by the Eleventh Meeting of the Expert Group on SATIS (Islamabad, 5 July 2015), "once confirmation from all Member States have been received, these Lists would be discussed and examined by the Member States and subsequently tabled during the Twelfth Meeting

of the Expert Group to be held in New Delhi." The Twelfth Meeting of the Expert Group on the SAARC Agreement on Trade in Services will be organised once all the Member States have confirmed that they are ready with their Final Offer List under SATIS.

We are hopeful that the Member States would indicate their readiness with the Final Offer List pertaining to SATIS. We are also hopeful that operationalisation of SATIS would give much-needed impetus in improving intra-regional trade in the region.

Various Studies have shown that the region's trade and commerce can be doubled without much effort.

What prospects are there to enhance regional cooperation in trade, commerce, finance and investment within the SAARC region and make better progress?

Various Studies have shown that the region's trade and commerce can be doubled without much effort, provided some basic initiatives are taken and executed. For example, reducing tariff, non-tariff, para-tariff barriers and sensitive lists, along with trade facilitation activities, would decrease trade costs significantly and augment trade to a large extent.

It is challenging to make satisfactory progress in regional cooperation in trade, investment and finance among the Member States due to differences in their stages of economic development and the adverse impact of COVID-19. Under the circumstances, it is becoming increasingly necessary to evolve consensus among the Member States on crucial issues to bolster effective regional economic integration.

What constraints does the SAARC Secretariat have in attending to economic matters at the behest of the signatories of the SAARC charter?

As you may be aware, the SAARC Secretariat is mandated to monitor the implementation of the decisions and directions stemming from SAARC's mechanisms. The Secretariat is not mandated to take any decision on its own to move ahead and implement the decisions on economic or any other matters.

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"After 36 years of existence of SAARC and 18 summits, the question to be asked is whether economic cooperation can take place while ignoring vital political issues that threaten to cause conflicts, both military and nuclear. Apparently, the little or no progress is indicative that economic cooperation is unlikely to come about unless the bigger two-member countries are willing to put their long-standing differences aside in the interest of the progress of the region as a whole."

As of today, the people of SAARC region have not fully enjoyed the benefits under SAFTA.

Above is a direct quote from Ambassador Saleem, the 11th Secretary-General of SAARC from an article he penned to Maldives Economic Review, Vol 2 Issue 4, June 2021. Do you see economic cooperation developing and maturing among SAARC countries, or in your opinion will this, forever remain a dream, something to harken to, given that the geographic, strategic interests of what Ambassador Saleem calls, 'the bigger two countries' – India and Pakistan – continue to diverge? Is there hope?

As you may know, Article X of the Charter of SAARC clearly states that "Decisions at all levels shall be taken on the basis of unanimity" and that "Bilateral and contentious issues shall be excluded from the deliberations."

Citing the very noble aspirations 'Aware that the expansion of trade could act as a powerful stimulus to the development of their national economies, by expanding investment and production, thus

providing greater opportunities of employment and help securing higher living standards for their population' SAPTA came into effect in 1991 and has been succeeded by SAFTA in 2006.

Today after two decades of slow, almost glacial like progress, little of advantage has been felt by the region's peoples.

Yet, as a region we produce many varieties of goods and services that are traded across our countries, tea from Sri Lanka, mangoes and rice from Pakistan, onions, potatoes and IT services from India.

In 2019 Sri Lanka exported excess of US$ 777 mn worth of goods to India out of which only US$ 1.75 mn of exports received the SAFTA treatment. Above 15-20% of our imports are generated from SAARC countries.

In your opinion, do you think that the peoples of the SAARC region, more than 1 billion of us, are enjoying the full benefits as envisioned in the SAFTA? if not where are roadblocks, and how do we remove them?

SAARC as a region could not achieve its full potential. This is also indicated by various studies. So, in response to your question, as of today, the people of SAARC region have not fully enjoyed the benefits under SAFTA. The Member States need to move ahead together in ensuring fuller implementation of SAFTA. Some Member States proposed to fast-track the liberalisation of trade under SAFTA by reducing the tariff to 0-5% with only 100 products in the sensitive lists by 2020. But this proposal has also not yet been agreed upon as other Member States have certain reservations against this proposal as they want to increase the number of products in the sensitive list and extend the period from 2020 to 2030. It is for the Member States to come up with such liberal trade liberalisation proposals for the benefit of the peoples of the SAARC region.

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WHAT DO CONSUMERS VALUE IN TOURISM?

Ibrahim Zuhuree

Introduction

What do consumers value in tourism? This question is of practical interest to the tourism industry, policymakers, and economists interested in consumer behaviour. Tourists' choice of hotel to stay depends on hotel characteristics such as the number of rooms, facilities available and service quality. In addition, tourists also derive utility from the hotel's physical environment. For example, it is reasonable to assume that a tourist visiting the Maldives prefers a less polluted beach when choosing the island where the hotel is located. However, due to the limitation of quality data, there are no studies on how external characteristics (e.g. quality of beach) and internal characteristics (e.g. quality of service) explains hotel room prices in the Maldives. Using primary data from 'booking.com' and a survey of guest houses in the Maldives, this article summarizes characteristics affecting guest houses room prices .

(see http://saruna.mnu.edu.mv/jspui/bitstream/123456789/1956/1/AN%20EMPIRICAL%20ANALYSIS%20ON%20INTERNATIONAL%20TOURIST%20FLOW%20AND%20HOTEL%20ROOM%20PRICES-THE%20CASE%20OF%20MALDIVES_izuhuree_saruna.pdf for in-depth details)

Price heterogeneity within guest house segment varies from $30 to $450 with a mean value of $108, while resorts price ranges from $107 to $8,000 with an average of $873.

Data sources, variables and descriptive statistics

Studies on hotel prices in the Maldives are not available. Nevertheless, it is possible to collect microdata online such as room prices, hotel ratings, reviews and room choices by tourists visiting the Maldives. All the operational resorts and guest

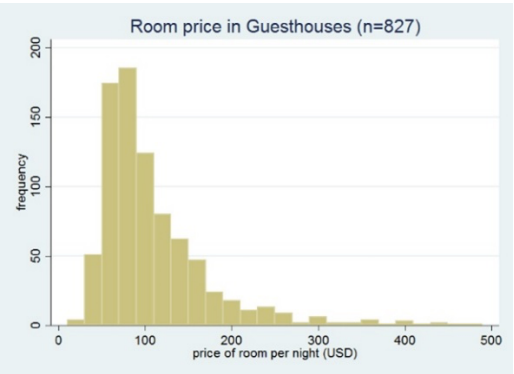
houses post their room prices online, either through their website or online travel agencies (OTAs). The analysis in this article also uses a field survey done in 2016 on the guest house segment in the Maldives, which provides information about the education and work experience of guest house owners/managers and the quality of the environment where the hotels are located.

One critical factor that can affect prices is the distance of each island from the international airport.

Price variable

The estimated frequency plots of the average price of hotel rooms in the guest house segment and resorts for July 2016 are shown in Figure 1. As expected, there is a considerable difference between the prices of resorts and guest houses. Price heterogeneity within guest house segment varies from $30 to $450 with a mean value of $108, while resorts price ranges from $107 to $8,000 with an average of $873.

Figure 1: Frequency plot of room price in guest house and resorts for July 2016

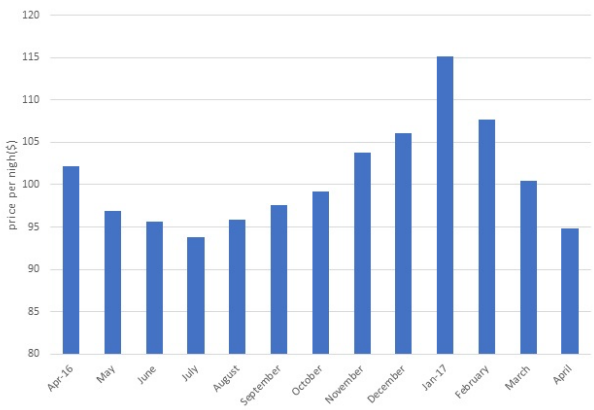


Source: Authors calculation based on online data from booking.com. To standardise the comparisons, the prices are for a one-night stay in a double room per couple.

Seasonality

Price heterogeneity of guest house rooms is due to many reasons, and one determining factor is seasonality. Tourist arrivals to the Maldives are seasonal, with May to July considered off-season due to the monsoon. Meanwhile, demand is high from December to March, coinciding with winter in Europe. Data confirms this. Figure 2 shows the mean price of hotel rooms from April 2016 to April 2017. The lowest price is $ 93 in July, and the highest recorded price is $115 in January

Figure 2: Mean Guesthouse price from April 2016 to April 2017



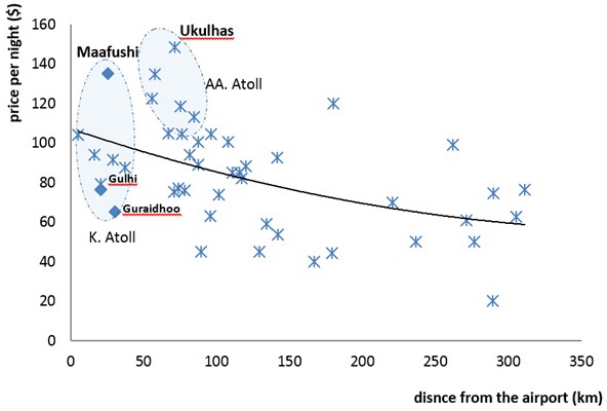
Source: Author's calculations based on booking.com prices

Distance

In the Maldives, one critical factor that can affect prices is the distance of each island from the international airport. To reach the island where a guest house is located, tourists use sea or air transportation. Figure 3 shows the average price of hotel rooms in the islands and the distance from the airport.

The differences in prices are likely to represent some quality characteristics (e.g. quality of environment or services) of the hotels apart from seasonality or distance from the airport.

Figure 3. The average price of hotel rooms in the islands and the distance from the airport (n=42)

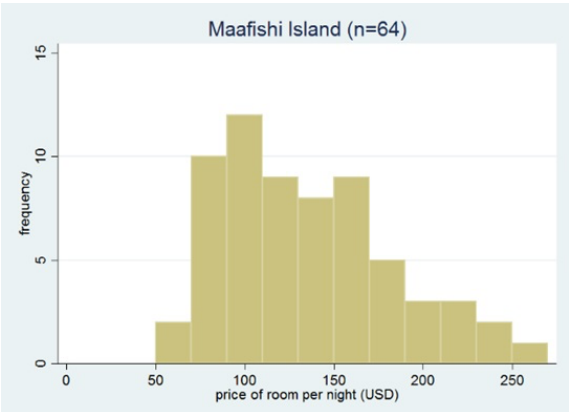


Source: Author's calculations. Prices are for a one-night stay in a double room on a bed and breakfast basis.

Room rates vary from USD 30 to USD 150, and as expected, the room rates decrease with distance from the airport. However, there are interesting observations to report. For example, except for Maafushi Island, prices for the rest of the islands in K. Atoll are below the trend line. Indeed, islands Gulhi and Guraidhoo marked in 'diamond,' are just minutes from Maafushi, but the price is 50% less than Maafushi. On the other hand, Ukulhas Island from AA. Atoll has the highest price. Could this higher price be associated with characteristics such as better waste management policy among the islands?

