



# MALDIVES ECONOMIC REVIEW

## INTERVIEW WITH **GOVERNOR ALI HASHIM** AT MALDIVES MONETARY AUTHORITY



- **REVISING MEASURES TO ADDRESS THE DOLLAR SHORTAGE**
- **INCLUSION OF EXPATRIATES IN MINIMUM WAGE**
- **DIVERSIFYING THE FINANCIAL SECTOR**
- **COMPETITIVENESS OF THE BANKING SECTOR**
- **MORE ...**

### ALSO

- **TOURISM OCCUPANCY TRENDS AND IMPACT**
- **SUBSIDIES NEED TO BE BETTER TARGETED**
- **THE ELEPHANT IN GOVERNMENT**
- **ADMINISTRATION AND ECONOMY OF THE UNITED SUVADIVE ISLANDS - SOME INSIGHTS**
- **NEW DEVELOPMENTS FORESEE A MORE ENERGETIC CAPITAL MARKET IN THE MALDIVES**

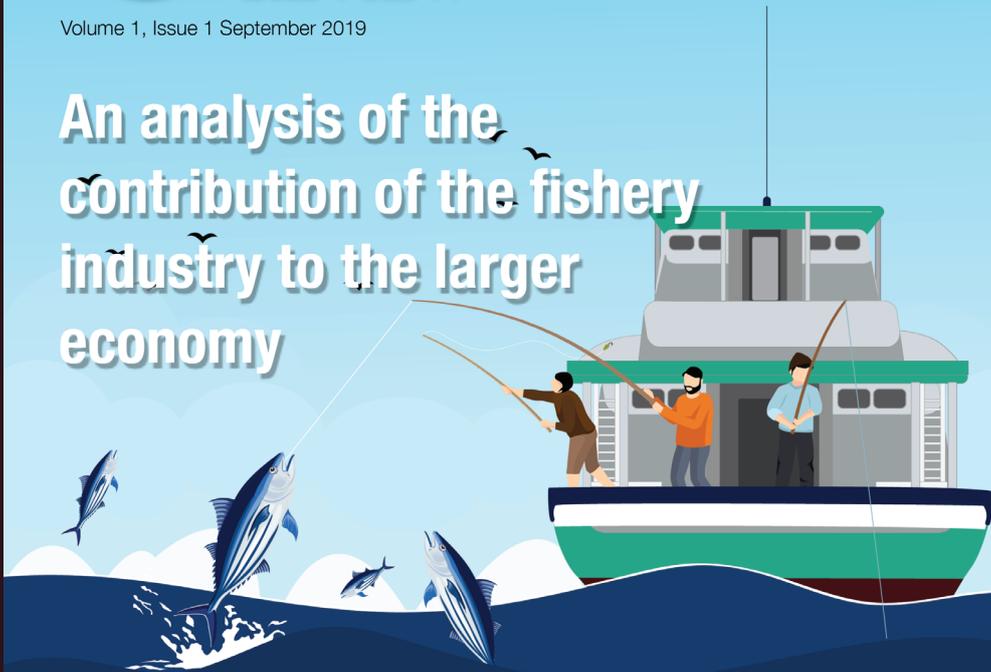
# DEPTH AND INSIGHT IS ON OFFER



## MALDIVES ECONOMIC REVIEW

Volume 1, Issue 1 September 2019

### An analysis of the contribution of the fishery industry to the larger economy



also...

**Rebuilding the Indian Ocean Yellowfin Tuna Stock**  
Shiham Adam

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## INTERVIEW WITH GOVERNOR ALI HASHIM AT MALDIVES MONETARY AUTHORITY

# EDITORIAL

The cover feature of this issue of MER is an interview with Governor Ali Hashim where pertinent issues were raised and discussed with the Governor. We thank the Governor for the interview.

We have several other intellectually stimulating articles including a critical look at the trends and impact of tourism occupancy by Haleem. With his usual clarity and thoroughness Haleem offers an incisive understanding of the issues behind the occupancy numbers and raises pertinent questions of relevance to the tourism industry and indeed to the larger economy.

Athif writes about subsidies that impact our economy and raise the important issue of better targeting such subsidies in order that they are on offer only to those that require state assistance.

'Elephant in the Government' by Umar Hilmy is also thought-provoking. In this article Umar take a critical look at why inequality persists and indeed continue to grow in our economy and goes forward to offering thoughts on 'disarming the elephant', on the road to achieving greater equity in the society.

