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MALDIVES ECONOMIC REVIEW

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Sunlight is the best disinfectant

Ibrahim Athif Shakoor

also…

IN THIS ISSUE

EDITORIAL

Issue 2, Volume 2 finds ourselves in more familiar territory with articles spanning a variety of issues rather than with a special focus we had used for the last 3 issues.

With vaccines on the horizon, as the world moves with cautious optimism towards steady economic recovery, our lead article by Athif Shakoor paints an optimistic picture.

Haleem's article 'Price over Privilege' is another well researched in-depth look at the interest rate spread and matters surrounding the issue in the local economy.

Aishath Isra Abdulla- a first time contributor examines the road to recovery in her article 'Post Covid-19 - the road to recovery'. We look forward to many more contributions from Isra going forward.

Fazeel's article 'Foreign direct investment: How has Maldives fared?' presents an overview of FDI theories and an analysis of FDI policy and performance in the Maldives.

Ali Khalid, another first time contributor to mer.mv, but by no means a novice writer, writes about the importance of Institutional Reform for sustained economic growth in the aptly titled 'Institutional Reform, a necessity for Economic Growth v

Athif's second contribution to this issue 'The role of the state in the development of the Fishery industry - to date and beyond' looks at the state involvement in the development of the Fishery industry and the rationale for continued state assistance in the industry

Sunlight is the best disinfectant

Ibrahim Athif Shakoor

The Maldivian economy is totally dependent on tourism and it is a very unhealthy state of affairs for any economy, as all manner of commentators, have repeated ad nauseum. It's been a common refrain from professionals and layman alike. However, as this author has said elsewhere, it is a much repeated, never acted on refrain, the sound of which climbs to a deafening crescendo when the tourism industry is under threat and abruptly subsides and merges into background static much too soon.

Yet, this time round, with the world in these particular circumstances, the fact that our economy ebbs and flows, responding to the gravitational action of the tourism sector, may indeed work to our advantage in getting our economy back on track that much faster. Sooner than hoped for, and earlier than the pundits at Fitch ratings and the World Bank would make us believe. There's a confluence of occurrences, a convergence of factors, that allow our economy; the one far too much dependent on the Tourism industry, for far too long, to allow us to recover and set us on the road to recovery, this time around.

A convergence of factors

Yes, this time around, under the present confluence of factors that include geographic, economic, scientific knowledge and base human nature, will, it is believed, allow for our economy and our people to benefit mightily from the fact that we are a tourism dependent economy.

Lockdowns and its' psychological effects

Tourists from China account for 16.7% of arrivals in 2019 and holds poll position as the country with the most tourist arrivals. However, tourists from western Europe together with UK accounts for 23% share of tourist arrivals and together with other European countries account for 47.6% of arrivals in 2019.

Therefore, European and especially Western European market is the most significant market for the Maldivian tourism industry, and it has remained so from the days Europeans in fact, started tourism in the Maldives. However, this world, that seeded our tourism and is even today the major market, are being forced into additional and tighter lockdowns at the height of Christmas and New Year season. UK, Germany, France, Italy are experiencing record infections and record deaths. They are experiencing tighter restrictions during the very period that families look forward to getting together and renew family bonds.

Enforced lockdowns, feed a desire to flee, to escape the curbs and the constraints. As people, especially in western Europe dream of escape while in the midst of deep winter, it is almost inevitable that they dream of sunlight and warmth. To have a break, a rest on a secluded beach, with detachment and privacy.

In such circumstances, Maldives, is a destination that comes naturally to the fore.

The impact of Geography

Geography has blessed us with small, separate islands with large sandy beaches, crystal clear waters teeming with life and year-round warmth and sunshine. Our geography is the defining feature of our success in tourism. And as fundamentals of our geography remain steady, will surely allow us to bounce back.

Meanwhile the citizens of our major markets, suffered not just binding deep lockdowns, they had to brave the lockdowns in deep winter. Sunlight, warm clean sunlight is definitely on their mind.

This geography, therefore, has the power to attract tourists from all countries as they emerge from strict lockdowns especially for those people who emerge from lockdowns in cold and icy weather.

Progress in Science allowing for vaccines being available

Progress in science have offered the opportunity to roll out Covid 19 vaccines in record time, - authorized one year from the naming of the virus. Two vaccines have been authorized for use and a third is just round the corner. Meanwhile Russian and Chinese are testing their own variations.

United Kingdom was the first country, on the 8th of December to start vaccinations followed closely behind in US. European countries including Germany, France and Italy are due to start vaccinations straight after Christmas or just after New Year.

While vaccines are first on offer to the elderly and front-line workers, US estimates 20m of its citizens to be vaccinated before end of the year and 100m to be vaccinated by February and all UK citizens are expected to be vaccinated by April.

Therefore, it is not too optimistic to hope that as winter gives way to spring, it is not only the cold temperatures that will give way firstly to mild then warmer weather, but that the population of our major markets in Western Europe will, armed with vaccines, look forward to travel with greater confidence and ease of mind.

The above confluence of factors will, it is believed, allow our tourism industry to fully recover by the mid 2021. And the nature of our economy determines that once tourism industry revives all manner of other economic activities will rejuvenate and thrive. The total dependency on the tourism industry will allow us to get back on our feet this time around.

However, single dependency of the economy on one industry is not a model that we, or any other country should depend on, especially when it is tourism industry with so many factors beyond our control. We have said so repeatedly. Let us hope that this time around we get to the real, difficult, time consuming and expensive work of getting our economy diversified and be better prepared by the time the next threat to the tourism industry emerge, as it will inevitably do.

Meanwhile the sun that shines on our land is the best disinfectant to cure the ills of this economy and allow to stand up and reflect on the way forward.

Price over privilege

Abdul Haleem Abdul Latheef

Introduction

The interest rate on borrowing is a highly talked about issue in the Maldives. While much of the attention on the interest rate is on borrowing, the interest rate earned on savings is a muted issue. The difference between these two rates is called interest rate spread. The interest rate spread is an indication of the efficiency of the financial system and manifests an inverse relationship.

The Maldives financial system is a bank-based financial system. Except for commercial bank deposits, there are no reliable saving vehicles in the financial system. During the period from 2009-2019, the banking sector (measured in terms of deposits) grew at a compound annual growth rate of over 8%, reaching over MVR 32.6 Billion, leasing and mortgage contracts grew over 34% while the insurance sector's growth in terms of policies sold recorded over 18% during the last seven years.

In terms of accessibility to financial services, bank accounts registered as of 2019 reached 419,345. This translates into close to 80% of the resident population having bank accounts, a very high per centage compared to international averages. Insurance policy holders more than doubled during the last seven years to reach to 68,497. Whereas there were only forty-five ATMs in 2010, the ATM network grew to 149 by 2019.

Yet, the interest rate spread widened in the Maldives, raising questions on the fairness of our financial system. In order to shed some light on the interest rate debate, this article begins with an explanation of structure of Maldives financial system, exploration of the historical circumstances that lead to the emergence of the financial system and concludes with some peculiarities to ponder for their nature and existence.

The Financial System

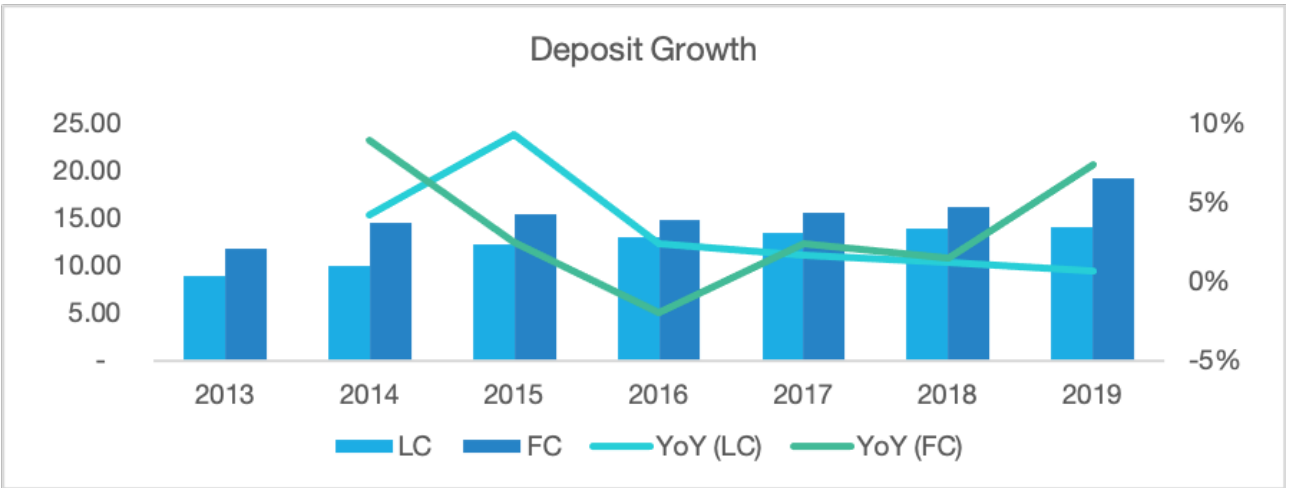
The financial system is the mechanism through which exchange of funds between savers and borrowers take place. The critical components of the financial system are institutions, markets, payment systems, depository systems for the management of property rights and support services such as brokers, dealers as well as professional services such as accounting and legal service providers.

The Maldives banking system is connected to the international financial system through correspondence banks, SWIFT system and international payment system providers. The need for international payment systems grew with the growth of international travellers to the Maldives. Bank of Maldives is the exclusive acquirer and issuer of American Express cards in Maldives and the only principal member in the Maldives for Visa and MasterCard.