The Maldives mainly offers wanderlust (Sun, Sea, and Sand) tourism. The differences in prices are likely to represent some quality characteristics (e.g. quality of environment or services) of the hotels apart from seasonality or distance from the airport. Figure 4 shows hotel room prices in Maafushi after restricting the locations of the guest houses to Maafushi, so that island characteristics (environment) are fixed. Once again, we observe considerable heterogeneity in price variables, suggesting sorting behaviour by tourists based on their taste preference. The price difference may be due to private attributes (e.g. room standard), localised environmental

Figure 4. The average price of hotel rooms in Maafushi Island



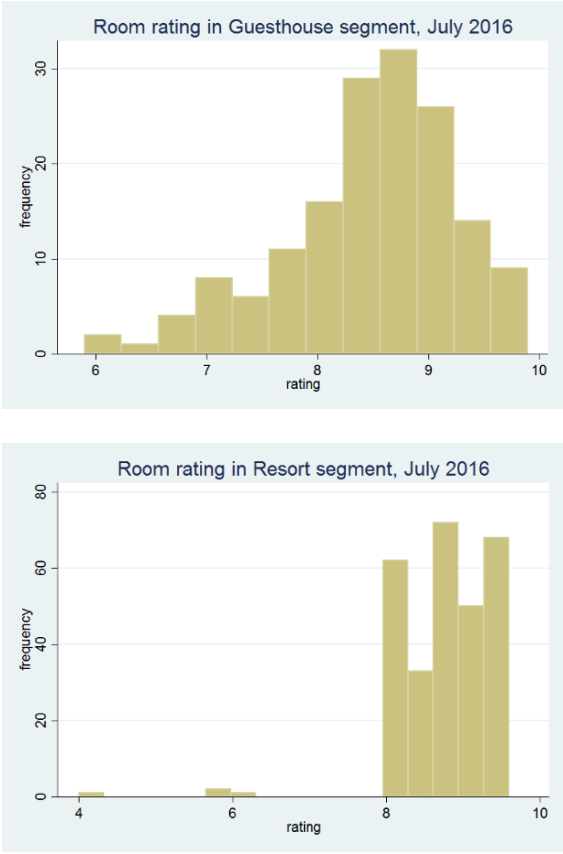
Guest rating

A field survey reveals that hotel managers dedicate considerable resources to maintain a high rating for the hotel. Hotel rating can indicate quality characteristics such as aesthetic or visual beauty that are not captured by the observed variables. Can we learn any objective information from the ratings and the corresponding prices?

At the island level, price increases with ratings, suggesting some descriptive evidence of tourists' willingness to pay for improved quality.

The estimated frequency plots of the average rating of hotel rooms in the guest house segment and resorts for July 2016 are shown in Figure 5. Data shows, in the guest house segment, ratings vary from 5.9 to 9.9, with a mean value of 8.48. In the case of resorts, except for a few outliers, rating ranges from 8 to 9.6 with an average value of 8.74. The ratings have more within-guest house variations than resorts, implying that resorts maintain minimum quality.

Figure 5: Average Rating of Hotel Rooms in the Guesthouse segment and Resorts.



Figures 6a and 6b show the price and guest rating of guest rooms, on a bed and breakfast (BB) basis for December 2016, in Maafushi Island, as well as our sample of 23 islands in the Maldives. At the island level, price increases with ratings, suggesting some descriptive evidence of tourists' willingness to pay for improved quality.

The price and guest rating of rooms

Figure 6a.

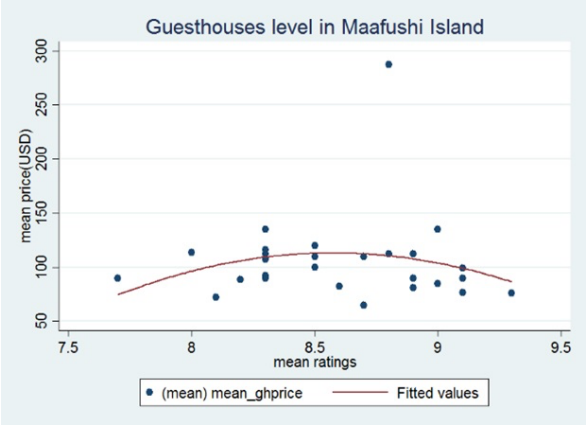
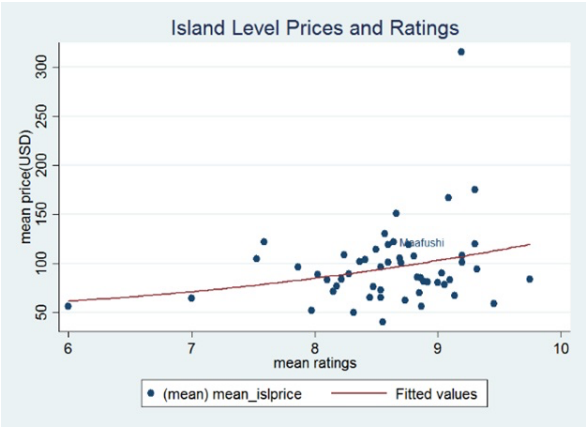


Figure 6b.



Source: Author's calculations

Other indicators for the quality are the manager's educational level and years of experience in the tourism industry.

Island level (public) characteristics and quality of service

Island level (public) characteristics include population, the length of the beach, number of households using unsafe waste management practices and guest comments about beach cleanliness. An indicator for the quality of service is hard to obtain from our online data. However, each guest house lists the total number of foreign languages spoken by staff in the guest house. In the guest house segment, on average staff can speak two foreign languages. Learning a foreign language requires additional education or work experience, which is an indicator for the quality of service variable.

Other indicators for the quality are the manager's educational level and years of experience in the tourism industry. The guest house survey shows, on average managers have 9.6 years of tourism industry experience, and with 41%, 11% and 26% of managers having secondary, diploma and degree-level education. In addition, about 40% of the managers have received more than six months of tourism-related technical training.

Among the general characteristics of islands, the focus is on the manager's perception of waste management as a proxy to beach cleanliness. In the survey, 66% of managers indicated waste management practices on the island are negatively affecting guest house tourism in the islands. Guest reviews from 'booking.com' suggest that guests commenting negatively about beach cleanliness ranges from 5% to 30% in most islands, which is used to create a variable 'beach cleanliness index'.

Implicit price of quality characteristics

Beyond descriptive statistics, it is possible to run hedonic pricing regressions to estimate the implicit price of quality characteristics after controlling for hotel and location characteristics – Table 1.0 shows a sample regression table from the study.

Table 1: Estimated Models of Headonic Room Prices and Rating in the Maldives

	Dependent variable: log (room price)			DV: log (room rating)	
	(1)	(2)	**(3)**	(4)	**(5)**
Public characteristics					
Number of households using unsafe waste disposal methods	-0.03743***	-0.04676***		0.02449	
	(0.00723)	*(0.00480)*		*(0.04023)*	
Beach cleanliness Index			0.01067*		0.01284
			(0.00499)		*(0.01687)*
Population (in 100)	-0.00082*	-0.00077**	-0.00126**	-0.00381**	-0.00437***
	(0.00032)	*(0.00027)*	*(0.00044)*	*(0.00140)*	*(0.00117)*
Beach length (m)	0.00073***	0.00074***	0.00062*	0.00076	0.00082*
	(0.00008)	*(0.00012)*	*(0.00026)*	*(0.00040)*	*(0.00037)*
Crowdedness (room per km^2)	-0.00010***	-0.00010***	-0.00010*	-0.00002	-0.00006
	(0.00002)	*(0.00003)*	*(0.00004)*	*(0.00007)*	*(0.00005)*
location characteristics					
Distance to airport (ln)	-0.05065	-0.03387	-0.12773**	-0.02834	-0.10852
	(0.04389)	*(0.03208)*	*(0.03937)*	*(0.18097)*	*(0.15998)*
Guesthouse in front of beach	0.19858***		0.21082***	0.17097	0.16919
	(0.05680)		*(0.05219)*	*(0.09493)*	*(0.09848)*
Guesthouse distance to beach	-0.00024**	-0.00029**	-0.00026	-0.00018	-0.00013
	(0.00009)	*(0.00009)*	*(0.00021)*	*(0.00022)*	*(0.00023)*
Hotel characteristics					
Number of rooms in Guesthouse	0.01343***	0.01584***	0.01321***	-0.00238	-0.00347
	(0.00354)	*(0.00393)*	*(0.00333)*	*(0.00608)*	*(0.00645)*
Guesthouse has terrace	0.13646***	0.17506***	0.13479***	-0.10909	-0.11429
	(0.03737)	*(0.04116)*	*(0.03627)*	*(0.06904)*	*(0.07000)*
Foreign language spoken by staff	0.03946*	0.04508*	0.04134*	-0.00874	0.00763
	(0.01760)	(0.01865)	(0.01648)	(0.03714)	(0.03155)

The micro-level regression analysis suggests hotels located in islands with long beaches can quote a higher price (refer to Table 1). As a result, additional revenue opportunities can tempt the private sector to lobby for more beach areas of the isle to be dedicated for tourism consumption. However, such allocations will potentially reduce the opportunity for local

Analysis suggests hotels located in islands with long beaches can quote a higher price.

Hotels can post a higher price by employing more skilled workers.

people to enjoy the beach. Moreover, coefficients in Table 1 imply that islands with less crowded beaches and better waste management practices are more appealing to tourists. Thus, hotels located in those islands post higher prices. In fact, marginal willingness to pay (MWTP) for a clean environment varies between USD 1.00 to 3.50.

The regression analysis also suggests the tourist's value industry experience and the minimum level of tourism-related training. This indicates that hotels can post a higher price by employing more skilled workers. Resorts often undertake in-house training or send their employees abroad for further studies. On the other hand, family businesses that run guest houses cannot provide quality training for their employees. Managers and staff often use YouTube to learn basic hospitality and tourism skills such as housekeeping. This is consistent with existing literature on skill shortages in the Maldives that identified the lack of skilled labour constraining investment decisions in the tourism sector (for example, see Asian Development Bank. (2015). Maldives overcoming the Challenges of a Small Island State Country Diagnostic Study. Asian Development Bank. Manila.

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http://www.adb.org/sites/default/files/publication/172704/maldives-overcoming-challenges-small-island-state.pdf).

Conclusion

Descriptive statistics together with regression analysis suggest that guest house managers will benefit from considering island-level and hotel-level characteristics as an integral part of their tourism product pricing. This is because knowing MWTP can allow managers to target consumers who associate price and quality accurately. Analysis suggests that the suppliers mainly capture the additional benefit of improving the quality of service or environment to increase price rather than growth in tourist's consumer surplus. Therefore, it is essential to promote joint initiatives between the island councils and the private sector to implement appropriate policies for managing public characteristics associated with guest house tourism. Likewise, employing capable people produce returns in the tourism industry, thus potentially generating more revenues for the government. Therefore, the government should enhance subsidised technical and vocational education targeted to the guest house sector.

ABOUT THE WRITER

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DIFFERING PERTINENT PERSPECTIVES

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TIME TO SAY "NO THANK YOU" TO FOREIGN AID?