In her article Shafeenaz Abdul Sattar delves into the 'Administration and Economy of the Suvadive Islands- Some Insights', a reflective journey into the past history of the Maldives, with an academic and analytical focus. Her article takes us through several developments that shaped the economy of the Suvadive Islands and is a must read for all with a thirst for understanding of our history and the forces that shaped them in the past.

'New developments foresee a more energetic capital market in the Maldives' is a fresh piece by Fathmath Abdulla Kamaaludeen; a trained and experienced professional working in the field. The article looks at the changes that are due shortly, including the development of a secondary market for government securities, that will breathe new life and vigour into the capital market of the Maldives.

We are enormously thankful to our contributors who enrich the content and make the journey worthwhile. Our gratitude also remains with our loyal and enthusiastic readers and wish them profitable reading.

Finally, we are pleased to announce that we have partnered with M7 as our 'printing and publishing partner'. While the former layout designer wishes to remain anonymous, we thank him for his voluntary assistance, advice and effort and for being with us from the start, helping us to get started and for remaining with us.

*Opinions and views expressed in the Maldives Economic Review are those of the authors and they do not necessarily reflect the opinions and views of the journal*

# TOURISM OCCUPANCY TRENDS AND IMPACT

by Abdul Haleem

Government revenue, general income levels and inflation rates are highly correlated to tourism performance. Tourism is a seasonal business with varying occupancy levels based on month of the year. Occupancy levels play an important role in the overall profitability of the industry. One of the most commonly used performance measures in the industry is RevPAR (Revenue Per Available Room) which is a function of ADR (Average Daily Rate) and the occupancy levels. Declining occupancy has to be offset by an increase in ADR and other incomes to maintain profitability and avoid losses.

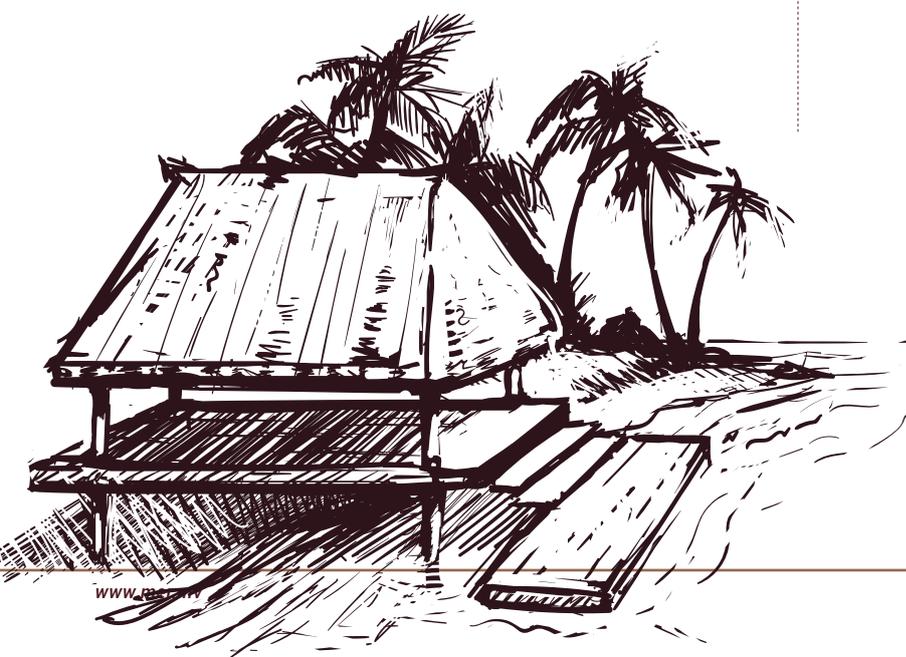
Tourism businesses are subject to high operating leverage because of heavy staff head count and other property Operations, Maintenance and Energy Costs (POMEC). The industry is expected to be operating

**During 2012 the Maldives saw the most turbulent political times... Yet, the occupancy levels remained within the expectations. This is an interesting observation because political risk premia is an important component of expected return calculations**

at a very high financial leverage as well because of significant debt financing component involved.

It's imperative that the industry remain profitable and attractive to investors. The scale and size of resort investments is beyond the appetite of the local financial system and thus Maldives depends on FDI for investment.