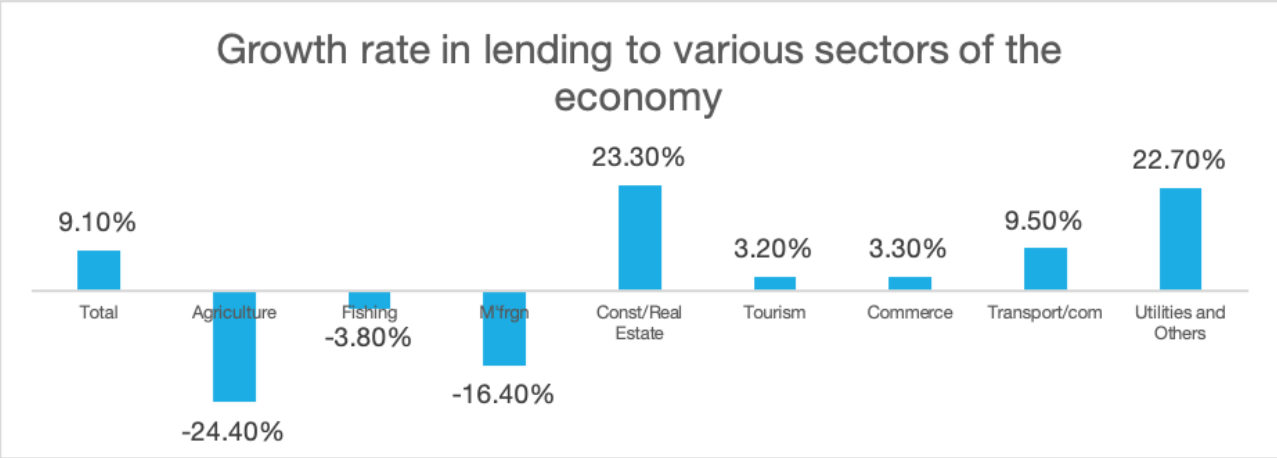
Commercial bank deposits reached over MVR 32.6 Billion by 2019. Although the deposit grew by over 8% on compound basis over the last seven years, close to 80% of deposits account for transferable deposits or demand deposits. It is also interesting to note that foreign currency deposits account for over 57% of total deposits and the rate of growth of foreign

currency deposit is much faster than that of the local currency. Banking sector assets represent over 61% of the total financial sector assets. The total banking sector assets reached over MVR 60 Billion in 2020[1]. The banks in Maldives provides term loans, trade finance and bank guarantee as well. Bank of Maldives also engages in development banking services as an administration agent for government various funds. The banking sector loans to private sector is in the order of MVR 24 Billion, with highest exposure to tourism sector (36.65%) and then to the construction and real estate sector, which is in the order of 29.18%. The fisheries sector exposure is only 1.7%. The rate of growth in lending for the tourism sector slowed down, albeit the highest exposure.

Agriculture, fisheries and manufacturing experienced negative growth in lending with highest decline recorded for the manufacturing sector. The most significant growth was achieved by the construction sector with 23.30%.



During the last seven years, the banking sector overall exposure to private sector grew at 9.10% on compound basis while banking sector's exposure to public sector grew at 18.29%. The banking sector hold MVR12.3 Billion of the total MVR 32.28 Billion domestic public sector debt. There is no secondary market for government securities except when MMA in its desertion engages in the sale and



[1] Adjusted for non-financial assets, MMA stats Oct 2020

purchase of these securities to manage the money supply.

Evolution Of Financial System

The Maldives economy started to take a structured form during 1950s. By then the trade in Maldives was controlled by Vohra Merchants. Vohrah community in Male' (most probably) would have their roots in Gujarati Muslims who had significant business influence in the region and beyond during the 16th and 17th century. In 1940s the Maldives rulers sort out a debt dispute with the Vohras to ascertain sovereign debt from the private debt owed to Vohras. The end of Vohra Merchant's dominance on trade in Male' led to a new era for commence and industry and emergence of a more expanded merchant class in Maldives.

During the 1950s government-led economic planning started to take shape in the Maldives. The expansion of trade, influx of foreign exchange, remittance from Addu Atoll to Male' contributed to the formation of private capital as well as increase in government revenue. There is evidence that the first bank in Maldives was established in Addu Atoll during 1960s, most probably for deposits of salary for those working at Gan Island, which was a British Naval Base back then.

In 1974, with the arrival of the State Bank of India (SBI), the Maldives economy become more integrated to the rest of the world. SBI is the origin of the modern banking services in the Maldives. MMA was formed in 1981 after six years since the introduction of banking in Maldives. It should be noted that the circumstances for the formation of MMA in Maldives is totally different from the historical origins of central banking. Central banking has its origin with war financing and bank runs.

The First insurance company in Maldives was established in 1985 by the State Trading Organisation (STO) in the form a subsidiary by the name of Allied Insurance Company of the Maldives. The first finance company was established in 2001 in the name of Maldives Finance Leasing Company (MFLC). The first specialist mortgage finance company was established in 2004 by the name of Housing Development Finance Corporation (HDFC), with backing from International Finance Corporation (IFC), Asian Development Banks and HDFC (India).

Capital Market institutions came into the picture during 2006 with the formation of Maldives Stock Exchange (MSE) and Maldives Securities Depository (MSD), as a subsidiary of MSE. Under the Maldives Securities Act, licenses were issued to market intermediaries such as stockbrokers. Two stock brokerage firms are still active today; Stock Brokers Maldives (SBM) and Ariya Securities, both received license in 2006.

During 2011, Islamic banking was introduced into the Maldives by the Maldives Islamic Bank (MIB) with the backing of the Islamic Corporation for the Development of the Private Sector (ICD), a multilateral development financial institution forming part of the Islamic Development Bank (IsDB) Group.

In 2016, Maldives government securities received rating from Fitch Rating for the first time. See Appendix1 for further detail on the development of Maldives financial system.

Interest Rates

The payment system developments also took place during 2011 with the introduction of Real Time Gross Settlement System (RTGS) by MMA.

Structure of Maldives Financial System

Institutions	**Regulators** • Maldives Monetary Authority (acting as the central bank) • Capital Market Development Authority (CMDA) **Financial Intermediaries** • Banks • Insurance Companies • Leasing Companies • Housing Finance Companies
Markets	**Capital Market** • The Maldives Stock Exchange (MSE is aa privately held company) **The Money Market** • Interbank Market • Government Securities Market • MMA government security discount market • MMA facilities (ODF/Lombard Facility) **Forex Market** • Money Exchanges
Depository systems	Maldives Securities Depository (a subsidiary of MSE)
Payment Systems	• BML Payment Gateway • VISA/MasterCard/Amex • SWIFT • RTGS • ACH • Money remittance companies • Mobile Money
Support Services	Agents/Brokers/Dealers/ Professional Services Firms

During 2017 MMA introduced electronic clearing system with the launch of Automatic Clearing House (ACH)

The interest rates observed in the Maldives quite peculiar. The risk-free interest rate is several basis points above the saving rates from banks. The central bank intervened interest rate correction is not possible because of high level of dollarization and currency substitution.

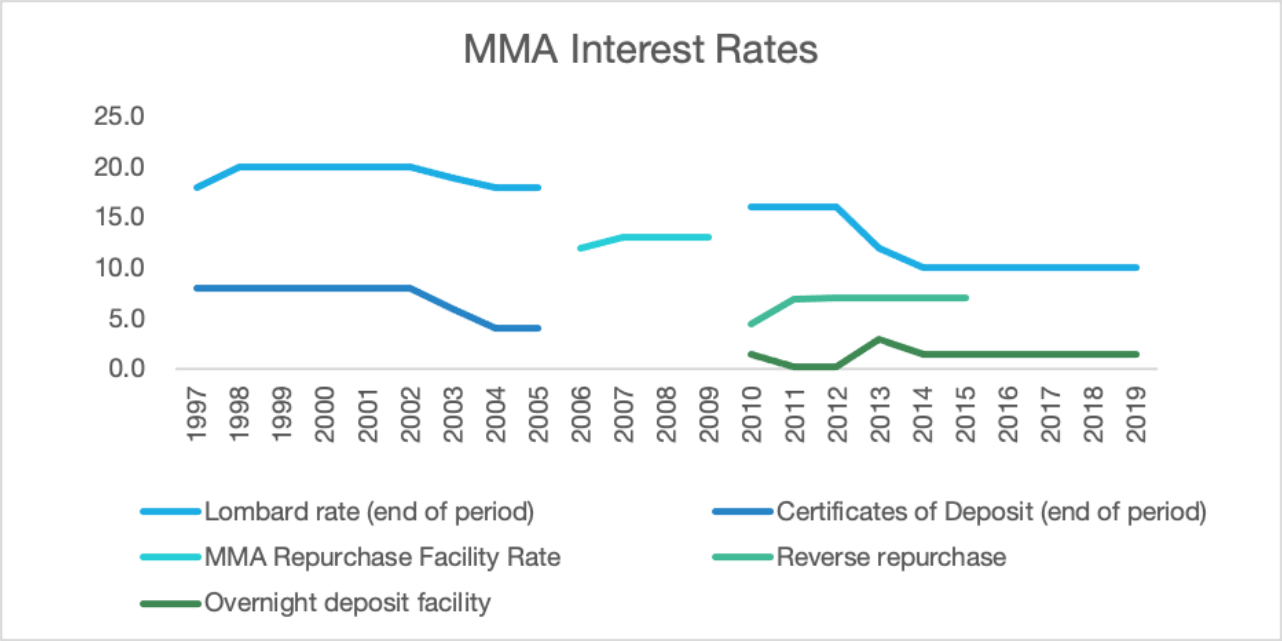
The interest rate structure observed in the Maldives can be grouped into three broad categories: The MMA rates to the banking sector, Government Treasury Bill rates, Bank local currency Rates, and Bank foreign currency rates. Within the bank rates there are two segments: Public non-finance corporation, Private sector

MMA Interest Rates

MMA is the authority responsible for the implementation of monetary policy and financial stability. Until 2006 MMA used two policy instruments to manage the money supply in the economy. Certificate of Deposits (CDs) is a saving instrument for banks, while the Lombard facility (OLF) provides financing for the bank when faced with short term liquidity issues. Prior to the introduction of treasury bills by the government, the interest rate on CDs would be the proxy risk-free interest rate. The interest rate on CDs remained at 8% until 2003. The interest rate on CDs was revised down to 6% in 2003 and to 4% in 2004 and remained at that level until 2006.

The OLF rate remined high to discourage the commercial bank's reliance on central bank for the management of short-term liquidity. With the introduction of Treasury Bills, MMA introduced repurchase facility (repos) in place of the OLF. Under this facility, MMA was able to engage in open market operations to manage the money supply. The repo rates started at 12% and was raised upwards to 13% subsequently.