Ali Naseer Mohamed

Foreign aid is popular. It is perhaps more popular in the Maldives where it has a welcoming home, and where its intentions are rarely questioned. There is a deeply held belief in the Maldives that foreign aid promotes social and economic growth in the country. President Gayoom, in his very first Presidential Address to the Maldivian Parliament in February 1979, declared that the Maldives would seek foreign aid "until such a time when the country is able to stand on its own feet with a resilient economy". Although the country had been receiving a significant amount of foreign aid for the previous four years (since 1975, averaging USD 3 million a year), it was the first time that the Government announced a policy towards mobilising foreign aid. Forty-two years since then, it is worth starting a discussion on whether the country has reached (or will it ever reach) a point where it is able to "stand on its own feet with a resilient economy".

Broadly defined, foreign aid—more formally known as the official development assistance, or ODA—is the transfer of resource by government "that promotes and specifically targets the economic development and welfare of developing countries". A few weeks before the Maldives announced its aid mobilisation policy, the Government made a radical change, in January 1979, to the institutional architecture for aid mobilisation and development coordination. A Presidential Directive established the External Resources Section within the Ministry of External (later Foreign) Affairs, with the exclusive mandate of mobilising foreign aid to the country and in the coordination and implementation of foreign aid funded projects. The National Planning Agency (NPA), set up in January 1979, had the task of identifying and prioritising development projects in collaboration with the Foreign Ministry. With that change, the inflow of foreign aid increased sharply, jumping from USD 6.2 million in 1979 to USD 20.9 million in 1980, contributing to a whopping 78 per cent of Government revenue; a level that the Maldives would never reach again.

Bitter first experience

Ceylon and Pakistan came to Maldives rescue; the former providing a credit facility, and latter supplying 500 tons of rice as grant aid to the Maldives. No other country bothered to care.

The Maldives experience with foreign aid had an inauspicious beginning. The country made its first international appeal for foreign aid in 1953 during the time of the First Republic. The country had not fully recovered from the famine caused by the travel blockade imposed in the Indian Ocean during the Second World War. The restrictions did not allow Maldivians to import basic food items and materials required for the upkeeping of the fishing vessels, the dhoni. As a result, hunger was widespread, and people were dying of starvation. Ceylon and Pakistan came to Maldives rescue; the former providing a credit facility, and latter supplying 500 tons of rice as grant aid to the Maldives. No other country bothered to care.

In the mid-1950s, the Maldives Government requested the country's "protective power", Britain, for financial aid to buy a cargo ship that can travel between Malé, and Ceylon and India. The British agreed to the proposal in principle, but also sought the agreement of the Maldives for establishing a British military base in Gan in Addu Atoll. The Maldives Prime Minister agreed, but in doing so not only did he lose his job, but the subsequent developments took the country to the brink of an internal conflict. Ibrahim Nasir, who became Prime Minister in December 1957 and President in 1968, decided not to accept the cargo vessel donated by Britain (according to Ali Umar Maniku, who led the country's international commerce during the period). Indeed, for some time, Nasir viewed bilateral aid with a measure of suspicion, especially from countries that were perceived to have strategic and expansive interests in the Indian Ocean. For example, when the Maldives received an offer for Gan from the Soviets in the late 1970s, Nasir famously declared that "the Maldives is not for sale".

For example, when the Maldives received an offer for Gan from the Soviets in the late 1970s, Nasir famously declared that "the Maldives is not for sale".

It was that thinking therefore that guided the Maldives to have a very clear preference for multilateral—the UN agencies and the Colombo Plan—over bilateral sources of aid. There were a few exceptions, however. Britain extended some economic aid, as provided for in the agreement signed between the two countries in 1960. The largest and most important British aid to the Maldives was the construction of the Government Hospital building (where ADK Hospital stands today)

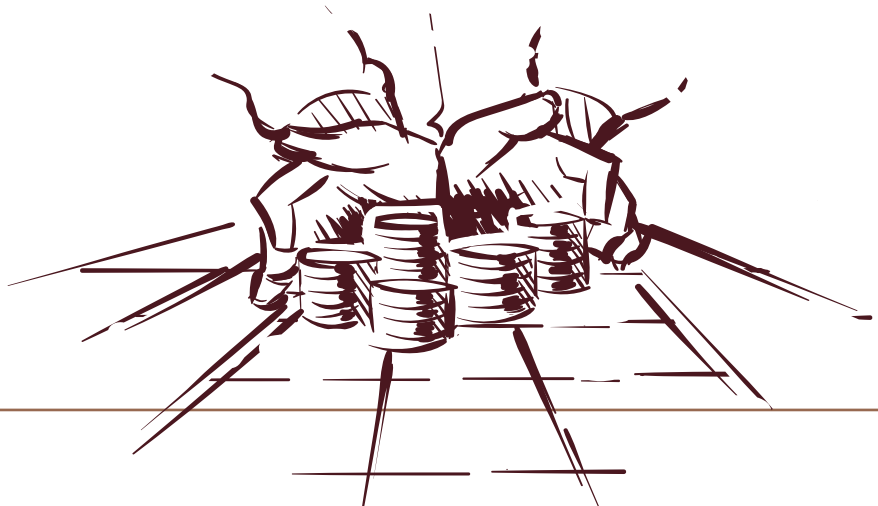
in Malé and technical support for education planning and modernisation of schools in capital.

When aid was good

Prime Minister Nasir introduced a radical change to the Maldives approach to aid mobilization in the mid-1970s. He realised that the economic assistance coming from the UN and the Colombo Plan were not up to the scale that the country required. As such, the Maldives approached Kuwait, Saudi Arabia, and the United Arab Emirates for financial support in establishing a satellite earth station in Malé. In 1980-81, the Maldives approached the same countries for concessional finance in constructing an international airport in Hulhulé. These two were the largest projects (in terms of monetary value) in the country at that time, and brought about two important changes. It helped Maldivian political leadership to view bilateral aid much more favourably; bilateral funding had scale, which the multilateral agencies were unable to meet, and they helped bringing foreign investors, too. Companies, such as Cable and Wireless of UK, and NEC and Mitsui of Japan made visible presence in the country and would later become key actors in the economic development story of the Maldives.

The Maldives also started holding more informed and regular dialogue with the members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) on the need for increased foreign aid for the country. The Maldives attended the UN's Least Developed Country (LDC) Conference held in Paris in 1981, where it gained more knowledge about the possibilities that exist for the Maldives to mobilise aid. Although the Maldives had been an LDC since the category was created in 1971, the country did not, until the early 1980s, engage with the donor community to explore the benefits accorded to this category of countries.

Donors also found it easier to support and work with the Maldives. It had a quite low base to begin social and economic development, and therefore, growth rate was consistently high. At the beginning of 1980s, the Maldives GDP per capita was just over USD 280, life expectancy was 53, and there were very



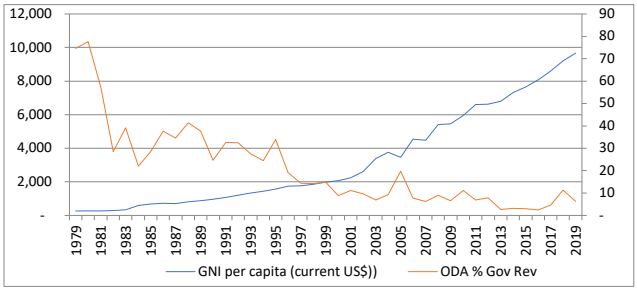
few formal schools in the islands outside the capital Malé. Japan provided grant aid for the construction of primary schools in various islands, including Malé. By the time the Maldives was graduated from the LDC category, Japan had constructed a total of 15 primary schools in the atolls and three in Malé. The UN development agencies provided support in constructing community schools in the rest of the atolls. The UN also supported construction of regional hospitals and atoll health centres. The government partnered with the UN in conducting highly successful disease control programmes that were administered in the islands by family and community health workers trained by a UN supported training centre in Malé.

The DAC countries (currently 30, and referred to as the "traditional donors"), such as Britain, United States, and Australia provided a high number of undergraduate and postgraduate scholarships to help train Maldivians with university education. Others, such as Denmark, Norway, Germany, and the Netherlands, provided both grant aid and loan financing at highly concessional terms to support projects for economic growth. Multilateral development banks (MDBs), such as the World Bank, International Development Association (IDA), Asian Development Bank (ADB), and Islamic Development Bank (IsDB) complemented, and at times led the funding for programmes in specific sectors. The level

The UN's Committee for Development Policy found that the Maldives had "demonstrated the steadiest and fastest progress" in economic growth among all LDCs.

of net ODA to the Maldives remained consistently high, contributing, on average, 39 per cent of government revenue per year in 1980s, and 24 per cent per year in the 1990s.

Per capita income and foreign aid (R) as a percentage of government revenue



Source: World Bank data

Resilience gained

The trend in ODA inflow to the Maldives started to change after 1997, when the UN's Committee for Development Policy found that the Maldives had "demonstrated the steadiest and fastest progress" in economic growth among all LDCs. But the year 2000 was the defining moment in the country's development trajectory. All key development indicators suggested that the Maldives had reached a point where the country could start believing that

it can indeed "stand on its own feet" and that its economy has sufficient resilience. In that year, per capita income of Maldivians reached USD 2,070 and life expectancy was at 70 (up from 40 at the country's independence in 1965), and primary school enrolment reached over 96 per cent. The Maldives outperformed every single country in the list of 48 LDCs in almost every social or economic indicator.

Aid is addictive. Once a country develops a dependency on aid, it will find it extremely hard to believe that progress on the path of development can be achieved without foreign aid.

The donors, especially the DAC countries, took note of the progress that the Maldives had achieved. For the first time since 1979, foreign aid's share of government revenue fell below 10 per cent, and the total net ODA fell from USD 30 million to 18 million. Key donors, such as the Netherlands, Germany, and the Scandinavian countries decided to withdraw from the Maldives once the on-going projects were completed. Japan also did not approve new general grant aid projects for several years after 2002.

Aid is addictive. Once a country develops a dependency on aid, it will find it extremely hard to believe that progress on the path of development can be achieved without foreign aid. And that was precisely the situation that the Maldives found itself in the first few years of the new millennium. The Maldives tried very hard to not to graduate from the LDC category. In fact, a UN report on the Maldives, prepared in 2003, has a section with the heading "The history of Maldives non-graduation". The UN passed a resolution in December 2004—just a few days before the tsunami hit the country—to graduate the Maldives from the LDC category.

South-South "Aid" is costly

The Maldives knew that the UN's decision on graduation was inevitable. As such, beginning from around 2001, the country started approaching the emerging donors for grant aid. These donors are mainly in the developing world, whose foreign aid is often described as South-South cooperation. The emerging donors showed more willingness in providing grant aid for projects that DAC countries had earlier declined to consider for support. The result was impressive-looking government office buildings and university complexes were constructed with grant aid. The focus, however, was more on the housing sector, where there was a substantial demand at various income categories, which the government wanted to meet and with an increased urgency.

The Maldives believed that it was not in a position to withdraw the initial request made for fear of possible diplomatic repercussions.

The in-flow of bilateral (government to government) aid from the emerging donors gave rise to new challenges unfamiliar to the aid coordination community in the Maldives. One was the lack of transparency in selecting contractors. While aid from DAC countries were also tied (materials and contractors must be sourced from the donor country), the Maldives had the opportunity to contribute to making such decisions. But the Maldives found out that the emerging donors do not want to disclose anything about how the contractors were selected or how the costs were calculated.