Started in 1972 with a very humble beginning, the industry has entered into a different phase of its development, which involved purchase and sale transitions. The industry has attracted several high value deals over the years from overseas investors. According to Jones Lang LaSalle (JLL), an active broker in the Maldives tourism deals market, over US\$450 million



worth of resort transactions were either completed or under negotiation during 2019.

It was also reported that during April 2019, German-based Seaside Hotels & Resorts acquired Finolhu Maldives, a resort in Baa Atoll, at an estimated US\$90 million. In February 2019, Conrad Maldives Rangali Island resort, part of Hilton Worldwide Holdings, was sold to American private equity giant Blackstone Group for an undisclosed sum.

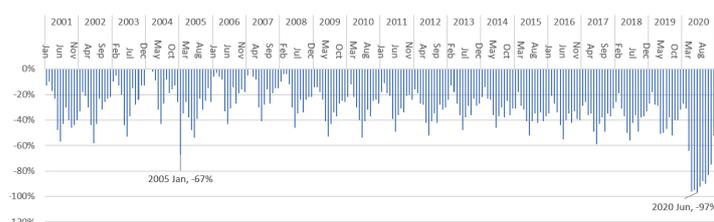
Because of the significance of occupancy levels for the tourism industry to remain profitable and also to attract FDI, I have analysed the historical data on occupancy levels from a risk perspective. It is expected that further research will be carried out by aspiring researchers interested in this important industry to the Maldives.

In this article, I have analysed time-series data on occupancy from the period 2001 to 2020.

## Forecasting Occupancy

The graph below shows tourism occupancy data, with zero representing 100% occupancy. The magnitude of the line with respect to the zero point is fall in occupancy for a given month. Over the last 19 years, the Maldives has not seen significant drops in occupancy levels, except in two cases: 2014 Tsunami and the Covid-19 pandemic.

### Not occupied %, 2001 - 2020



Following 2014 Tsunami, occupancy rates fell by 67% during January 2005. This has been the largest drop in occupancy levels in the Maldives. The data also points to the fact that low occupancy incidences

are becoming more frequent. The Covid-19 resulted in occupancy levels reaching to almost zero. Such a huge fall in occupancy rates would not have been anticipated in case of Maldives based on historical observations for the last 18 years.

Another important point to note also is that political turmoil in Maldives has no significant impact on the tourism occupancy levels. During 2012 the Maldives saw the most turbulent political times in Maldives. Yet, the occupancy levels remained within the expectations. This is an interesting observation because political risk premia is an important component of expected return calculations, especially when it comes to overseas investments.

To provide more insight into the occupancy data, the data has been analysed further to develop a simple model to forecast the occupancy levels into the future. More complex models may improve the

overall accuracy of the projections. The analysis was for the purpose of understanding the overall trend of occupancy levels and quantify the seasonal variations. To reduce the effect of outliers, the 2005 data is calibrated to account for Tsunami effect based on historical trend.

There are several methods used in forecasting using time-series data. I have used a simple regression model using Excel Slope and Intercept function. The outlier-adjusted data for the period from January 2001 to December 2019 has been used to develop the forecasting model.

The following statistics were derived using Excel for analytical purposes.