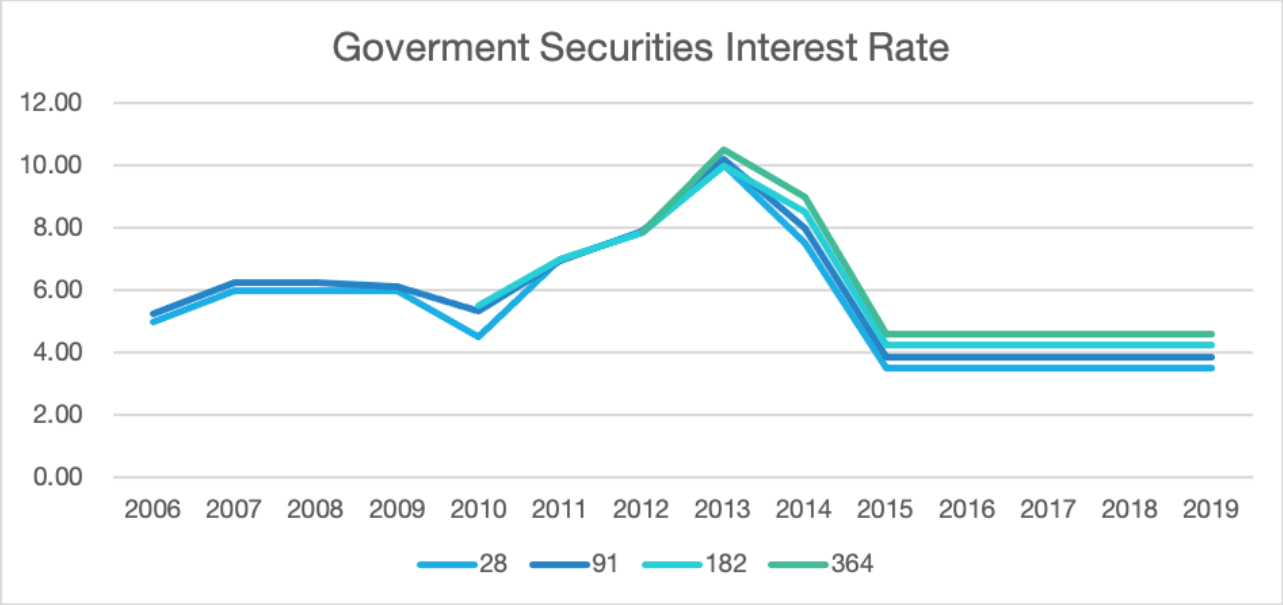
The repo facility was suspended and OLF was reintroduced at an interest rate of 16% in 2010 and remained at that level until 2013. OLF rate was further reduced to 10% in 2015 and is currently prevailing at that rate. MMA also reintroduced ODF and reverse repurchase facilities as well in 2015. The reverse repurchase facility has been suspended in 2015. The ODF rate and OLF rate prevailing currently is 1.5% and 10% respectively. This effectively means banks will earn 1.5% (on annual



basis) by investing cash with the central bank and in case banks resort to MMA to borrow money, banks would pay 10% (on annual basis) for borrowing.

Government Securities Interest Rates

Government introduced two series of treasury bills in 2006; 28-days bills and 91-days bills. Treasury bills were issued on 11th Sep, 2006 replacing CDs. The government introduced 182-days bills as the Pension Fund started investing in government securities and also introduced the 364-day bills 2013 to provide a longer-term saving instrument.



Since 27th December 2009 the rate represents the weighted average interest rate accepted by the government. Treasury bills reverted to a TAP system from an auction system in 2014. The rates were revised in 2015 due to a change in government policy.

Maldives Monetary Authority (MMA) acts as an agent for issue of government securities. The government securities market was available to financial corporations and SOEs until September 2012. This condition was relaxed in 2012 with the first sale of government securities in October 2012 to a private sector entity (MVR 139.1 Million). Ministry of Finance has extended the participation to Investment Funds and Private Companies. Individual citizens are also allowed to invest in government securities on private placement basis. Government securities are issued in 100,000 lots (10 bills of MVR 10,000 each.

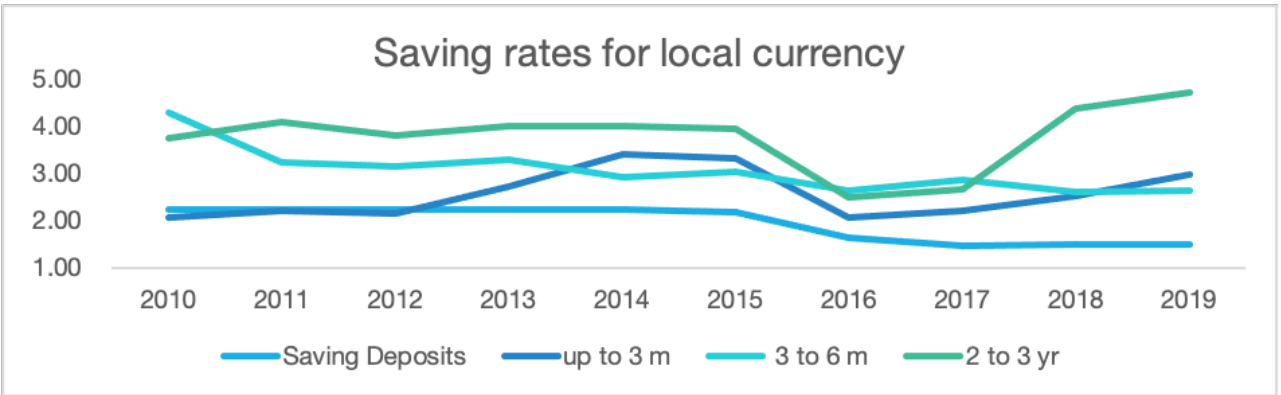
Treasury bills are sold on discount basis where investors will buy the bills at a discount to the face value, representing the purchase price. The face value is the

Tenure	Rate	Face Value	Purchase Price	Profit
28	3.50%	1,000,000.00	997,322.26	2,677.74
91	3.87%	1,000,000.00	989,716.17	10,283.83
182	4.23%	1,000,000.00	979,343.63	20,656.37
364	4.60%	1,000,000.00	956,138.14	43,861.86

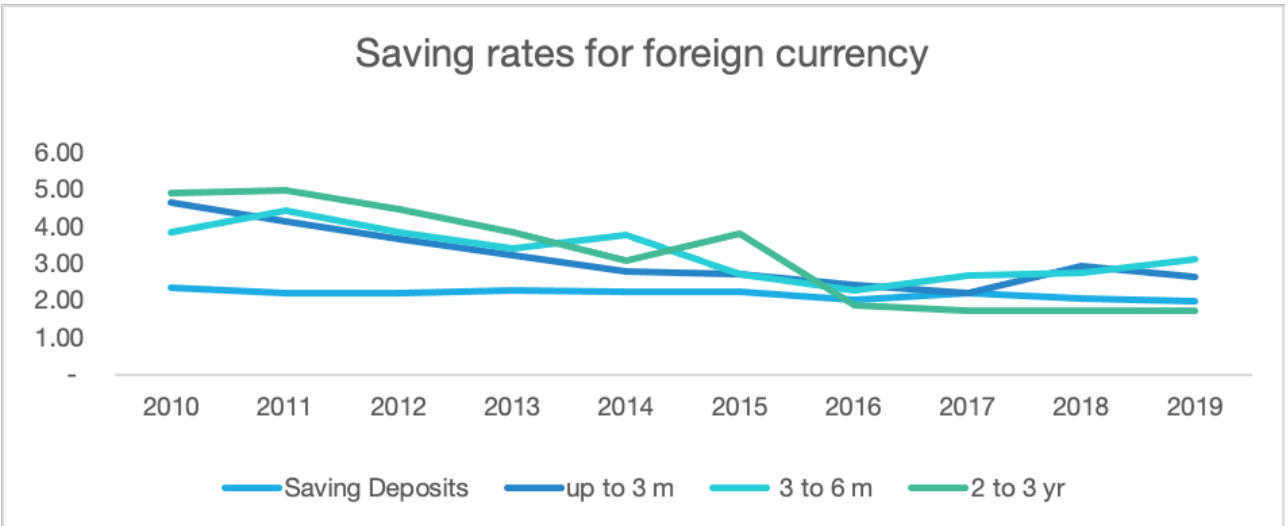
value stated on the bill that will be received by the investor on maturity of the bill. The difference between the face value and the purchase price is the return earned on these bills. Currently treasury bills yield interest as follows; 28 days (3.5%), 98 days (3.87%), 182 days (4.23%) and 364 days (4.6%)

The current term structure of interest rate is such that longer holding periods result in higher returns. The following shows the profit earned by investing MVR 1 Million in treasury bills of varying maturities.

Banking Sector Saving Rates

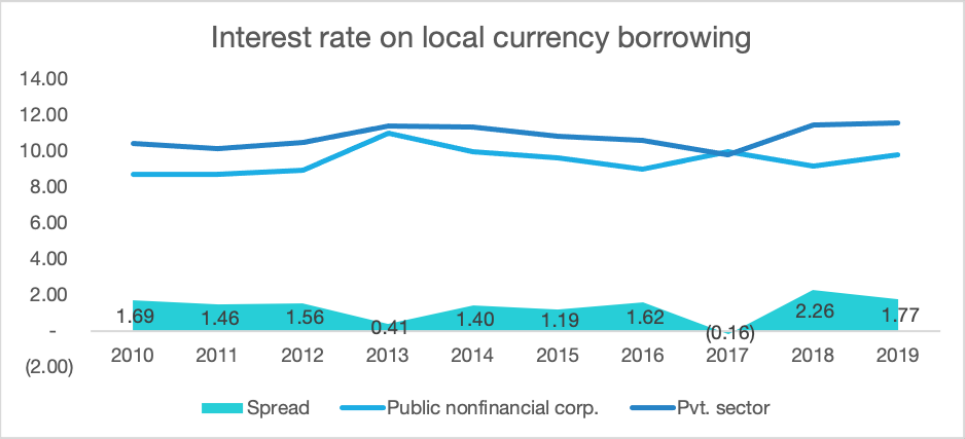


Interest rates on local currency saving products show that long tenures attract higher rates. Saving products for 2-3 years attracts interest rate of 4.72%. The rates averaged 3.79% for this tenure.



The saving rates for foreign currency declined overall. The highest return is attracted to 3-to-6-month products which average 3.29%. The saving decline in saving rates for foreign currency is a result of increase in dollar deposits as seen in the currency composition of deposits.

Experimentation with different policy instruments to affect the money supply has not resulted in any meaningful change on the interest rates in the Maldives. Overall, the saving rates declined as result of growth in dividends while the lending rates hardly changed. The interest rate spread improved the banking sector profitably and bank's shareholder equity.



The lending rates

The lending rates in local currency averaged 9.5% and 10.83% for public sector and private sector respectively. The private sector risk premium average 130 basis points.

Is cost of borrowing high?

I wish I know the answer to the question.

What I know is that even with the expansion of the financial system, the nature of our financial system remained boutique; each institution serving a segment which makes sense in terms of risk, reward and stability. What need to change is the design of our financial system with public interest in mind. Higher borrowing cost is not a bank problem, it's a problem of the system as a whole. Unless we prioritise price over privilege, the system will remain unchanged.