Second, the opportunity cost can be extremely high. For example, the Maldives submitted a proposal to an emerging donor in 1983 for the construction of a building to train personnel for the tourism sector. The project began only in the early 2000s and took nearly ten years to complete. The Maldives believed that it was not in a position to withdraw the initial request made for fear of possible diplomatic repercussions. In the meantime, trainings were conducted at makeshift locations for preparing professionals to lead the most important economic activity in the country.

Third, there is no accountability mechanism of any kind for the emerging donors, which often places the Maldives, a small state with limited diplomatic power, in precarious positions. For the DAC countries, the peer-review process (a DAC country reviewing a fellow DAC country's ODA policy, using a common guideline determined by OECD) has become a key instrument to set a certain normative standard in providing foreign aid. Moreover, since the reviews are also published and available to the public, there is an additional pressure on the donors to follow the normative principles of ownership, alignment, harmonisation, managing for results, and mutual accountability set out at in the Paris Declaration on Aid Effectiveness. On the other hand, some emerging donors are themselves net recipients of ODA and therefore have shown resistance in introducing mechanisms to monitor their own aid to the other developing countries.

Fourth, the moral appeal of foreign aid is that it helps save lives. Some, therefore, might consider it ethically wrong for the Maldives to seek foreign aid from countries that have millions of people living in extreme poverty. The World Bank defines "extreme poverty" as living on less than USD 1.90 per person per day. While the Maldives is the richest country in South Asia, this is also the region where there are more than 300 million people in extreme poverty.

Extreme Poverty in South Asia in 2016

	Sri Lanka	India	Bangladesh	Pakistan	Nepal	Maldives
No of people living on less than $1.90 per day (in millions)	0.2	284.6	22.9	8.1	4.0	0.0*
Poverty rate as %	0.9	22.5	14.5	4.0	15.0	0.0*
Per capita income	3,886	1,732	1,401	1,368	899	9,209

* According to UNDP, "the proportion of extreme poor living below $1.9 a day is close to zero, and that of multidimensional poor is less than 1%": UNDP 2020.
Source: World Bank data

Crafting smart solutions

The solution for the Maldives, then, is to move towards more innovative financing and bring about a paradigm shift in the way external resources are mobilised and in the type of partnerships developed.

The first step in such a shift could be to start using more blended finance solutions to achieve development goals. Blended finance is a structuring mechanism that combines resources from the government, multilateral developments banks (MDBs), philanthropic organisations, and the private sector. When pooled together, investments from these actors will have the potential to achieve the scale required for even the larger infrastructure projects. In blended finance, the MDBs will take the lead by injecting catalytic capital to the project to ensure (a) the potential or perceived risks is minimised, and (b) bring the cost of borrowing to the recipient country to a level below market rate.

As the richest country in South Asia, it would be unethical, and indeed reprehensible, if the Maldives were to seek or accept foreign aid from countries that have tens of millions of people living in extreme poverty, with hundreds of them dying from hunger every day.

The second step needed to attract innovative financing is to re-structure the projects, align them more closely with the Sustainable Development Goals (SDGs), and re-define its social and economic impact. It would also be fruitful to re-evaluate the mechanisms identified in the project for cost recovery, employing the "user-pay principle" especially for infrastructure projects implemented in the larger population centres. Another important dimension that needs to be added to the structure of the project is the role of the private sector and the interaction between the various actors who have invested in the project.

Such a restructuring has significant potential for blended finance. For example, SDG6: Clean Water and Sanitation, SDG7: Affordable and Clean Energy, SDG9: Industry, Innovation, and Infrastructure, and SDG13: Climate Action are areas most popular in blended finance, while they are also the most prominent in the development landscape in the Maldives, too. Moreover, the water, sanitation, and hygiene (WASH) sector—perhaps highest in demand for finance among the PSIP projects in the Maldives—is experiencing the sharpest growth in the global blended finance, in particular, among the ethical impact investors.

Third, there is a need to achieve greater synergy between the key ministries in formulating and implementing development programmes, and in shaping and executing external resource mobilisation strategies. The implementation of such a strategy

should be made the focus of the country's diplomacy. But the desired results will not be realised unless the Maldives is able to integrate all the expertise in the government—economic, financial, strategic, and diplomatic—and harness them towards achieving the goals set out in the resource mobilisation strategy. If different agencies operate in silos, the results will continue to remain sub-optimal.

Fourth and finally, the Maldives will be able to attract innovative finance if the country is able to leverage its diplomatic capital with the ability to forge and foster partnerships with the MDBs, philanthropic organisations, and the high net-worth individuals (HNWIs). Diplomacy, if used more innovatively, can be the key in unlocking the potential of blended finance. The Maldives Missions overseas are ideally placed to use the privileged platforms that they have access to, and convince philanthropic organisations, HNWIs, and even the more conventional investors to want to make social impact investing in the Maldives with the objective of producing shared outcomes. The fact that the Maldives enjoys the image as being among the most exotic travel destinations makes such a goal more achievable. Yet, diplomacy will be successful only by repositioning the Maldives missions overseas with a more clearly defined objectives and with diplomats who have the skills specifically built and nurtured for that purpose.

The Maldives is fortunate to have one of the most generous social protection systems in the developing world, funded by domestically mobilised resources. As the richest country in South Asia, it would be unethical, and indeed reprehensible, if the Maldives were to seek or accept foreign aid from countries that have tens of millions of people living in extreme poverty, with hundreds of them dying from hunger every day. To reach the next level in its development trajectory, the Maldives requires external finance at scale and at affordable terms. That can be achieved by moving away from the conventional idea of foreign aid to the more innovative methods and techniques in external resource mobilisation. Smart use of diplomacy, backed by credible policy, will help achieve that goal.

ABOUT THE WRITER

Ali Naseer Mohamed holds PhD in Diplomatic Studies from the Australian National University and Master of Arts in Diplomatic Studies (with Distinction) from the University of Leicester in the UK. He had been in the Maldives Foreign Service since 1985, and held a number of senior leadership positions including Foreign Secretary of the Maldives, Ambassador to the United Nations, Ambassador to the United States, and Director-General (Political Affairs). The views expressed in the article are that of his own and not the views or opinions of the Maldives Government.

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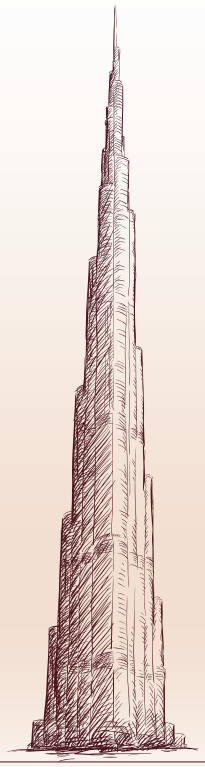
AN EYE WITNESS'S VIEWS ON THE DEVELOPMENT OF DUBAI: LESSONS FOR MALDIVES



Capt. Abdul Azeez Mohamed

Development of Dubai is an exemplary model in many perspectives. What looked like a small coastal fishing village, a tiny oasis in the desert, has risen in fifty years as one of the world's most beautiful, prosperous, advanced, space-aged, bustling and cosmopolitan metropolises.

Rules and intellectuals

Trade and visa rules were very strict but were so designed to gain investor confidence.

Dubai's development attributes to multiple reasons. Chief among them includes the fact that the rules and regulations were made for this intent and were effectively implemented regardless of deed, colour, religion and ethnicity.

Trade and visa rules were very strict but were so designed to gain investor confidence. Thus, a one man one job system, from the very inception of development was observed.

Establishments were to strictly abide by and stick to the purpose that establishment were registered for. For example, a wholesale business establishment cannot enter retail business and vice versa. Chances of getting small businesses crushed by bigger competitors ones were therefore non-existent. Vendors, small, medium, big and giant businesses were able to progress hand in hand making their profits in proportion to the size of business they generate per annum.

Since 1833, ruling Al Maktoum family members realised that with an intellectual vacuum no society can undertake the formidable task of developing a city. At the dawn of Dubai development in the last half of

1960s, intellectuals were still scarce in Dubai's society. Hence, they opted to bring intellectuals from abroad. Nevertheless, the need for educated class development continued. Educational establishments, with modern facilities and amenities were set up. At the same time, they hired the best experienced, well-seasoned members of think tanks from around the world. These intellectuals were injecting their well thought out ideas to the various aspects of development. These thoughts were entertained not with blind obedience, but after further consideration, and where needed, to redress, amend and change them. It was only after doing so that these ideas were integrated into UAE development system.

Sheikh Rashid also embarked on the dredging of Dubai Creek in 1963, on a huge loan which was then regarded by many as beyond Dubai's means to repay.

Development of infrastructure

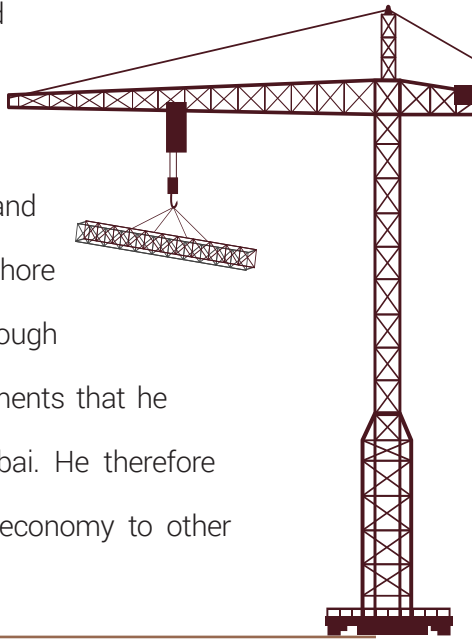
Dubai Municipality was established in 1954 by the then ruler of Dubai, Sheikh Rashid bin Saeed Al Maktoum. He bestowed several responsibilities on the newly established Municipality, such as the Roads Department, Planning and Survey Department, Environment and Public Health Department and Financial Affairs Department. In 2001, Dubai Municipality embarked on an e-Government project with the objective of providing 40 of its city services through its web portal, dubai.ae. Thirteen such services were launched by October 2001, while several other services were expected to be operational in the future. Dubai Municipality is also in charge of the city's sanitation and sewerage infrastructure.

Sheikh Rashid also embarked on the dredging of Dubai Creek in 1963, on a huge loan which was then regarded by many as beyond Dubai's means to repay. Contrary to what people's mere conjecture, no sooner than the Creek was ready for the ships to berth and unberth, the loan repayment was very swift.

Diversification

This inspired him to embark upon a project of similar or larger magnitude compared to the Creek re-development project. He entered into a joint venture with a British firm to build the largest man-made harbour in Jebel Ali dry land.

Sheikh Rashid bin Saeed Al Maktoum continued to believe that a meagre quantity of oil and gas discovered offshore Dubai would not be enough to finance the developments that he aspired to bring to Dubai. He therefore sought to diversify its economy to other



Drawing mega foreign investment seemed a burning desire of Sheikh Rashid as illustrated by the development of Jebel Ali.

areas such as tourism, real estate, financial services, aviation, trans-shipment port, re export, gold, and silver trading etc. As diversification took hold, income from resources such as oil and gas dropped to less than five percent of GDP, which is a success in terms of the desired goal, i.e., diversification.