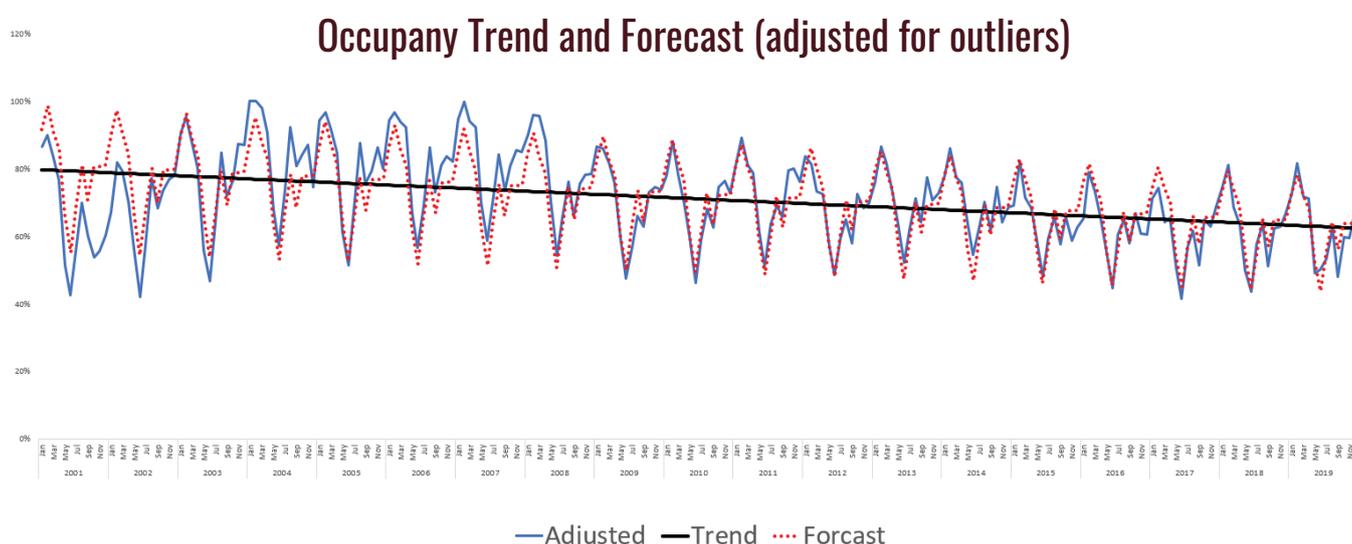
<b>Intercept</b>	<b>0.79781923</b>
<b>Slope</b>	<b>- 0.0007611</b>

Also, the following Seasonal Indices were computed.

Month	Seasonal Index	Month	Seasonal Index
Jan	1.15	Jul	0.87
Feb	1.24	Aug	1.03
Mar	1.14	Sep	0.90
Apr	1.08	Oct	1.02
May	0.84	Nov	1.02
Jun	0.69	Dec	1.03
<b>MAPE</b>	<b>7.308%</b>		
<b>Accuracy %</b>	<b>92.692%</b>		

The forecasting model using the above parameters, has been tested for its accuracy. Based on Mean Absolute Percentage Error (MAPE) of 7.3%, the model is expected to have over 92% accuracy.

As shown in the graph below, the model forecast mimics the actual occupancy levels. It also highlights a very pronounced declining occupancy trend in Maldives. This declining overall occupancy coupled with the fact that 4/12 months the actual occupancy is expected to be below the trend as shown in the seasonality index are important signals to consider in formulating tourism policy as well as firm-level decision making.



# Risk Modelling

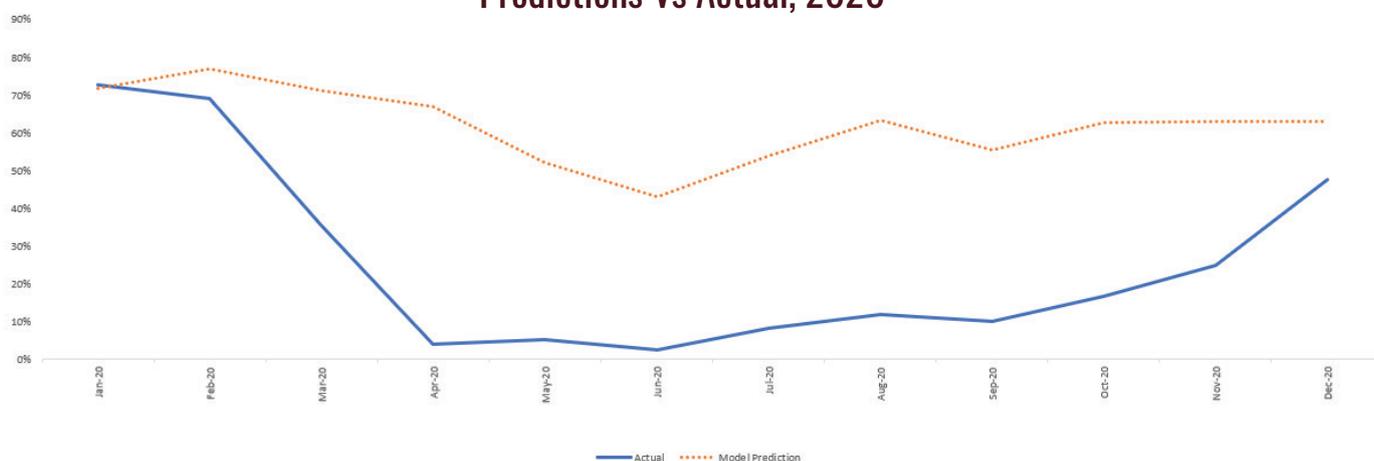
The model would have predicted the occupancy for 2020 to be on the trajectory shown in the dotted line. However, the actual fall in occupancy was far beyond anyone would have predicted. At an aggregate level the gap in occupancy is more than 37% on average for the year.