Certainly, there are several reforms that would result in narrowing the interest rate spread and make the financial system fairer for most people. The financial system comprises of several components and they all should work in unison to make the system efficient and effective. The current dual regulator model brings in more harm than good in reforming the financial system and making it fairer. A unified regulatory framework would promote holistic view, reduce regulatory compliance burden and save costs to the state.

The opportunity to patriciate in the treasury bill market should be made more transparent and affordable. The government debt market should be further developed with different maturity structures. The peculiarity of treasury bill interest rate being above that of deposit rates may be to address specific concerns of the banking sector. However, the long-term consequences of such distortions would result arbitrage, unequal wealth distribution and also outflow of savings from the country to abroad. This peculiarity needs to be addressed.

In Maldives public sale of securities and trading are only permitted through the Maldives Stock Exchange, a privately held entity. This limitation is needless because the choice of an exchange should be left to the issuer of the security. Regulator imposed restrictions on public choice in favour of a particular private entity is a hinders to the development of the market for securities and thereby widening choices for investors.

The monetary policy led intervention to affect interest rates in the Maldivian context should be secondary to price stability as perused by MMA as a policy choice.

Note:

Data for this article is from

- MMA Stats
- IYYE Magazine
- Various Regulations
- Company websites and from public domain

Appendix1: Timeline of Maldives Financial System

Institutional History

Year	Entity
1964	Athireemaafannu Trading Agency (ATA),
1974	SBI
1976	HBL
1981	BOC
1981	MMA (Monetary Authority Act)
1982	BML
1985	Allied Insurance
2001	MFLC
2002	HSBC
2003	Amana Takaful (Maldives) Plc
2004	HDFC
2005	Ceylinco Insurance
2008	MSE/MSD (Stock Exchange)
2009	MPAO (Pension Fund)
2010	MCB
2011	MIB
2011	RTGS
2016	CBM
2016	Dhivehi Insurance
2016	Moody's Credit Rating
2016	Solarelle Insurance
2017	ACH
2017	Fitch Rating
2017	Mobile Payments
2019	SDFC

Financial Market Product History

Year	Event
1995	Certificate of Deposits (CDs)-MMA
2006	Treasury Bills
2004	STO listing
2004	MTCC listing
2004	BML listing
2007	MTDC IPO
2011	Dhiraagu IPO
2013	HDFC Bond
2014	Dhiraagu (secondary 250)
2014	HDFC Sukuk
2015	Govt Bonds (5 to 8 years)
2017	HDFC Sukuk
2017	Ooredoo IPO
2017	Sovereign Bond Sales ($250 SGX), & ($100 ADX)
2017	Centurian IPO
2018	MTCC rights Issue
2019	MIB IPO

Post Covid 19- the road to recovery

Aishath Isra Abdulla

On March 7th, 2020, the Maldivian government announced the first case of COVID-19 pandemic n the Maldives as the worst slump since the great depression synchronised around the world.

Due to the small size of the economy and significant reliance on tourism, we were already facing a unique set of challenges. At the same time, IMF, World bank and other economic authorities stated that the Maldives would be among the worst hit in the world and our GDP is forecast to shrink by 19.5% in 2020.

This premonition followed the implementation of pandemic and emergency guidelines, closing of educational institutions, activating measures of immigration and border control and imposing national disaster recovery plans on all fronts. Additionally, special health care and economic stimulus packages were announced, and the Maldives Monetary Authority and other administrative authorities geared up to provide financial assistance to both public and private sector institutions.

However, much has changed since the first few months. We have gone from a complete lockdown to a partial lockdown, and the curfew was eased just a few weeks ago.

On the institutional front we are continuing work from home, deploying IT resources and initiating contingency plans. The situation is still evolving, though many of us believe the worst is over. However, I believe all government and regulatory authorities related to national disaster management, health, social welfare, trade and commerce have a tremendous role to play to contain the situation. As such, they must continue to manage, monitor and impose controls to reboot our economy.

Due to the pandemic, crisis management and crisis communication have now become buzz words of the Maldivian government. At the same time, from office workers to resort workers to taxi drivers, pay checks are reducing in the still 'caged situation'. Regardless of whatever looms in the horizon, the biggest challenge would be to continue to save lives and crawl towards sustenance for our fragile economy.

The total cost of COVID-19 for the Maldives is estimated to be MVR 2.6 billion as of 26th November 2020. MVR 1.3 billion on health and social spending, and a further MVR 1.3 billion on economic response spending. Additionally, expenditure on subsidies and financial assistance reached MVR 4.3 billion in 2020, a 15% increase compared to 2019.

In this bleak situation and the dire economic conditions, the government announced an economic stimulus package worth MVR 2.5 billion. As of 30th November 2020, a total of USD 519.8 million has been received from various countries and agencies which constitutes a major potion of the incentive package.

With all these conundrums, optimistically thinking COVID-19 means change, and it has brought a lot of opportunities for the Maldives to reform our policies and embrace the shift towards the betterment of our economy. I believe COVID-19

opened doors for new opportunities and innovations and put our disaster response to the test.

According to Faris. H. Hadad-Zervos, the World Bank Country Director for Maldives, Sri Lanka and Nepal, "The Maldives story has always been one of resilience. Time and again, we have seen the Maldives confront its vulnerabilities and external shocks, only to emerge stronger,".

I do hope the positive expectations of the World Bank and other donor agencies will be achieved post COVID-19. In this moment of reckoning my view is that we still have a, long way to go and we need to take strong measures for better, inclusive and sustainable economic growth in the long run. We must learn to make use of all resources effectively.

I do see opportunities for sustainable recovery if all stakeholders work together towards leadership for a profoundly better future. How resilient we come out of the crisis depends largely on the choices that the government, businesses and individuals make over the following months and years.

To mention a few things that we can do in a 'daring' mindset to reboot:

- Publicly disclose and keep the government accountable on spending assistance from international institutions. The IMF provided about US$28.9 million dollars in assistance and it should be used to its optimum.
- Although donor funding has played an integral part in our recovery, it is not wise to become too reliant on it as it allows foreign parties to dictate how our economy is run.
- Reduce expenditures, redirect funds to fight the pandemic and arrange interim relief for the most exposed businesses and individuals. Due to COVID-19 the poverty rate has increased by 5.6% in 2020 and is expected to decline very slowly in the coming years.
- Pass a national budget that is geared to grow the economy to recovery. A budget that facilitates increased development should be passed as a reduction in economic growth will affect the credit rating of the country which may create more extensive problems in terms of investor confidence and cost of financing later.
- Implement smarter regulations to facilitate the growth of the private sector. For the unemployment challenge to be met, besides giving direct incentives the government will need to address workplace reform to support employers, particularly small business and build skills or introduce a tertiary education system that can fill skills gaps and assist the unemployed.
- Introduce reforms in independent institutions and ensure that all decisions made regarding the stimulus package given by donors is above board and carefully monitored. (The donor assistance comes with many conditions for reform on fiscal and monetary fronts and may include recommendations for prudential measures)
- Pave the way for maximum involvement of the youth in our national development, especially since approximately 54% of the labour force is aged 18-34. (We have experienced a high level of unemployment, especially youth unemployment during the pandemic).
- Make plans to revive the tourism sector as the pandemic has inflicted significant damage to the tourism

sector, which is the mainstay of our economy. Due to this our GDP growth, the balance of payments and our overall fiscal position has weakened dramatically.

- Urge the Maldives Monetary Authority to continue providing targeted liquidity backing to banks and avoiding a credit freeze, through short-term and targeted financial and prudential easing.
- Ensure that a plan for retiring government debt is in place. The natural decision of many foreign investors would be to exit the host country when faced with economic hardships. The Maldives is no exception. A debt hangover situation is looming over us as Maldives credit ratings downgrade, investor confidence drops, and the foreign investors begin exiting. The situation will worsen as high levels of government funding will be needed to support public services which will result in debt servicing ratios going up.
- Support a shift to e-commerce and e-services. Workplace flexibility is a new norm which the government must support. In terms of regulatory and incentive mechanisms, the government should prepare to be receptive in its adoption of new technological innovations by businesses and the public.
- Prioritise and implement vocational training as the Maldives needs to reskill its existing workforce as we face a fundamental shift in the skills required post-pandemic. Enhanced digitisation combined with remote ways of working means reskilling and upskilling is needed.

Having said all the dos and don'ts, the questions I want to pose are: What are the prospects for recovery in 2021 and beyond? What is the best economic development route for the Maldives? My answer is that whatever path the government chooses at this juncture, more than ever before the government needs deeper involvement and intervention; such as ensuring that the Maldives gets the COVID-19 vaccines as soon as possible and set up effective guidelines for its distribution starting from the most vulnerable. It is up to the government to decide what is more critical. Whether it be a watchdog or reformer, the role the government plays will be the key to our future success as we enter a new era.

About the author

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Foreign direct investment: How has Maldives fared?

Fazeel Najeeb

Introduction

Developing countries, except some that export oil, often experience chronic balance of payments deficits, dwindling foreign exchange reserves and declining national incomes. In turn their ability to finance development efforts is adversely affected. To fill such gaps, countries turn to international financial resources.

The flow of international financial resources takes two main forms: public development assistance, alternatively known as foreign aid; and, private foreign investment, mostly foreign direct investment (FDI) undertaken mainly by multinational corporations (MNCs, also sometimes referred to as MNEs (multinational enterprises), TNCs (transnational corporations) or TNEs (transnational enterprises)). According to SNA, "Conglomerates that include corporations resident in different countries are usually described as multinational corporations" (UN, 2009).

But FDI is viewed as both bad and good. It is presented in some discussions as "tantamount to postcolonial exploitation of raw materials and cheap labour" (Moran, Görg, Seric, & Krieger-Boden, 2017), and in some others from macroeconomic perspectives as generators of employment, high productivity, competitiveness, and technology spill-overs (Denisia, 2010, p. 53).

This article presents an overview discussion of FDI theories and empirical evidence cited in literature, followed by an analysis of the FDI policy and performance of the Maldives.

Definition

The System of National Accounts (SNA) of the United Nations (UN) defines FDI as follows: "Foreign direct investment is the category of international investment that reflects the objective of a resident entity in one economy to obtain a lasting interest in an enterprise resident in another economy" (UN, 2009). SNA is a statistical framework that provides a comprehensive, consistent and flexible set of macroeconomic accounts for policymaking, analysis and research purposes. It is produced and released under the auspices of the UN, the European Commission, the Organisation for Economic Co-operation and Development, the International Monetary Fund and the World Bank Group.