Drawing mega foreign investment seemed a burning desire of Sheikh Rashid as illustrated by the development of Jebel Ali. It is situated half way between Abu Dhabi Port Zayed and Dubai Port Rashid at UAE sea coast in Persian Gulf. It is the largest man-made port in the world. There was no natural water way nor creek leading into last basin of the port. It was dredged from the coast through dry land bringing sea in as dredged.

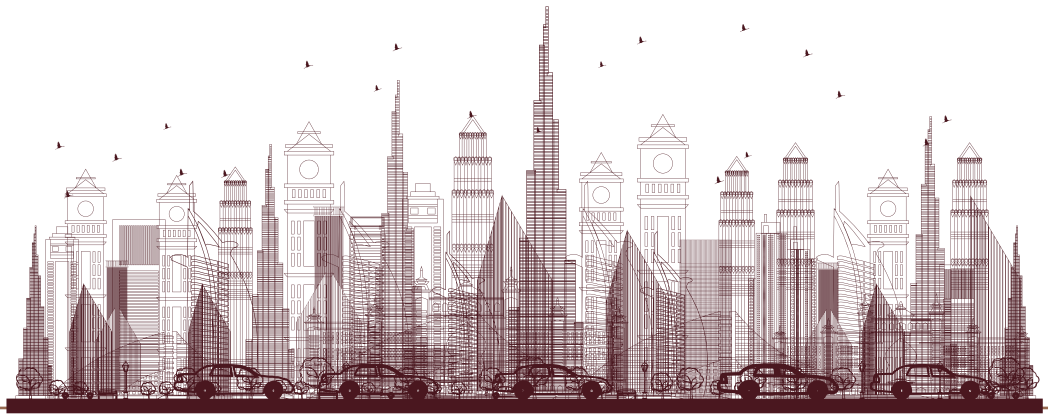
The port development work commenced in 1976 was completed and inaugurated by Queen Elizabeth II on 26 February 1979. At that epic moment in time, no one could not have imagined that there would arise any need for an extension of this harbour in another fifty to hundred years.

With the handover of the sovereignty of Hong Kong to China by the British on 1st of July 1997, an influx of disillusioned investors to Dubai from Hong Kong as well as enthusiastic investors from around the world wide were attracted to Jebel Ali Free Zone which was incorporated with the Jebel Ali Port.

With this, in a time span of less than 25 years from inauguration of the port, the need for Jebel Ali port extension had risen as the port could not cope with incoming cargo. Therefore, as per the master plan, phase one, the construction of Terminal 2 started in 2005 and was completed in August 2007. The second phase of the Terminal 2 expansion was started in 2008 and completed in 2013. According to the master plan of the port a total of 15 stages were to take place and these developments are expected to be complete in or before 2030. When completed, it would not only be the largest man-made, but also the largest port in the world.

Modernisation

Behind every success story there is a person behind it. Behind the Singapore success story was Lee Kuan Yew, and behind Dubai's modernization success story



is none other than Sheikh Mohammed bin Rashid Al Maktoum.

On any of these counts Dubai is by far ahead of any other country in the Middle East

Out of a total area of 4,114 sq. km of Dubai, the city area is comparatively small with 35 sq. km. The rest is barren desert land and sea. Sheikh Mohammed with his vision to develop Dubai, came up with the idea of levelling much of desert land, from Dubai border with Sharjah, to Ras Ghantoot at Dubai - Abu Dhabi border along the road to Abu Dhabi. At the sea front are the land-reclaimed Palm Islands, Dubai world, and Dubai Eye, for real estate development purposes. These were tendered or sold out on freehold and leasehold for exotic property development.

Modernisation may differ from the person to person. One may describe metro as a development of modernisation. Others may say, in view of fast population growth, it is nothing more than a necessity. For some others modernisation might mean lesser religious restrictions, or liberty to conduct themselves as they wish. For the others modernisation may be highest skyscrapers in the world built around city.

On any of these counts Dubai is by far ahead of any other country in the Middle East or even for that matter many other countries in the world. Dubai has the second most beautiful or largest numbers of five-star

Centrality of idea

Dubai's present Ruler, Sheikh Mohammed bin Rashid Al Maktoum is not only the Ruler of Dubai, but also the Vice President and Prime Minister of the UAE. One can imagine therefore that Sheikh Mohammed's ideas would benefit not only Dubai but also the UAE as whole.

One can admire Sheikh Mohammed's competitiveness with ideas, by means of better ideas. He gets an idea realised and then embarks on more ideas, giving little time for bureaucratic machinery to grind it. This is one of the driving forces in Dubai's faster pace of development compared to the other countries.

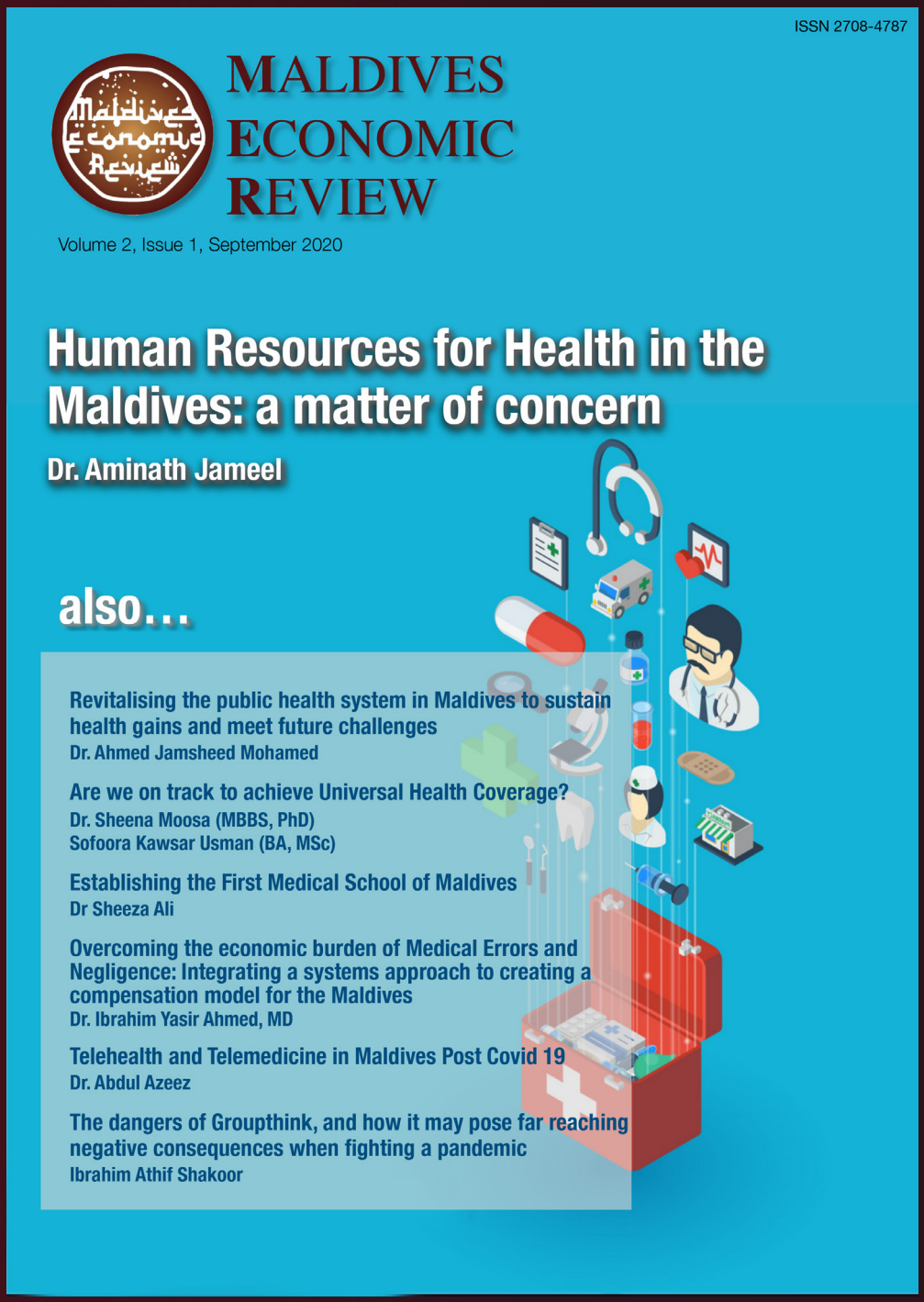
Sheikh Mohammed, being the Vice President and Prime Minister of UAE appointed a Minister of Happiness, Minister of Tolerance to promote tolerance as fundamental value of UAE, a country of diverse faiths and ethnicities in its expatriate population.

Dubai is good enough to be taken as a development model by undeveloped and developing countries alike.

ABOUT THE WRITER

Captain Abdul Azeez Mohamed is a retired master mariner in the shipping and logistics services industry. He served for nearly four decades as a captain at GAC Abu Dhabi, the UAE's leading shipping and logistics service provider. Captain Azeez is an avid writer, and an enthusiast of journalism. He wrote many articles to some of the most well-known and established papers in the country, including Amaazu, Hafthaa, Haveeru and Hukuru, on issues ranging from governance, development and politics.

WHEN RELEVANCE IS A REQUISITE



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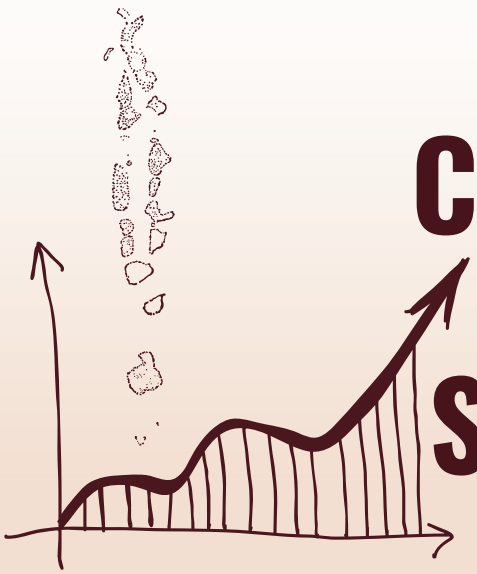


THE MALDIVES CAPITAL MARKET: A PATH FOR A SHARED FUTURE.

Anil Adam

Maldives, like many other nations, is drawing towards predatory capitalism. This is a peril to our democracy and the fate of our future generations. Although democracy is considered as a precursor for economic prosperity, it is the latter that is proving to be a prerequisite for any hope for a strong democracy in the Maldives. A reformed economic system is not reserved just only to triumph democracy but also to enhance social cohesion, guarantee civic rights and restore public confidence for the prevailing political system in the Maldives. Sooner rather than later, we need to reform our economic system. Such a reform can be correctly flavoured essentially by enhancing the efficiency of capital creation and developing human capital to world class standard to which the latter even can be accomplished with the former.

From a broader perspective, the stepping stone to a prosperous and stable future for Maldives holds in inclusive development.

From a broader perspective, the stepping stone to a prosperous and stable future for Maldives holds in inclusive development. However, inclusive development requires good governance in policy formulation and implementation. The Maldives capital market can be pivotal to attain this imperative from an economic perspective. The notion that sustainable economic growth can lead to prosperous social development makes this approach more appealing to the Maldives. A robust capital market promotes meritocracy, abide by good corporate governance, propels innovation and entrepreneurship that translates to quality employment opportunities and higher quality of living.