Assuming that, to break-even, resorts should maintain occupancy above 50%, except for the first two months of 2020, resorts would have made losses during the year. Resorts with high operating leverage would have suffered larger losses than those with low

**During the period 2014 and 2020 over 3,500 beds have been added on average annually. At this point, one should ponder are we increasing capacity too fast which may comprise the long-term value of the industry under short-term fiscal pressure.**

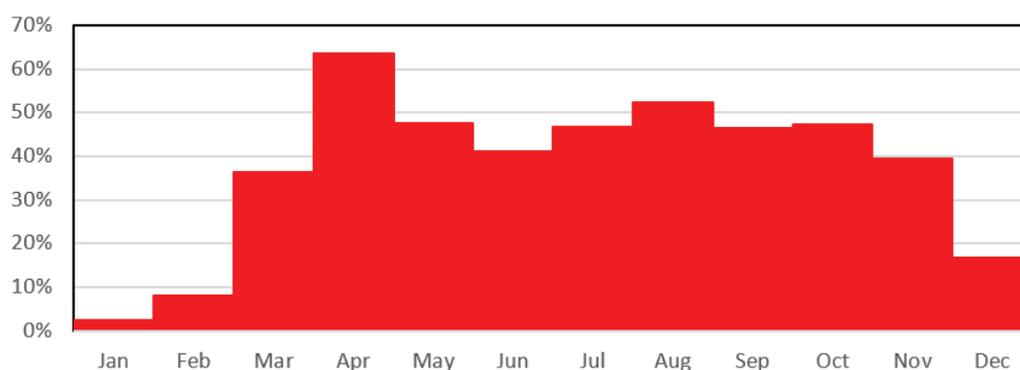
operating leverage. As occupancy is an important risk attribute in resort operations, occupancy related risk modelling become an essential technique for resorts because of its impact on the bottom line as well as managing liquidity.

## Predictions Vs Actual, 2020



The graph visualises the unexpected occupancy gap during 2020 due to Covid-19. The unexpected occupancy related losses would have contributed to more than 40% of the loss suffered. Although occupancy related losses of this magnitude could not have been forecasted, this occupancy trend provides important information for future planning and reduce the impact of losses

## Unexpected Shortfall in Occupancy



To measure the risk exposure, one of the techniques used is called VaR (Value at Risk), which estimates loss with some level of certainty for a given time interval.

To put into the context, let's look at the most extreme occupancy levels observed during the last 19 years. There are two such points in time; 2004 Tsunami and Covid-19. It is important to gauge the likelihood of such extreme occupancy levels occurring. The table below shows the most extreme occupancy levels observed during the last 19 years, ordered according to severity.

<i>Year</i>	<i>Month</i>	<i>Occupancy</i>	<i>Prob (mean =70%, STDEV =13%)</i>
2020	Jun	3%	0.0000002
2020	Apr	4%	0.0000003
2020	May	5%	0.0000004
2020	Jul	8%	0.0000013
2020	Sep	10%	0.0000026
2020	Aug	12%	0.0000053
2020	Oct	17%	0.0000267
2020	Nov	25%	0.0003030
2005	Jan	33%	0.0022035
2020	Mar	36%	0.0043714
2020	Dec	48%	0.0437343

## Impact

Although the occupancy levels averaged over 67% on annual basis, decisions based on historical occupancy levels may prove costly. The declining occupancy trend and the increase in frequency of declining occupancy rates are causes for concern going forward. In addition to direct losses, the consequences negative impact on tourism revenue and profitability result in higher inflation as shortage of foreign currency lurks in the economy whenever there is tourism shock.

In addition to the impact of such extreme shocks on the general economy, such events affect the government revenue and create fiscal shocks as well. The largest segment of the tax revenue is TGST.

The following table shows the difference between what could have been forecasted for TGST for the year 2020 and what was realised. The TGST loss gap (potential revenue minus actual) accounted for over MVR 2.7 billion for the year 2020.