The SNA clarifies that for the balance of payments purposes, all corporations with foreign holdings of 10 per cent or more are described as foreign direct investment enterprises and special treatment of their earnings is applied; and, while all foreign controlled corporations are foreign direct investment enterprises, the reverse is not true, for example even a publicly controlled corporation may be a foreign direct investment enterprise if, in addition to government controlling half of the equity, a further 10 per cent is owned by a non-resident.

The SNA definition of FDI is based on the OECD's Benchmark Definition of Foreign Direct Investment "which sets the world standard for FDI statistics" (OECD, 2008).

Theories

FDI does not flow in automatically. One could assert that the ability of a country to attract FDI largely depends on that country's structural competitiveness in the world marketplace, and that the desired level of competitiveness is determined not only by relative prices and the productivity of factors of production but also by that country's ability to gain access to and use effectively a range of MNC-related products and services involving technology, telecommunication services, managerial and accounting methods, banking services, etc.

There have been a number of theories (explanations) on why entrepreneurs invest their money in a country other than their own. Williams posits that literature on FDI has traditionally focussed on two questions: (a) why firms invest in foreign markets; and (b) which foreign markets to invest in. (Williams, 2016).

While the origins of FDI theory has roots in the works of Smith (Smith, 1776) and Ricardo (Ricardo, 1817), more explanatory theories have been developed in the last century.

Table 1 presents a snapshot of some main FDI theories, including the market imperfections theory, international production theories (among which are demand structure theory, location theory, and electic theory), and internationalisation theory – the transaction costs theory.

According to the market imperfections theory, multinational firms establish production facilities in

Table 1: FDI theories

Market imperfections theory	Market imperfections are structural and come from the deviations from the perfect competition on the market of the final product, as a consequence of an exclusivist and permanent control on the rights of property on technology, access to resources, scale economies, distribution system and product differentiation.	Hymer, 1970
International production theories:		
Demand structure theory	- Investment direction shows a higher attraction to the countries with a similar demand structure to that in the country of origin, in relation to countries with a different demand structure.	Hicks, 1939
Location theory	- What economic activity needs to be located, where and why?	Phillips, 1958 Weber, 1929
Eclectic theory	- The reasons for localisation are linked to several advantages generated by ownership, firm's location and the international environment.	Dunning, 1980
Internalisation theory - Transaction costs theory	The development of transnational companies allows the manipulation of the transactions within the firm, so as to minimise losses.	Ronald Coase, 1937 Buckley and Casson, 1976, 1985

Source: (Dima, 2010)

foreign coutries to capitalise on their competitive advantages over competitors due to market imperfections for products and factors of production (Hymer, 1970).

The market imperfections theory though, does not explain why foreign production is considered the most desirable means of harnessing the firm's advantage (Morgan & Katsikeas, 1997). This gap, according to Morgan and Katsikeas, is addressed initially by Dunning (1980) who addressed this issue in their international production theory (table 2).

According to the international production theory a firm locates a production facility in a foreign country due to specific

Table 2: Determinants of international production

Types of international production	Ownership advantages	Location advantages	Internationalisation advantages	Illustration of types of activity which favour MNEs
1. Resource-based	Capital, technology, access to markets	Possession of resources	To ensure stability of supply at right price. Control of markets	Oil, copper, tin, zinc, bauxite, bananas, pineapples, cocoa, tea
2. Import substitution manufacturing	Capital, technology, management and organisational skills; surplus r & d, and other capacity, economies of scale; trade marks	Material and labour costs, markets, government policy (with respect to barrier to imports, investment incentives, etc.)	Wish to exploit technology advantages, high transaction or information costs, buyer certainty, etc.	Computers, pharmaceuticals, motor vehicles, cigarettes
3. Export platform manufacturing	As above, but also access to markets	Low labour costs, incentives to local production by host governments	Economies of vertical integration	Consumer electronics, textiles, clothing, cameras, etc.
4. Trade and distribution	Products to distribute	Local markets. Need to be near customers. After-sales servicing, etc.	Need to ensure sales outlets and to protect company's name	A variety of goods – particularly those requiring close consumer contact
5. Ancillary services	Access to markets (in case of other foreign investors)	Markets	Broadly as for 2/4	Insurance, banking and consulting services
6.Miscellaneous	Variety – but includes geographical diversification (airlines and hotels)	Markets	Various (see above)	Various kinds (a) portfolio investment – properties (b) where spatial linkages essential (airlines and hotels)

Source: (Dunning, 1980)

attractions there compared with resource implications and advantages of locating in another country. While the theory holds that resource differentials and the advantages of the firm play a part in determining overseas investment activities, foreign government policy including incentives may also significantly influence foreign investors' attraction.

The internalisation theory (Table 1 again) first developed by Coase (Coase, 1937) and later investigated by Buckley (1982, 1988) and Buckley and Casson (1976, 1985) holds that firms develop their internal markets in situations where transaction costs are lower within the firm. Internalization therefore is a form of "vertical integration bringing new operations and activities, formerly carried out by intermediate markets, under the ownership and governance of the firm" (Morgan & Katsikeas, 1997).

While discussions and analyses on the theory of FDI continues particularly among academic communities the world over, there are varying assertions on the matter among which that "there is still no consensus on any superior or general theory of FDI (Makoni, 2015).

Empirical evidence

Whether there is (or is not) consensus that FDI does indeed brings net gains to a country, governments of an indefinite number of countries successively develop their own or follow their predecessors' policies to attract foreign investment, liberalising FDI policies combined with other policies to attract inward investment. Indeed, for the OECD, "developing countries, emerging economies and countries in transition have come increasingly to see FDI as a source of economic development and modernisation, income growth and employment … They have addressed the issue of how best to pursue domestic policies to maximise the benefits of foreign presence in the domestic economy" (OECD, 2002).

Empirical research abounds with evidence of FDI in countries. They come each focussed on defined areas, with comparisons across sectors or countries and otherwise. For example, a work that provided a discussion on the theoretical underpinnings of the FDI-tourism nexus concluded that empirical findings suggested that FDI positively impacted on destinations and that the relationship between FDI and tourism is also of a bi-directional nature (Nunkoo & Seetanah, 2018)

In an empirical research on the impact of FDI and remittance inflows in developing Asia found that real effective exchange rate and economic growth were positively influenced by both types of inflows (i.e., FDI and remittances) in developing countries of Asia, but that the degree of impact of remittances were found to be greater than FDI inflows; these findings supported the hypothesis that remittance inflows were relatively more stable as widely documented in other studies (Sinha, Tirtosuharto, & Sengupta, 2019).

In a cross-country sample of 68 countries over the period 1984-2004, Lautier and Moreaub found that evidence that that lagged domestic investment has a strong influence on FDI inflows in the host economy, which they believed implies that domestic investment is a strong catalyst for FDI in developing countries and that MNCs do follow economic development. This result, they believed, suggests that investment promotion policies directed towards domestic firms will be efficient to attract foreign investors as well (Lautier & Moreaub, 2012).

In a 2008 work, Phillips and Ahmadi-Esfahani cited Blonigen (Blonigen, 2005), that the empirical work was "not as rich as the theoretical work in this area." They concluded that as FDI evolved, more and better data should become available, opening up the possibility that more satisfactory progress could be made (Phillips & Ahmadi-Esfahani, 2008).

FDI in Maldives

Law and policy

Foreign investment is governed in the Maldives by the Foreign Investment Act (25/79). Section 17 of the Act defines foreign investment as "goods, money and services imported into the Maldives by governments of foreign countries, organisations, companies and foreigners to produce an economic activity in the Maldives, except business conducted in Maldives by foreigners under Law 4/79" (Law 4/79 is the Conduct of Business in Maldives by Foreigners Act).

Currently, there are two regimes available for foreign investors to establish their business in the Maldives: (i) normal regime governed under the Foreign Investment Act; and, (ii) Special Economic Zone (SEZ) regime governed under the Special Economic Zones Act (Law 24/2014). Market access for FDI is allowed "in all major sectors of the economy" (MED, 2019). The following areas, however, are reserved for domestic investors:

1. Photography and related activities
2. Retail trade
3. Ownership, operation and management of:
    1. Travel Agencies
    2. Guest-houses
    3. Tour Guiding and Tour Operating facilities
    4. Tourist Vessels (with less than 40 beds and 20 cabins)
4. Operating bonded warehouses in customs areas
5. Fishing within the Exclusive Economic Zone (EEZ) of Maldives
6. Purchasing, processing and export of Skipjack Tuna
7. Wholesale and retail trade of mobile phones and related accessories
8. Event management, entertainment and production and the below listed subsectors;
    1. Leasing Audio-visual equipment
    2. Leasing and selling of musical instrument(s) and equipment(s)
    3. Works related to the installation, and maintenance stated in the first two points
    4. Event management

FDI is also allowed into "passenger transfer service", and "water sports and related activities" provided that 51pc of the "foreign investment company" is owned by a Maldivian individual or "legal entity".

Performance

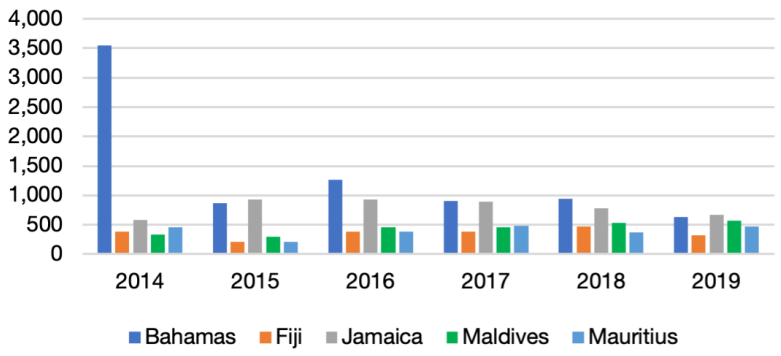
In the mid to late 1970s, the Maldives benefitted from FDI in the fisheries (resource-based explanation) and telecommunication (technology-based). From the 1980s to 1990s the Maldives "benefitted" from FDI in the apparel (garment) industry when a handful of

foreign firms were allowed to establish production facilities in the country. The rationale for this was solely to gain access to markets of Western European and U.S. markets under the erstwhile Multifibre Arrangement (MFA) quota system. While these establishments employed some locals, employed more imported labour from neighbouring countries. Thus, a key benefit that is elsewhere attributed to FDI—creation of jobs to employ locals—did not appear to have held entirely true in that experiment.