Capital market is an elegant mechanism to thrive economically, socially, and environmentally. In a theoretical stance, the capital market compels promotion of ownership of capital which ultimately

translates into broader ownership of resources, lower reliance on welfare, increased purchasing power that can unleash greater circulation of income within the economy. They provide an essential flow of funding that relates to people's lives including capital for start-ups, cashflow for expanding businesses and investment opportunities for people and businesses who plan for future.

A well-functioning capital market drives good corporate governance that attracts the common men to remain more disciplined, save for the future and intrinsically develop the acumen for investing. The modern world we inherited has necessitated the capital market to remain not just an alternative financing mechanism. However, it has now become an essential regime that is required to channel savings for investing needs including investments that are not viable via conventional financing methods.

However, the truth is that there are structural, functional and perceptual impediments that need to be untangled.

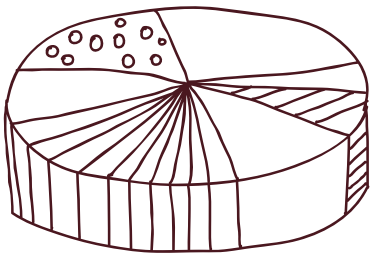
The Maldives capital market has inherent challenges to make it accessible and work for general populace. Still today, for many, it remains enigmatic whilst others are sceptical and view it is a mechanism that is reserved for the affluent that flourish them with an avalanche of earnings that make the rich more affluent, politically stronger, and eventually that can help them to exploit the common man. More often, in the Maldives, it is still a market that is heard of when new Initial Public Offerings (IPOs) are on offer. There are many possible theories we can postulate on why the capital market is not taking-off in the Maldives. However, the truth is that there are structural, functional and perceptual impediments that need to be untangled.

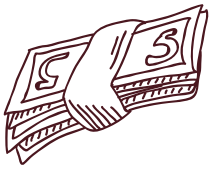
From a cursory glance, the Maldives capital market has many success stories: the market capitalisation of listed securities stands over MVR 17 billion with over 42000 shareholders in over 20 atolls in over 207 islands. However, to put this into perspective, this is not the full swing we can realise from this sector. In fact, the market is highly undervalued. The stock market capitalisation-to-GDP ratio, a common ratio for determining the value of the market, stood just over 27 per cent (a standing below 50 per cent indicates the market is highly undervalued).

With timely, effective, and integrated planning, especially with the right balance of policy interventions and technological advances in today's world, Maldives capital market can be transformed as a vibrant, innovative, sustainable, and accessible market that works for all. The government remains the key player to catalyse the Maldives capital market. As in many developing economies, the government remains the backbone of the securities market, more importantly in the bonds market.

The formal statistics published by the Ministry of Finance shows that by the end of third quarter of 2021 the active government debt (excluding government guaranteed debt) stands at over MVR 77.4 billion of which over 60 per cent is financed domestically. In addition, T-bills account remains one of the major sources of government securities (MVR 28.7 billion by July 2021). Despite the central bank's introduction of significant reforms including increasing maturity duration and opening of government securities to private companies, there is low appetite for government securities, especially for long term investments. It is presumed that a diversified investor base along with secondary market activation can enhance the sustainability of the financing.

As the government is planning to issue government securities in the Maldives capital market, this will be one of the progressive actions from the incumbent government. However, there are a host of other measures the government can implement for capital market growth through its policy interventions at its disposal including issuing IPOs for well-performing state-owned enterprises (SOEs), developing incentive plans for key sectors such as tourism, fisheries, agriculture, transportation, and construction to involve in capital market, promoting further reforms for foreign investor confidence and more importantly keep the capital market at the heart of economic planning at the most senior policy level.





Capital market planning

Capital market planning must be done cautiously and smartly to bring out its real fruition. We should give priority to enhance the accessibility and affordability of the capital market. We should ensure that the capital market is unlike the Wall Street that works for oligarchs. Rather we should enact policies and practices that can make the society more equitable through greater economic empowerment for every Maldivian.

We should ensure that the capital market is unlike the Wall Street that works for oligarchs.

The newly formulated strategic plan 2021 – 2023 of Capital Market Development Authority (CMDA) holds promise. The cornerstone of the plan is to promote social equity through facilitating equal economic opportunities through the capital market. To pursue this, the plan recognises the need to prioritise certain fundamental aspects which are evidently vital for sustainable capital market growth. These include onboarding the retail and institutional investors along with market awareness and quality engagements and maintaining a good balance between retail and institutional investors. Moreover, the plan relates to

certain structural reforms required within the market including economic, legal, and regulatory reforms through inter-governmental efforts, introduction of innovative products, and drive the market with proper market intelligence to navigate the market with more solid data. In essence, the strategic plan is based on four main pillars: enhancing investor awareness, driving market development and innovation, developing organisational capacity, and expanding stakeholder engagement.

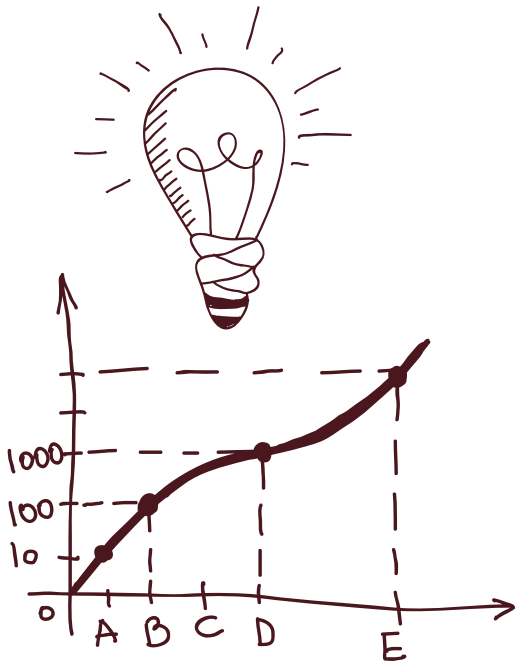
Rules and Future prospects

The future of Maldives capital market lies on how well the multitude of stakeholders responds to the activities and efforts delineated in the capital market strategic plan to be implemented in the coming years. For certain, the government should remain inextricable to the Maldives capital market as the main partner for supporting, safeguarding, and aiding.

We should ensure that the capital market is unlike the Wall Street that works for oligarchs.

Similarly, investor education would remain central to diversify the investor base. For a robust capital market, it is essential that we create knowledgeable investors who are aware of their entitled rights, the type of capital market products with their inherent risks and benefits. Investor education should adopt a creative approach to convey the technical information for laymen and implement diverse educational activities that can tap disparate investor segments.

Last but not least, CMDA being the capital market regulator is faced with a formidable challenge. It needs to be more dynamic, creative, and more proactive to address the evolving challenges including being vigilant and effective to shape the behaviour of market participants, discern the best standards, implement them, and promote a level playing field for all market participants. It should give priority to enact global best practices in standard setting in alignment with global bodies such as the International Organisation of Securities Commissions (IOSCO), of which CMDA is a member, adopt evolving global best practices in corporate governance and financial reporting standards. It should also prioritise engendering trust, which is one of the main pillars as



evident in the markets across the world and consider it as a requisite for successful capital market through consistent enforcements and promptly punishing the wrong behaviour. An effective, strategic, and tactical reorganisation of the Maldives capital market may not be a panacea for all the problems we have but it could set our sail towards a prosperous future.

ABOUT THE WRITER

Anil Adam works in the Market Development Department at the Capital Market Development Authority. Anil possesses over eighteen years of experience, and has worked in tourism, higher education, government, and consulting. His past appointments include Deputy Minister of Tourism, Board Director at the Maldives National Broadcasting Corporation (MNBC) and Dean of Students at Cyryx College, amongst others. For the last three years, Anil has also been involved in training Board of Directors of the listed companies in the Maldives in overseeing strategy development and implementation. Anil holds a BA (Hons) Marketing with Events Management with a First Class from the University of Birmingham, UK, and Master of Science in International Business Management with Marketing at the Heriot-Watt University, UK.

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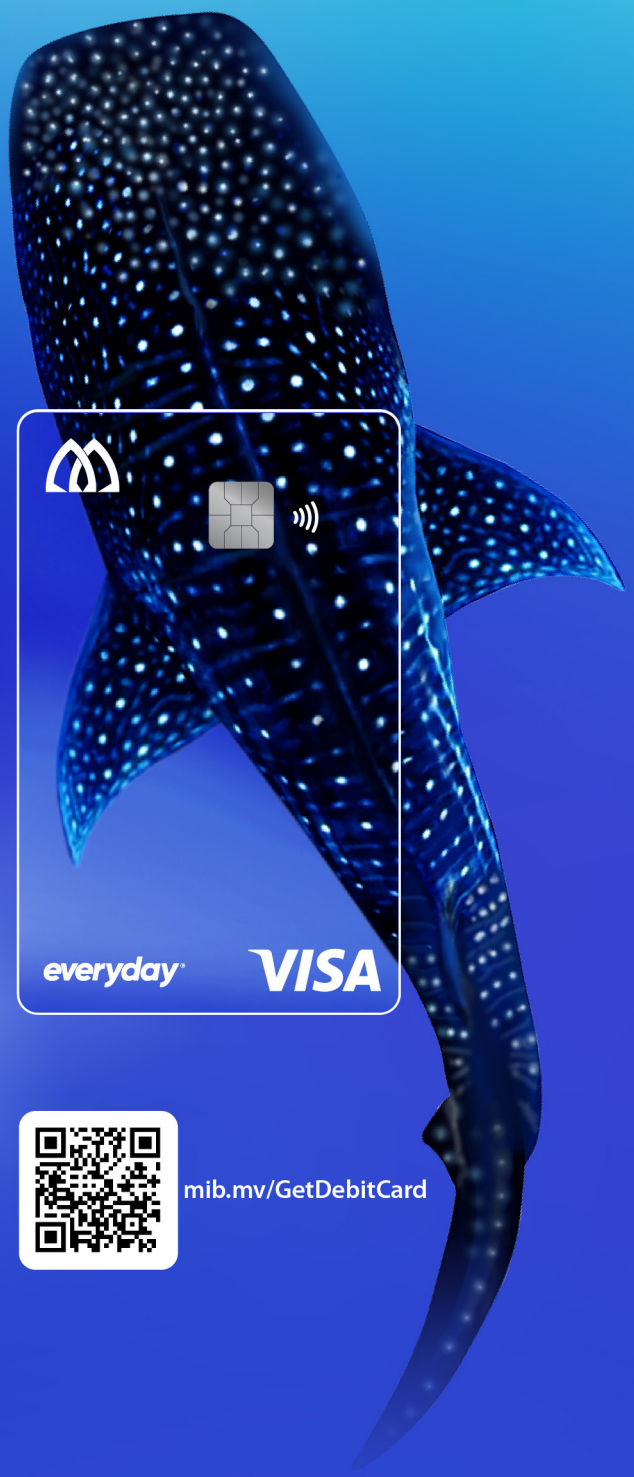

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THE INTRODUCTION OF MINIMUM WAGE IS A GOOD START, AND IS BEST UNDERSTOOD AS JUST THE START

Ibrahim Athif Shakoor

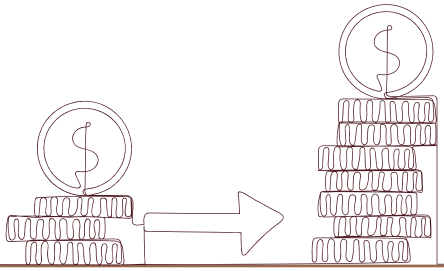
The Era of Minimum Wage has dawned on the Maldives from the 1st of January 2022. And that is good news. The dawn of Minimum Wage means that our workers now serve under the protection of a legislated Minimum Wage protocol. They can now seek comfort and security from the provisions of the law and the regulations forthcoming from the same

Hence, from 1st January onwards, the economy of the country, its business and trade transactions, its labour contracts will need to be fashioned and adjust to the requirements of the Minimum Wage regulations.