<b>Date</b>	<b>Actual</b>	<b>Forecasted (Trend +SV)</b>	<b>Gap</b>
<b>Jan-20</b>	<b>519,582,052</b>	<b>524,192,881</b>	<b>(4,610,829)</b>
<b>Feb-20</b>	<b>491,520,264</b>	<b>321,191,463</b>	<b>170,328,802</b>
<b>Mar-20</b>	<b>422,100,954</b>	<b>401,930,752</b>	<b>20,170,202</b>
<b>Apr-20</b>	<b>130,342,872</b>	<b>492,370,408</b>	<b>(362,027,536)</b>
<b>May-20</b>	<b>52,983,099</b>	<b>391,853,829</b>	<b>(338,870,731)</b>
<b>Jun-20</b>	<b>39,305,122</b>	<b>322,376,948</b>	<b>(283,071,826)</b>
<b>Jul-20</b>	<b>48,443,092</b>	<b>458,961,249</b>	<b>(410,518,157)</b>
<b>Aug-20</b>	<b>33,834,325</b>	<b>420,362,042</b>	<b>(386,527,717)</b>
<b>Sep-20</b>	<b>67,236,050</b>	<b>356,032,492</b>	<b>(288,796,441)</b>
<b>Oct-20</b>	<b>57,965,225</b>	<b>491,097,148</b>	<b>(433,131,923)</b>
<b>Nov-20</b>	<b>130,334,949</b>	<b>387,818,213</b>	<b>(257,483,264)</b>
<b>Dec-20</b>	<b>226,102,971</b>	<b>362,662,896</b>	<b>(136,559,925)</b>
<b>Total</b>	<b>2,219,750,975</b>	<b>4,930,850,320</b>	<b>(2,711,099,345)</b>

While what contributes to this decline in occupancy is to be studied further, one has to note the significant increase in bed capacity in tourism industry. During the period 2014 and 2020 over 3,500 beds have been added on average annually. At this point, one should ponder are we increasing capacity too fast which may comprise the long-term value of the industry under short-term fiscal pleasure.



## ABOUT THE WRITER

*Haleem is currently the Managing Director for Crowe Advisory Maldives, leading strategy & operations, valuations, investments, financial planning & analytics portfolio . started his career as an academic in 2000, Haleem worked for National Pension Fund as CFO, the Bank of Maldives as DCFO, MCB (Maldives) as Head of Corporate Banking and for Solarelle Insurance as DCEO.*

*Haleem sits on the Board of National Pension Fund and engages in teaching finance and conducting research on financial systems.*

*Haleem is a chartered management accountant with CIMA, UK and also a graduate of University of Wollongong, Australia.*

# WHEN LUCIDITY IS OF THE ESSENCE



## MALDIVES ECONOMIC REVIEW

Volume 1, Issue 2 December 2019

### **Sustainable fiscal policy, transparency and accountability in managing public finances: An analysis of Budget 2020**

**Abdul Haleem Abdul Latheef**

**also...**

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Muna Mohamed

**Perspectives on crowding out: evidence from  
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**150 years of Progressive Income Tax and the  
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influence on market price and prospects**  
Ibrahim Athif Shakoor

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# SUBSIDIES NEED TO BE BETTER TARGETED

by Ibrahim Athif Shakoor

A subsidy, almost by definition, is intended to assist the unfortunate and to help those in need.

However, here in the Maldives all subsidies are not targeted towards the unfortunate and for those in need, but many are open and accessible not only to all citizens; regardless of their financial status, but also to expatriate workers and guests to our shores.

Each year, through the national budget, the state designates money for 'assistance, subscriptions and subsidies. For the budget period 2019-2021 this amount averages MVR 3.9 billion and account for an average of 18.74% of the total according to the 2021 budget figures.

However, included within the category are items like

'subscriptions and membership fees for local and non-local associations, awards and prize moneys, assistance to administer local councils and provisions for natural calamities. When such items are removed, and what may be termed broadly as subsidies to help the needy and the unfortunate are included only, the subsidy figure is 2.9 billion average for the 3 years (Table 1). It is important here to note that might be differing views about the items selected for list of subsidies in Table 1. The average subsidy amount of 2.9 billion accounts for 74% of the budget code and also represent an average of 9.22% of the total budget for the year in the 3 year period.