Table 1: FDI flows in SIDS, 2014-2019, USD millions

	2014	2015	2016	2017	2018	2019
Bahamas	3,551	865	1,260	901	947	637
Fiji	380	205	390	386	471	321
Jamaica	582	925	928	888	775	665
Maldives	333	298	457	458	539	565
Mauritius	456	216	379	480	372	472

Chart 1: FDI flows in SIDS, 2014-2019, USD millions



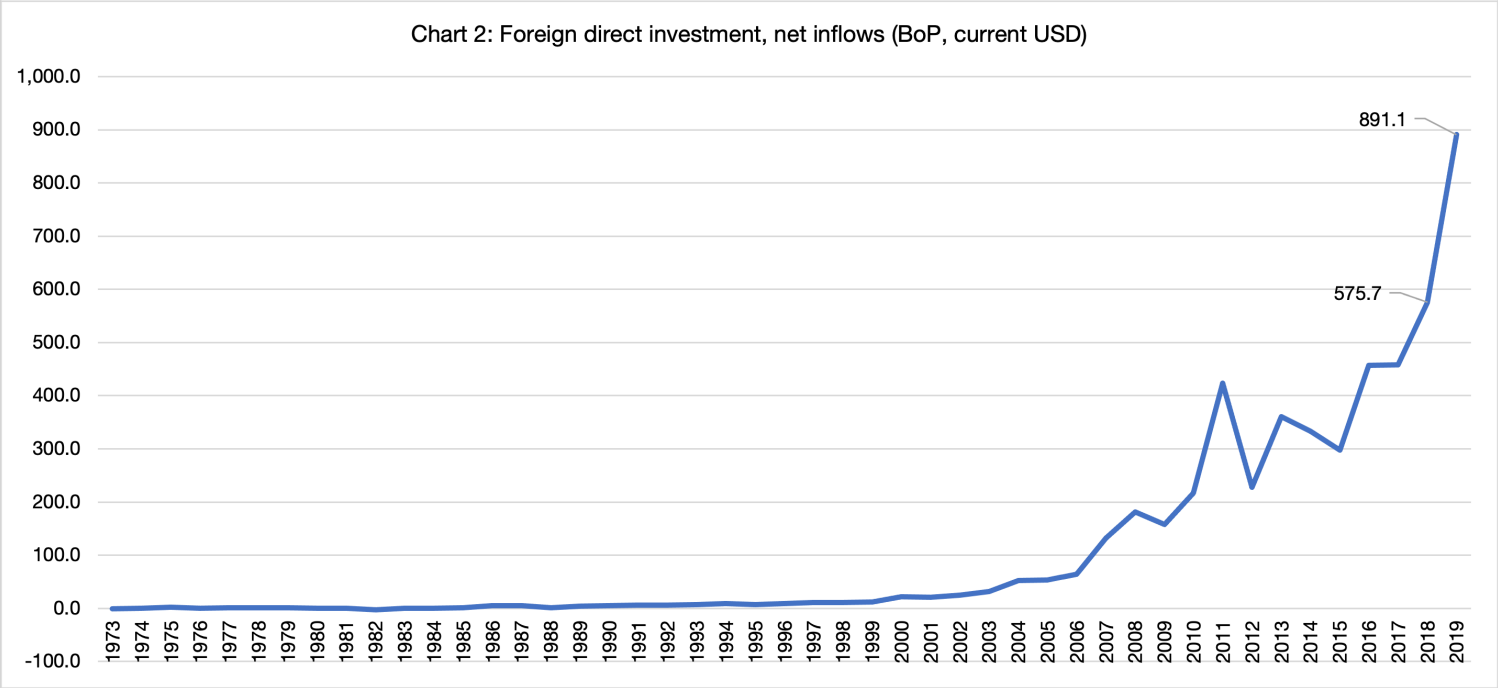
Source: compiled by the author based on UNCTAD, 2020.

For a comparative analysis, table 1, chart 1 show FDI inflows to small island developing states (SIDS) from 2014-2019. In 2019 the Maldives was the third top FDI recipient having received USD 565 million. In 2014 Maldives received USD 333 mn (fifth place among the selected SIDs that year), USD 298 mn (third) in 2015, USD 457 mn (third) in 2016, USD 458 mn (fourth) in 2017, and USD 539 mn (third) in 2018 (UNCTAD, 2020).

Source: compiled by the author based on UNCTAD, 2020.

According to UNCTAD, greenfield FDI data for 2015–2019 showed that travel, tourism and hospitality projects contributed to more than half of the total of new investment announced in SIDS, compared with 16 per cent in the preceding five-year period (UNCTAD, 2020). The recipients of these projects were predominantly the larger SIDS economies: Jamaica (35 per cent of the announced value of all tourism-related projects); the Maldives (15 per cent); and Fiji (10 per cent). In the Maldives, the share of announced greenfield projects in FDI inflows exceeded 80 per cent.

Chart 2 provides a historical account of FDI inflows into the Maldives (World Bank, 2020). Inflows have trended sharply



upward since the turn of the millennium. However, there was negative growth of FDI in 2009 (-12.9pc; global financial crisis), 2012 (-46.2pc; political instability), 2014 and 2015 (-7.6pc and -10.6pc respectively; political uncertainties).

The variation between the numbers corresponding to the Maldives in charts 1 and 2 may be due to methodological differences in compilation of data between the two sources, UNCTAD and World Bank.

The recent exponential growth of FDI in Maldives may be attributable to investment in the tourism industry. Here again, the issue of domestic employment stands out: more expatriates are employed in the industry than domestic workers, somewhat negating an important benefit of FDI that generally holds true in countries where foreign workers are far fewer than domestic workers. Due to an absence or paucity of data, it is difficult to ascertain that this is indeed the case in the Maldives.

Conclusion

Academic and policy debate on FDI continues to thrive. While no one theory could capture all FDI across all sectors, these theories do explain to a large degree why and where to investors take their money for production and sale of goods and services in foreign countries.

The conclusion of numerous empirical studies on the relationship between FDI and economic development is that the effects of FDI are complex. Some others conclude that for developing countries in particular, the inflow of foreign capital contributes to improvements in balance of payments, leads to transfer of skills and technology and creation of employment.

The experience of the Maldives in FDI has been short and mixed. Focussed efforts by the government since late 1980s to attract foreign investors appear to bear some fruit, particularly in the tourism industry. Whether this can be sustained and if FDI can also be attracted to other sectors of the economy remains to be seen.

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Institutional Reform: a necessity for Economic Boom

Ali Khalid

The COVID-19 pandemic has been one of the worst disasters we have had to face. It has, in many ways, left a devastating mark on us. We were blindsided with no contingency plans to fall back on to adequately address the challenges that were unfolding day by day.

However, the human spirit continues to prevail. In a situation deemed as dire, inescapable and near hopeless as this, humankind has again seized the silver lining and mined it to the greater advantage. Undeterred individuals have faced the challenges head on; albeit with face masks donned and personal sanitizer's at hand, because it is largely not in our nature to sit back and let mere circumstance dictate our lives.

With the onset of COVID-19, and subsequent closing of borders, came the lockdown — and with it we witnessed record job loss. Businesses shuttered. Entire sectors, and industries, were in clear need of almost immediate government bail-outs — lead breadwinners of families were suddenly, and without warning, left out in the cold.

Many tutors, divers, chefs, instructors, and other professionals had to adapt — they had to carve out their own space to survive. Many turned to the skills they had seen initially as hobbies or, while carrying on with their "day job", took the opportunity to try their hand at other things.

As households became their own protective bubbles tutors could no longer tutor at homes — but some adapted; starting home based businesses producing delicacies or homemade food to order. While divers may have been hit hard by the lack of clients, they too endured — life hacking their skills to catch lobster and other delicacies.

In the last 10 months, despite economic hardships, we have been witnessing to an unprecedented increase in driven, individual, entrepreneurs and small, dynamic, businesses. It appears the job market refuses to be shot down.

As to the quality of the services we have seen from home food businesses alone; they have been phenomenal, especially given the circumstances. Products are hygienically prepared, are mostly of exceptional quality and offer even greater choice. They are authentic and Maldivian — something that we have been increasingly denied in cafés and restaurants due to operational costs and kitchen staff who lack local expertise in the preparation of local food served to Maldivian tastes. Also, dining establishments had previously relied on the same old menus they deemed were most popular, casting aside the more "niche" products that home grown businesses seem to thrive on.

Variety and quality doesn't stop with the food alone. Operators have also embraced attractive, creative and, most

importantly, hygiene packaging. Throwing a real-world example into the mix; the sour varieties tray (Majaa) we enjoy at the carts around Malé's outer periphery have now been creatively repackaged and are served by home-based entrepreneurs — these delicacies are not only an experience to devour but also an experience to unravel.

The prices? They are definitely on par with what they offer, since products are both authentic and better packaged. Most of the products are cheaper than their restaurant equivalent. Payment is mostly contactless — through bank transfers.

The distribution, logistics and marketing is another masterstroke that had been hiding in plain sight even before the pandemic took hold; direct to the customer, marketed, at negligible costs, via social media — businesses post their products as frequently as they want or need to until their limited supply for the day is all sold out. This requires, at the most, engaging two bodies to track orders and movement.

The dynamism of people who ventured into the "unknown" with their own businesses, and their entrepreneurial spirit is testament that we should encourage and enable more to repeat the same. To badly* paraphrase, if it is fixing itself then help it fix more.

It was in the 1980s that Malaysian Prime Minister, Dr Mahathir, encouraged and helped Malaysians to start their own businesses. The PM fostered a climate of ideas, created awareness and deployed capital. Four decades later Malaysians have a keener eye for business and are ever ready to to try their hand at trading.

In our case, we now have in place most of the elements required for small businesses to thrive. However, we need encouragement and information so that more and more new, and varied, ideas enter the market. It's time to enculture an educated, informed and conscientious environment of entrepreneurship where everyone can benefit and where no one is left behind or penalised due to lack of knowledge or opportunity.

Statistics show that small and medium enterprises constitute the largest employment pool in any economy and with the millennials now set to take the economy by storm the trend is to start their own business early and make their own way.

This is an opportune time. A time to come up with a plan to engage and uplift small businesses and help them establish a strong foothold.

But to encourage more start-ups within our business eco system we need, goal oriented, institutional reforms.

We need to examine regulations, and policies, through a prism of enabling growth and transformation. While current regulations and policies might seem to be "working" for us in this moment we need to look ahead. In recent years meaningful change has been made in business registration — you could register to operate business easily as a sole proprietor or, if you have a friend or investor, you could register as a

partnership. This process, which used to take three days, can now be completed in just a day. Going forward we need to look at ways we can further streamline processes such as incorporations, bankruptcy, liquidations and other processes in a manner that maintains fluidity and speed — we need to learn from our past, hold on to the things that work, let go of the stuff that does not and introduce concepts that focus on efficiency and forward momentum.