And that is the most important realization. That The Economy would, from this point forward, mature within the bounds and potential offered by the protocols of a legislated Minimum Wage.

That by itself, is a really big deal.

Therefore, the oft raised issue of whether this is the right moment, just as the economy is emerging out of the doldrums, is perhaps moot at best. What is clear and pertinent is that the relevant legislation require the introduction of Minimum Wage at the beginning of 2022.



Is Minimum Wage being implemented at the most appropriate moment

Franklin Delano Roosevelt- FDR, the 32nd US President, who successfully got elected 4 times, had the stewardship of the US through tough times including the decade long Great Depression and the 2nd World War. FDR passed US's first Minimum Wage legislation in 1933 but implementation was held back by the courts until 1938. As part of the New Deal, FDR had packaged the Minimum Wage legislation with the dual purpose of protection of workers in tough economic times and the stimulation of the economy to recover from the Great Depression.

Therefore, the oft raised issue of whether this is the right moment, just as the economy is emerging out of the doldrums, is perhaps moot at best. What is clear and pertinent is that the relevant legislation require the introduction of Minimum Wage at the beginning of 2022.

Is the announced Minimum Wage the most appropriate?

Risking the likelihood of being repetitive, worse tedious, the best thing about the dawn of Minimum Wage is that it is here. Now.

However, it is important to essay and attempt a response to the some of the public concerns about the characteristics of the Minimum Wage as announced.

It is therefore, perhaps not difficult to ascertain that at least for the SME sector, the announced Minimum Wage is below the amount the original Minimum Wage board had determined to be necessary for a wage earner to afford the requirements of the family.

Is it enough?

The most pertinent question regarding the Minimum Wage is whether it is indeed adequate and whether it reflect the realities on the ground?

The December 2019 report published by the then Minimum Wage board concluded that, adjusted for inflation a worker should receive an amount between 6,008 and 8,981 Mvr/month on a 'needs based approach' in order that the needs of family are fulfilled. However, after taking into account the economic factors affecting businesses, the board went on to finally recommend 6,400 Mvr/month as the Minimum Wage.

In October of 2021, the newly minted Minimum Wage board recommended the Minimum Wage for small companies as 5,000 Mvr/month, medium companies

at 7,000 Mvr/month, large companies at 8,900 Mvr/month and 7,000 Mvr/month for civil servants.

However, the Minister, after additional consultations had finally determined Minimum Wage for small companies at 4,500 Mvr/month, large companies at 8,000 Mvr/month and retained the recommendation for medium companies and civil servants at 7,000 Mvr/month.

It is therefore, perhaps not difficult to ascertain that at least for the SME sector, the announced Minimum Wage is below the amount the original Minimum Wage board had determined to be necessary for a wage earner to afford the requirements of the family.

Firm-size specificity

The original October 2019 recommendation by the Minimum Wage board had offered a single Minimum Wage for the economy and had refrained from recommending a Minimum Wage that was firm-size specific.

The report published by the then board, issued after extensive consultations and study working together with ILO representatives, industry bodies and employee representatives, offered reasons why the Minimum Wage was not firm-size specific.

However, the revised recommendation of the Minimum Wage board and the final declaration being firm-size specific, raises concern over the possible tendency of firms attempting to down-size and indeed outsource some of their processes.

A Minimum Wage that recognizes such regional imbalances, when intelligently designed, can spark and encourage employment and induce growth in such regions.

Industry non-specifity

From the 1980's the Maldivian economy is led and shaped by the tourism industry. While returns from the tourism industry have declined recently, the ROI of the industry have been 5 years or less for a protracted period of time. Meanwhile primary sector has lost ground and the combined share of the primary sector, including fishery and agriculture has been below 5% for the past 5 years.

The tourism industry also hosts the greatest number of Maldivian workers and therefore, determines to a large part, employee conditions in the local economy.

Therefore, if indeed we deviate from legislating a single Minimum Wage, it is felt that perhaps a Minimum Wage that is higher for the tourism sector might have offered greater scope for total labour well-being of the economy.

The December 2019 report, while not being firm-size

specific, had in fact recommended to set a higher Minimum Wage for the tourism industry.

At a moment when not all employees who were furloughed and suspended from the tourism industry during the Covid lockdowns, still not being re-employed, there is growing concern that the appetite of business for expatriate labour will only grow.

Not responding to regional imbalance

Surveys and Census enumeration repeatedly show considerable regional imbalances in economic and social spheres. Employment opportunities and income potential are lower and incidence of poverty is higher in the atolls. There are also some specific atolls, that lag others in all manner of earning and social matrices including the prevalence of crime and drug abuse.

It is important to note that, as also stated in the December 2019 report, in the absence of holistic measures to redress such regional imbalances, a Minimum Wage alone may indeed exacerbate regional differences. However, a Minimum Wage that recognizes such regional imbalances, when intelligently designed, can spark and encourage employment and induce growth in such regions.

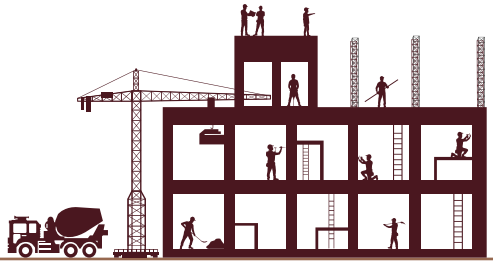
Expatriate labour not being included

The exclusion of expatriate labour is an area of major concern for many commentators.

These concern, arise from 2 very different considerations. The principal of universality of treatment of labour, regardless of nationality, and as espoused by ILO reflects the echoes that is most heard. The initial December 2019 report made very strong recommendations for the inclusion of expatriate labour into the folds of the Minimum Wage shelter.

Separate and arising from differing concerns, are the fears raised by others, that businesses will now look to prefer expatriate labour, even more than presently. With resort employment being 60% in favour of expatriate labour, there are indeed well-founded fears that this ratio will tilt even more in favour of expatriate labour.

At a moment when not all employees who were furloughed and suspended from the tourism industry during the Covid lockdowns, still not being re-employed, there is growing concern that the appetite of business for expatriate labour will only grow.



The non-inclusion of workers in the primary industries and informal sector

Many of the workers of the local economy will presently not be afforded the shelter of Minimum Wage. Arising mainly out of the nature of working hours and of the largely non-contractual nature of the work process, these include many in the primary industries- those who ply the seas and work the land.

Additionally, non-formal workers; musicians, artists, web developers and the like, also do not yet, receive shelter from Minimum Wage. While it is difficult to detail how they could be brought into the fold of Minimum Wage, it is definite that, over time, Minimum Wage will need to evolve to offer comfort and shelter to all workers in the economy.

Changes to the businesses structure and tactics

Meanwhile, business will change and evolve to perform in the eco-system where Minimum Wage is a fact of life. To expect otherwise will be naïve and indeed dangerous.

Industry representatives at the 'Dawn of Minimum Wage' panel discussion held by Maldives Economic Review spoke of the possibility of some firms looking to downsize and outsource some labour functions.

It is highly likely, therefore, businesses being who they are, will explore novel ways to shift firm sizes or to out-source some of the labour to 3rd parties. As businesses evolve, the structure of the economy will change.

The possibility of looking to split into several related companies, in order to explore the 3,500 Mvr/month wage gap (4,500/month – 8,000/month) between small and large companies is indeed a very real possibility. Some of the larger companies, in the tourism industry for example, employing 200 plus staff will stand to save more than 8m mvr/year off their wage bill through such a tactical shift.

In the era of Minimum Wage, labour will be required to be more productive and it is almost inevitable that businesses will look for better performance from labour and seek technical and IT solutions to improve productivity. Emerging technical solutions will play a large part of how the economy, business large and small, will be structured.

It is highly likely, therefore, businesses being who they are, will explore novel ways to shift firm sizes or to out-source some of the labour to 3rd parties. As businesses evolve, the structure of the economy will change.

The review period

The economy is just entering the purview of a Minimum Wage. It is being implemented in a turbulent and difficult period with many a worry and concern both by the employees and the employers.

Defining, implementing, and the possible after-effects were analysed by experts, industry and employee representatives and officials at the beginning However, there's variation between the implemented Minimum Wage and the recommendations of Minimum Wage board, especially that of the former. And times are indeed different.

In light of such changes, the fact that this is a first for us, and considering the economic climate, it is felt that instead of waiting for 2 years for a full review, as required in legislation, that it might be wise and indeed worthwhile to review the terms of the Minimum Wage after a full years implementation.

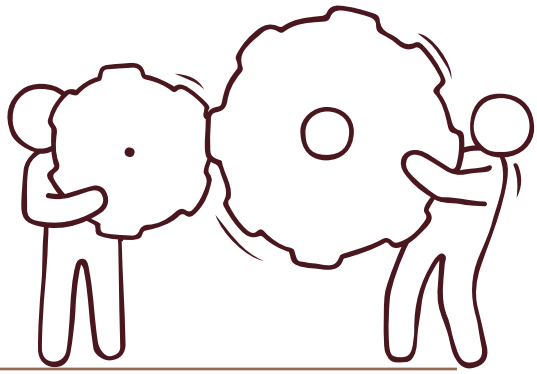
Conclusion

After a review, there is considerable latitude for change in the characteristics of the terms of the announced Minimum Wage.

As the end of the first review, and hopefully under better economic circumstances, we will be able to extend and expand the shelter of Minimum Wage for a larger % of the workforce, use it as a means to improve regional imbalances and increase improve the productivity of labour.

However, for now, the most important consideration is that our economy, from January 1st 2022 is working under the provisions of Minimum Wage.

And that, by itself, is indeed a really big deal.



WHEN LUCIDITY IS OF THE ESSENCE

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WHEN FOREIGN EXCHANGE RESERVES AREN'T IN RESERVE

Fazeel Najeeb

Struggles of traders and ordinary folks to buy U.S. dollars for importing and foreign travel needs respectively are a familiar, sorry reading in the national press all too often.

> Margaret Thatcher,
> "There is no way in which one can buck the market"
> [you can't buck the market].

'Dollar shortage'

The so-called dollar shortage has remained an endemic malaise in the Maldives economy for much of the last fifty years or longer. Successive administrations have 'tried and failed' to resolve the problem.

Why is this such a big problem? Some may say, because people make it a problem. Economists

> The problem is of a legal nature rather than economic: selling and buying dollars at these rates are illegal because they are above the officially fixed exchange rate

would say, because the market is not clearing at the fixed price as demand for dollars exceeds the supply. A naïve answer may be, because the "Mafia dollar earners" are hoarding a large chunk of the supply to sell in the black market. A pragmatist might say, because of all of the above.

In 1988 the UK Chancellor of the Exchequer, Nigel Lawson, tried and failed to keep the Sterling pound down despite repeated interest rate cuts. He then resorted to intervention in the foreign exchange markets, selling pounds to try to drive the price down. This, according to an article published in the British paper, Independent on 5 April 1998, prompted the

Prime Minister, Margaret Thatcher, to tell the House of Commons, „There is no way in which one can buck the market" [you can't buck the market]. The debate went on therefore that the exchange rate should find its own level, and that the government cannot and should not have a policy for the value of the pound.

Indeed, in a competitive, free market such as the UK, prices (including the price of foreign exchange) are not to be fixed, so that they are allowed to remain flexible to move up and down depending on the demand and supply.

In Maldives the issue is the reverse of the situation that Lawson experienced: he sought to push the value of Sterling downwards in a flexible exchange rate system; in Maldives the central bank is buying the rufiyaa (i.e., selling dollars) as the authorities continue efforts to avoid a devaluation of the rufiyaa to defend a fixed exchange rate regime. Policy and regulatory attempts are made to maintain the value of the rufiyaa at a rate that is higher than what appears to be the market clearing rate: buyers and sellers of dollars do not agree that the official, fixed rate (currently at the ceiling, MVR 15.42 to the dollar) is the market value of the rufiyaa. At this rate, dollar suppliers are not willing to sell their entire quantities of supply, and are quoting rates above the officially pegged rate. At these rates the market clears, buyers buy at the rates that the suppliers quote. In an economist's conviction, this is the market mechanism working as market forces (buyers and sellers) bargain and settle at a price at which the transaction takes place.

One former central bank governor concluded that the presence of high levels of dollarisation in the economy lends support to maintaining a fixed exchange rate regime

Therefore, the problem is of a legal nature rather than economic: selling and buying dollars at these rates are illegal because they are above the officially fixed exchange rate; if a rate was not fixed, they would be deemed legal transactions working according to market determinations.

There are those in Maldives who appear to advocate that the foreign exchange regime should be changed to a flexible system. The two basic arguments raised in support of their advocacy are (1) the high level of bank deposit dollarisation, and (2) the quotation of some local prices in dollars. As a solution, they also argue that regulation of foreign exchange should be strengthened such that deposit dollarisation can be reversed and all pricing can be enforced to be quoted in MVR. This author knows of one former finance minister and one former central bank governor who maintain this advocacy, and one former central bank governor who, on the contrary, concluded in a research that the presence of high levels of dollarisation in the economy lends support to maintaining a fixed exchange rate regime in the Maldives.

Central bank intervention 'imminent'?

Maldives Economic Review reported in its September 2019 issue that MMA's Strategic Plan 2018-2022 planned to review the current exchange rate regime. The plan said, "We [MMA] will work to enhance our monetary policy transmission mechanism through de-dollarisation and by pursuing the most appropriate exchange rate regime for the Maldives to maintain price stability."

The analysis concluded that MMA's plan to "review" the regime was an indication of the central bank's belief that the appropriateness of maintaining a pegged system was in question. Since the plan also says that the central bank would be "pursuing the most appropriate exchange rate regime", this implies that in the central bank's belief, some regime other than the current fixed system is the most appropriate regime.

In an interview with MMA Governor Ali Hashim in March, MER posed him a question asking what was being done to carry out what President Ibrahim Mohamed Solih announced earlier. The president said in February that the government was working on revising policies to ensure there was no shortage of U.S. dollars in the foreign exchange market.

In response the question the governor said that "economic agents' support to new measures to solve this ['dollar shortage'] has been lacking." He continued:

> *"… with every shock the first impact is on the foreign exchange. ... no one wants to really tackle this issue, until now. There is wide support from the public, … the institutions that there has to be something done. And I think what the President has been trying to do with his statement is to lend his administration's support to any changes that we intend to take."*

Here the governor was bold enough to make a remarkable admission, i.e., that the official exchange rate is not at the market level

He refrained from being specific. MER rephrased the question and asked about what options were being considered.

The governor responded:

> *"We are thinking on the supply side of it. … if you look at how much we get into the country, we can manage with that, if all of it is in the financial system. … With what MMA gets, … it's manageable. But it has never brought the exchange rate to par. … Always there has been a rate that is a bit more than the official exchange rate. … So, … if we can manage with this little amount … until a shock, that means that if we can get twice or thrice that amount, we will manage in any situation. … Yes, the time is right for it, and we will do something through regulations to ensure that the supply side is taken care of."*

Here the governor was bold enough to make a remarkable admission, i.e., that the official exchange rate is not at the market level ("it has never brought the exchange rate to par "). However, in terms of measures under consideration, the governor's response was again general, and MER pressed the governor to be more specific, asking if he was in a position to say more clearly how the 'shortage' was

going to be addressed. The governor said:

> *"I think we will survive even if we have half of what the country earns. … The pandemic brought the worst level of crisis. So, in the worst-case scenario I think half might not be enough. But then that is all because our data is not that accurate, because we are also speculating, we are playing this guessing game with numbers. So that's why I don't want to come up with a number. I want the actors and the players in the market to tell me, what they are comfortable with. That process is happening."*

"… If you want a word in there, I think the word will be a surrender requirement. And then we will fine tune that requirement", he said.

From this response, it appears that the first objective is to get the "players in the market" to agree to the idea of a surrender requirement, and then to determine a basis (e.g., a percentage of dollars earned) to be surrendered and where (e.g., banks or central bank).

MER then asked if a surrender requirement excluded any consideration of an adjustment [devaluation] of the exchange rate. The governor's response was:

> *"Yes, because we are of the opinion that the exchange rate now is speculatory, any parallel rate at the moment is speculatory and the rate should be where it should be at the official rate."*

In his responses the governor made clear that a devaluation was not on the cards and that the central bank's key emphasis is on a regulatory measure, the surrender requirement. But it also goes against what the governor said earlier that "it has never brought the exchange rate to par ".

So where does this leave MMA's plan to "… pursuing the most appropriate exchange rate regime…" set out in its Strategic Plan 2018-2022? If this was on the table, it does not appear reasonable to think that the governor would resort to a surrender requirement.

As a final question on this issue, MER asked the governor's views on the maintenance by the IMF and the World Bank that the fixed exchange rate was appropriate for the country [despite describing that Maldives has dual exchange rates and the country goes through heightened foreign exchange pressures at every crisis].

The governor said:

> *"IMF, I am not there with them 100%. I am there somewhat. But I do understand when they say that say that you should not have capital controls. So, no, we are not going to bring in capital controls. … This is about ensuring that we are resilient for a shock and still near free market. But I don't think the IMF has done right in some of the cases, and this is one of the cases that they should really think hard of how this economy, of how the actors are operating here ..."*

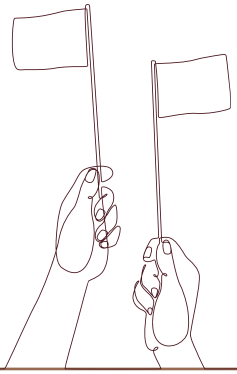
The reader is left to reach his own conclusion on whether the governor is agreeing or disagreeing with the IMF/World Bank that a fixed exchange rate regime is appropriate for the country.

Surrender requirement

Surrender requirements vary from country to country and within a country there may be different sub-requirements for different circumstances. A surrender requirement to the central bank may be defined as an obligation to sell foreign exchange proceeds within a specified time frame, usually from exports (Canales-Kriljenko, 2003), of goods and services. It is a foreign exchange control measure among others including capital controls, prohibitions on interbank foreign exchange trading, regulations hindering the taking of net open foreign exchange positions, etc.

The administrative cost of enforcing regulations could be substantial, as resources must be expended on enforcement while the private sector also dedicates resources to circumvent them.

According to Canales-Kriljenko (an IMF staff at the time of their study which was also published by the IMF), surrender requirements increase the central bank's relative size of foreign exchange intervention, bargaining position, and information advantage. They result in the concentration of foreign exchange supply in the central bank thereby making it the main foreign exchange intermediary, and its influence greater on the path of the exchange rate as it gains control of the supply of foreign exchange.



While the Canales-Kriljenko study concludes that central banks in some developing and transition economies may be able to conduct foreign exchange intervention more effectively than those issuing the major international currencies, they recommend that research should assess empirically the effectiveness of such intervention in developing and transition economies and analyse its costs and benefits. They argue that it would be useful to test whether the benefits of reducing exchange rate volatility compensate for potential costs of such regulations, which may create distortions in resource allocation in the real sector and reduce opportunities for investment, consumption smoothing and risk sharing. According to them, the administrative cost of enforcing regulations could be substantial, as resources must be expended on enforcement while the private sector also dedicates resources to circumvent them. Finally, they point out that foreign exchange stability efforts may be counterproductive where the private sector can borrow abroad, as the sector may underestimate the risk of loss associated with an eventual currency depreciation, which may encourage international overborrowing.

'Let it be'

Discussions with some private sector entrepreneurs suggest that there is no whole-hearted support for an introduction of a surrender requirement. They maintain that it is better to not take measures such as a surrender

requirement as it is unlikely to resolve the problem, than to impose such a measure, not be able to resolve the issue and consequently lose more credibility.

One argument against the measure is that even if it is introduced, those dollar earners that supposedly hoard the green back would still find creative ways to circumvent it, something Canales-Kriljenko also points out as mentioned above.

There are also those who view that thanks to the liberal foreign exchange regulations in the country, most dollar earners indeed retain their earnings in the country as regulations elsewhere are stricter.

Concluding comments

If, as the governor admitted, the official exchange rate does not reflect the actual market rate, economists advocate that the best action is to adjust the exchange rate within a fixed regime. In the current situation, this would mean a devaluation, which would be reflective of what the IMF Executive Board advises (MER Vol. 1, Issue 1, September 2019). If this were to be the case, widening the exchange rate band by raising the current ceiling of MVR 15.42 would be a measure that would provide 'more flexibility'.

It has to be noted that the language of the IMF staff is different from that of the IMF Board's. The IMF staff welcomes MMA's plans to "review the current exchange rate regime with the aim to strengthen exchange rate stability, accumulate foreign reserves and increase resilience to external shocks." The Board's language on the other hand was about providing "more flexibility in the pegged regime" to "better support the peg and build foreign reserves."

So, it appears that at the time of the introduction of MMA's Strategic Plan, MMA and the IMF staff were of the faith that the fixed exchange rate regime should be replaced. On the other hand, the Board's advice may be closer to the government's position, i.e., to defend the peg. But there is a variation between the government's position and the advice of the Board: providing "more flexibility". This would mean a devaluation, something that the government is known to wish to avoid at all costs.

The governor's ruling out of a devaluation now appears to be a departure from the intentions implied in the Strategic Plan to replace the fixed regime with another.

Short-term regulatory interventions are likely to only last short-term at best. They are likely to further damage what may be described as an already dented credibility. While domestic politicians pressure central bankers "to do something" as Governor Ali put it, a long-term plan to widen domestic production of both goods and services and to increase exports of both goods and services hold a better promise to lead to a sustainably defensible exchange rate policy framework.

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