Currently there is no way to revive a business once bankruptcy has been declared. The owners have to wait for the authorities to decide on the fate of their company and there is no defined path. Clearly each and every business will not flourish and as such there must be a clear path for investors to exit the business in a short time. Under the present process it could take at least two weeks for a company to be liquidated.

I strongly believe institutional reform, specially in the area of the swift restructuring of companies, will help start-ups to more easily and efficiently partner with capital investors — which will drive growth and in turn create increased opportunity.

One of India's biggest recent successes is the nation's proactiveness when it comes to improving its start-up ecosystem. One of the biggest economies in the world, India has systematically addressed reducing regulations which impede the entry, growth and restructuring of new companies. All things aside, India's approach to supercharging start-ups and businesses is definitely an approach we can re-engineer in order to meet our own unique requirements, on our own terms.

This is the moment to harness our primed human capital; to significantly move the needle on commerce, and industry, as has never been seen before.

This is an opportunity we cannot pass up.

About the author

Ali Khalid is the current Managing Director of the state broadcaster, Public Service Media (PSM). Previously, Ali has served State Media Television, as the Chief Operating officer, it was during this time the organization came in to contact with modern management practices.

Later Ali served as the Chief Communications Officer at the President's Office Among his many significant achievements is authoring the book "Vazeefa ah Nukunna Iru"; a young person's initiation guide to joining the workforce. Ali has spent a decade in media, with the same amount of time spent in establishing and running his business interests. Ali has also served the Maldives Industrial Fisheries Company Ltd and The Wataniya Maldives in Leading positions in the area of Sales and Marketing. Ali holds an MBA and ambitiously pursue long distance running for fitness and hobby.

The role of the state in the development of the fishery industry- todate and beyond

Ibrahim Athif Shakoor

The Maldives is an island nation of fisherfolk, all of whom grow up by the sea. The bounty of the seas feed our people and have been the main source of foreign currency earnings from our very early beginnings. The proximity and therefore the affinity to the sea, marine landings being our main source of protein, and fishery being the main primary industry of the country, will not change in our geography. Therefore, it is not surprising or unbecoming. that the state have been, continue to be, and will be involved in the development of the fishery industry.

A journey into the past

Geography has ensured that Maldives will always be a nation of fisherfolk, Small islands together with the nature of the coastline allowing for deep seas close to shore, have meant that Maldivians from time past, grew up with a tinge of salt mixed in their blood. The lagoons and the near shore fishery fed and nourished locals and even today the single most important source of nutrition for Maldivians is derived from fishery.

From the days of sailing boats travelling with thatched palm sails, to today's 150 ft twin engine fishing boats, Maldivians have fed their family and earned their livelihood from the bounty of the sea. It is recorded that Maldive fish found favor in the royal households of China and Japan in the 13th century.

While historic records dating to 1500 BC show that Maldives had been famous for the export of cowrie shells (cypraea moneta) to be used as money in the Far-east, Middle-east and in Africa, by the beginning of the 20th century the main export of the country was the sale of Maldive dry fish to the Sri Lankan market. The report issued by UNDP in 1967 at the behest of the of the newly independent country of Maldives is perhaps the first professional report of its kind on the economy and the people of the Maldives. This report stated that by that time 90% of export earnings were derived from the sale of Maldive Fish 'umbalhakada' to Sri. Lanka. Maldive Fish exports were mainly channeled through the Maldivian National Trading Corporation Ltd. incorporated in Sri Lanka and sold mainly to the Sri Lankan state company Corporate Wholesale Establishment (CWE). The proceeds from the sale were then used to purchase basic necessities including staples, medicine and other items from the Sri Lanka.

During the 1970's under the premiership of the first female prime minister of the world, Sri Lankan Prime Minister Mrs Bandaranaike implemented a national development policy of 'import substitution'; curtailing imports and fostering local production- a policy that was globally much in flavor in the 60's and 70s. As part of the larger policy and because of foreign currency pressures, the Sri Lankan government informed the

Maldivian government that Sri Lanka would start reducing import of Maldives fish from 1972 to be totally eliminated in 7 years during which period they would create and foster their own local dry fish production and would no longer have to buy 'umbalhakada' from Maldives.

Export of Maldive fish being the single foreign currency earner in 1971- tourism was still a year in the future, the government rightly hustled to find alternatives. As a result of frantic effort, in 1972 vessels from Japanese Hoko and Marubeni corporation started to buy fish directly from fisherfolk and Nippon Corporation built a small 8 MT cannery in Felivaru in 1977.

In 1982, the world market for tuna crashed prompting the foreign companies to inform the state that they could no longer afford to buy the harvest of the fisherfolk at the prices the government required. With no successful conclusion, they decided to cease their purchasing and processing operation and leave the country. The decision of the government in 1982 was to

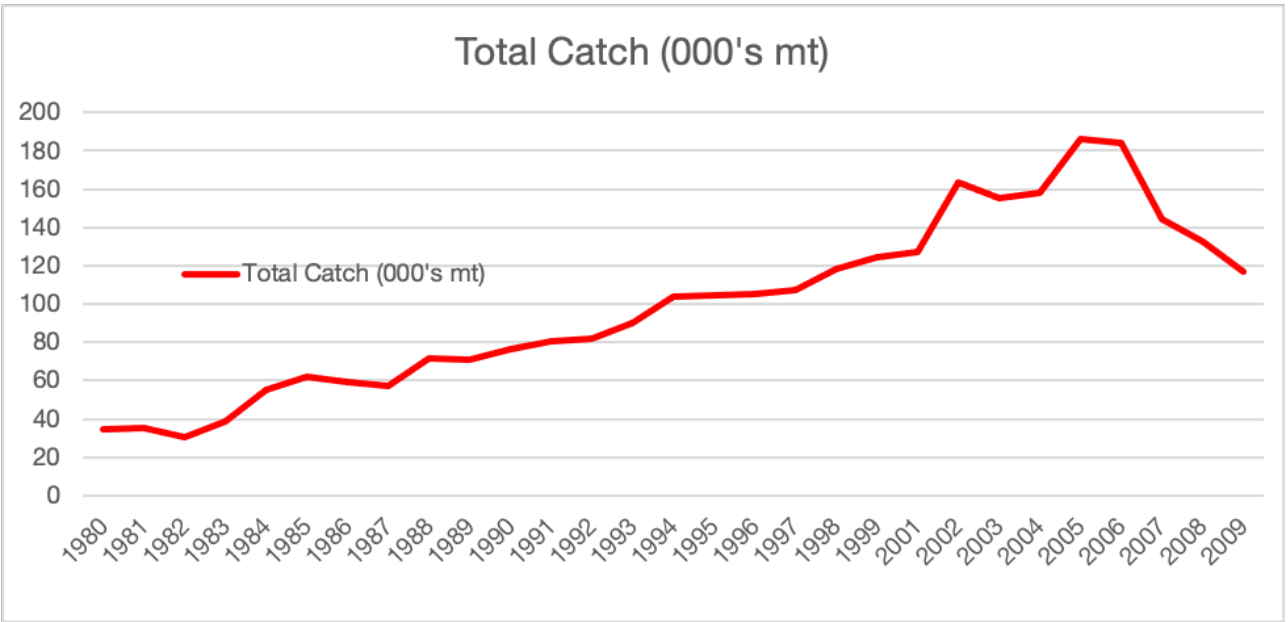
purchase the assets of the foreign companies and continue purchasing and processing fish from the fisherfolk.

During the same year, in 1982, several government-initiated projects came alive to help develop the fishery industry. These include the Maldives Fish Wealth Exploitation Project (MFWEP) to build 65 dhonis to be given under long term lease to fisherfolk, 3 freezer vessels to transport fish, 3 ice plants and 3 fuel tanks. Another project to upgrade Felivaru cannery from 8 to MT to 50 MT which included amongst its components an alongside jetty and expanded the cold storage capacity was also begun. The Maandhoo Fisheries Complex in L. Maandhoo and the Koodoo Fisheries Complex at G.A Koodoo were opened during the period 1992 – 1994. The opening of the Koodoo complex marked the end of the many fisheries projects implemented by the Government to develop the capacity of the fishery sector.

The fish purchase, processing and fishery development activities of the state were undertaken by different state actors at different times. These include the Maldives Fisheries Corporation formed in June 1979, the Dhekunuge Mas Ganna Project (DMP) under STO, the Export Department of STO, and the Fisheries Projects Implementation Department of STO. The Maldives Industrial Fisheries Company (MIFCO), since 1st November 1993 is the latest guise under which fishery development effort were undertaken. All these different guises, under different names at different times are but the single manifestation of the state's decision to invest to develop the fishery industry and to create means to continue to buy and process the harvest of the fisherfolk.

Impact of the many development projects

The fishery development projects propelled the fishery industry onwards and helped to grow the harvesting capacity to almost 3 times from an average of 50,000 tons in the 80's to an average of 148,000 tons in the first decade of the new millennium. Record harvests were received in 2006 at 184,000 tons after which fishing had plateaued around 120,000 thousand tons annually.



Data: Bureau of National Statistics

The confidence of fisherfolk were boosted by the many state initiated developmental efforts leading to private investment to enhance fishing capacity. These private efforts resulted in an increase from the average length of the fishing vessels-dhonis, from 50 ft to 100 plus and some being equipped with twin engines. In fact, just one fishing vessel overwhelmed the increased capacity of 50 mts of the newly designed larger collector vessel that were designed for the newest fishery complex at Koodoo in its first year of operation.

As the new millennium dawned and because of steadily improving harvests, realization dawned that the infrastructure in place were inadequate to cater to the increased landing capacity of the fisherfolk.

An initiative to allow for private investments for skipjack processing started in 2002/3 as a result of which, the country was divided into 4 geogrpahic zones with 2 zones given for private parties to invest in. The Maandhoo Fisheries Complex in Laamu Atoll was removed from the books of Mifco and was assigned to Horizon Fisheries in 2003 as part of this effort. While some od the private investors had made considerable investments in the industry, it is only fair to say, that their effort too, have not been able to bridge the gap.

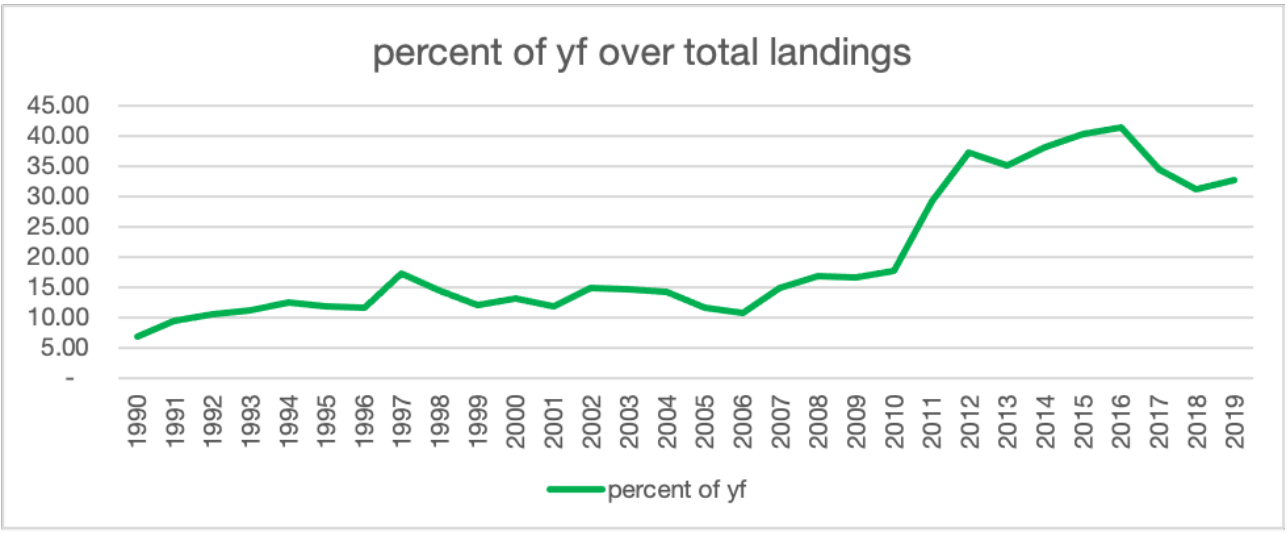
Development of Yellow Fin fishery

As the fishery sector developed around investments into skipjack processing, it was always understood that the country also had a respectable yellow fin potential. Even from before, Yellow fin caught in the process of skipjack fishery were frozen and fetched a marginally higher price from canneries. It was known that if caught, kept and exported fresh, Yellow fin would fetch a premium price in the far east and western markets.

Yellow Fin fishery as a specific and targeted activity was initiated in 1990 by Mifco at the Kandu-oiy-giri processing plant set up to receive, hold, process and export fresh yellow fin. Soon fisherfolk were attracted by the higher price on offer and slowly brought changes to the fishery industry. The export and earnings of Yellow Fin as a separate line item was first

reported in official statistics at 2.5m Mrf of earnings and listed as Fresh or Chilled Tuna in 1995.

Statistics, the entry came in at just 16.8 mts at a value of 2.5m Mrf, of export earnings; a modest 0.43% of total merchandise export earnings for that year.



Data: Bureau of National Statistics

As Maldivian fisherfolk and local entrepreneurs started to explore the premium chilled market for yellow-fin, with its higher prices, yellow-fin became an attractive fishery. Landing statistics show that the catch of yellow-fin as a % of the larger effort was at an average of 11.73% of the total landings between 1971 to 1995, with percentages varying from 2.74% in 1974 to peaks of 16.1% in 1983. From such modest beginnings yellow fin landings have steadily increased with an average of 19% of harvest during post 1990 with a high of 40 and 41% of landings in 2015 and 2016 respectively.

While fishery was mainly a day fishery until then, with the advent of multi-day yellow fin fishery, the nature of the fishery effort too, have changed with fisherfolk often leaving on multi-day trips prepared to harvest yellow fin or skipjack depending on the nature of the bait available and the type of fish school encountered.

In 1995 when 'Fresh or Chilled Tuna' was added as a separate item in the Export

From such modest beginnings, earning from Yellow-Fin have grown to 56.21% of total export earnings in 2015 beating earning from skipjack exports by a 472m Mrf for the year. During the 5-year period 2013-2017, earnings of yellow-fin exports accounted to an average of 51.9% of total export earnings.

Today's reality

Mifco had opened a fishery complex in Addu with a 1,500 mt storage and a 50mt freezing capacity in 2018 and other modest investments in ice plants and similar projects have taken place. However, it is appropriate to say that after the conclusion of the investment that started in 1982 with MFWEP and ended with the official opening of Koodoo in 2004, there had not been planned sustained investment to further diversify and develop the fishery industry.

Meanwhile, the degree of politics allowed into the decision-making process of the state fishery company; Mifco have left the

company's assets in bad repair, incapable to keep pace with private investments and unable to meet the expectations of the fisherfolk resulting in much discontent evident in the fishery industry.

The importance of the primary sector in all economies

Countries tend to protect their primary industries for a variety of reasons. The favorite and perennially touted reasons around food security have always been a common theme. Covid 19 have laid bare the importance of our primary industries while presently accounting for less than 5% in GDP share. As lockdowns gripped the country and borders were closed around the world, much of the population were dependent on landings from fisherfolk and modest harvest of local farmers for nutritional needs. Countries with richer primary industries were able to offer greater comfort to their people and were able to endure stricter lockdowns. Therefore, the importance of nurturing and growing the primary sector, which of course in the local context is largely the fishery industry, has become of additional national significance

Additionally, throughout the world, farmers and fisherfolk, are often able to punch above their economic weight when it comes to political power. While the fishery industry in UK account for only 0.1% of GDP, much of the argument about Brexit and much of the unhappiness in post Brexit UK arises from the terms agreed regarding the access to UK's seas. Farm subsidies are the largest line item in the EU budget even while agriculture account for only a 1.1% share of GDP. The rice farmers in Japan receive ever increasing state budgetary support even while their numbers continue to decline all the while losing GDP share. Similarly, in Australia and the US too, the primary industry is able to exert influence and attract subsidy that may not be explained by their economic significance.

And the best way to explain this strength of the primary industry is to examine their voting power. The strength of their collective vote in deciding who gets elected to decision making bodies including the national parliament, especially from rural, farming and coastal areas. As long as this power remain, the interests of primary industries will be the most important issues for members representing such districts and consequently onto the larger state agenda.

Therefore, apart from well-meant, and often quickly forgotten statements around food security, it is almost inevitable that the fishery industry of this island nation will continue to play a significant role in the national agenda.

Whither Mifco?

As stated above, Mifco is only the present reincarnation of state involvement to develop the fishery sector and ensure that the landings of the fisherfolk are purchased and processed for export. It had been evident from the dawn of the new millennium that investments by fisherfolk had overtaken the infrastructure that had been developed by the state.

Because fishery is the main primary industry of the country and the importance of the fishery sector as the essential source of food security has been recently highlighted, it is evident that the state will continue to be involved in the development of the fishery sector. As also discussed above because all Maldivians

grow up by the sea and are essentially fisherfolk, their clout and importance will not diminish in the political sphere. All governments, regardless of their political leanings, attempt to keep fisherfolk in their favor.

Maldives have been blessed with close to a million cubic kilometers of EEZ with a variety of marine wealth. We are all aware of a variety of other marine species that can be profitably and sustainably harvested including mahi-mahi, deep sea crabs and lobsters. Cuttlefish too, are regular visitors to our harbors and sea trials of Diamondback squid has been successful. Mariculture, targeting snappers and groupers, which have been in commercial production in many countries for more than a decade, are only now being trialed here in the Maldives. The wealth of the larger Indian Ocean is also presently not being explored by us.

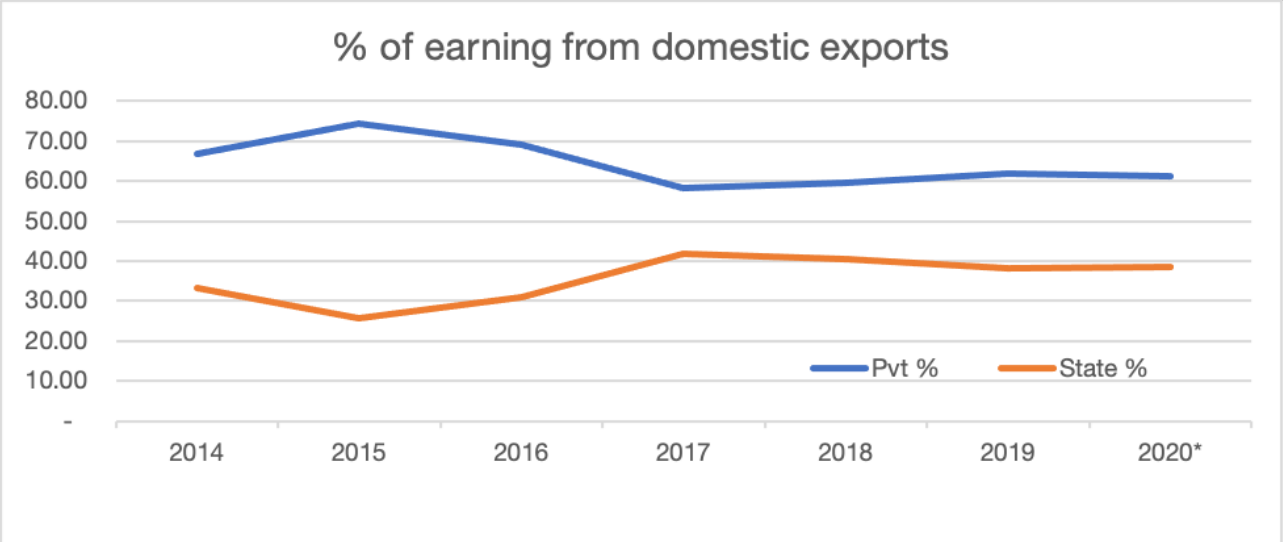
There's no doubting that our fishery industry needs to be diversified and that there's much scope and potential yet to be explored. Yet, understandably private companies shy away from experimental effort and can only invest in activities that would assure net returns to their shareholders. When they are confident of the returns, they will invest and do it better that their state-run counterparts.

This is evident with what has happened to the yellowfin fishery. It was started much as an experiment effort by Mifco in 1990. Today Mifco exports of fresh yellow fin has plummeted to negligible volumes and private sector dominates the fishery resulting in private earnings being well above stated earning for domestic exports for the past 5 years.

Conclusion

The importance of the fishery industry for reasons of food security, the essential primary industry, and because of their political influence will never cease. The state will always play an influential role in determining the dynamics of the fishery industry. Presently much of this effort is managed through Mifco.

Mifco is only the present corporate identity of the states' effort to assist fisherfolk and develop of the industry. The state, might decide to convert and manage that effort through some other agency and the name Mifco might be stricken off the corporate register of the country. Yet, there is no doubting that the state will always engage in the effort to sustain and develop fishery of this country, this island nation of Maldives.



Data: Bureau of National Statistics

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