**Table 1. Subsidies provided by the state\*. (In millions of MVR)**

		2021	2020	2019
	<b>Total of assistance, subscriptions and subsidies (budget code 228)</b>	<b>3,862.95</b>	<b>4,338.24</b>	<b>3,760.31</b>
228001	1. Moneys to lower prices	95.12	173.95	491.69
228002	2. Assistance to improve livelihood of the poor	3.00	2.57	0.11
228003	3. Assistance to private parties	143.14	185.42	211.68
228011	4. Subsidy to lower electricity tariffs	427.70	624.57	468.50

228012	5. Subsidy to lower water tariffs	-	21.00	-
228013	6. Subsidy to lower food prices	365.64	338.10	321.04
228014	7. Subsidy for single parents	60.00	56.50	48.88
228015	8. Assistance for non-local medical expenses	40.00	38.05	54.76
228016	9. Assistance for local medical expenses	70.00	63.92	50.18
228017	10. Assistance for children under state care	2.86	2.56	2.36
228018	11. Medical Insurance payment	717.76	950.76	1,313.50
228019	12. Assistance for the disabled	250.00	215.93	195.86
228024	13. Assistance for therapeutic care	33.00	31.61	3.17
228025	14. Assistance for managing waste	30.00	-	-
228026	15. Fuel Subsidy	-	-	-
228027	16. Income support for redundancies and or on furlough	-	150.00	-
228999	17. Other assistance	192.67	156.87	209.58
	Total of Items identified as subsidies*	2,430.88	3,011.79	3,371.31

Data: Budget 2021, Ministry of Finance

Most people in most countries, do not deny that state assistance need to be offered to the vulnerable and to the needy. The 1.9 trillion pandemic relief bill just recently passed by the US Congress enjoyed broad support in the general public across the political spectrum, the histrionics of the republican law makers, none of whom voted for the bill, notwithstanding.

As we have, at the start, defined subsidies as 'intended to assist the unfortunate and to help those in need' then, many of the items of the above list, appropriately fit the definition. Items like No. 2 'assistance to improve the livelihood of the poor', No. 12 'Assistance for the disabled', and No. 16 'support for those made redundant and or on furlough' are clearly such items targeting the unfortunate and those in need.

However, the same claim cannot be made for items 4,5 and 6- being subsidies to lower electricity tariffs,

water tariffs and food prices. These are not targeted assistance and available for all class of citizenry, the rich and famous and the poor and destitute alike.

Among these food subsidies have been a perennial feature of the state budget for more than 35 years now and is very much the default position in the Maldives. However, quite unexpectedly and for a brief period in late 2016 the state announced that effective almost immediately, the state would limit staple food subsidies only to just the needy. Ministry of Economic Development announced that the subsidy would now be made available to the needy through the National Social Protection Agency (NSPA) with effect from the very following month.

However, sudden attack of a fit of fiscal responsibility. food subsidy was back on



the state budget for 2017 and has stayed on the budget ever since.

The subsidy to lower electricity tariff rates is another hardy handout that had shown resistance to all manners of fiscal distress. In 2019 the government announced that from March of that year electricity tariffs in the islands (regardless of the cost of production) will be set as the same rate as that of Male' - a decision which STELCO would cost the state an additional MVR 5m/month.

Subsidies provided by the state does not distinguish the ultra-rich with the destitute. For the 3 years (2019-2021) state budget allocated MVR 2.5 billion MVR on food and electricity subsidies thereby accounting for an average of 21.4% of the budget Code for the 3 years.

While targeting subsidies may not have been an easily accomplished feat in yesteryears, today's technology allows for the hitherto impossible to be common place. In September 2016 when the state announced that food subsidies were, from then on, only available to those in need and would have to be applied for through NSPA it was evident then, that the state was not fully ready, for the abrupt and sudden burst of fiscal rationality. A gazette announcement stated that (a) the recipient has to be a Maldivian and (b) must conform to the criteria set out by NSPA. Yet, the criteria were still to be established.

Today, without attempting for such sudden and traumatic backflips, the state can, and should, start

preparing for the roll-out of targeted subsidies. And we do not have to look further than the very targeted subsidy rolled in 2016 in rural India.

**... food subsidies have been a perennial feature of the state budget for more than 35 years now and is very much the default position in the Maldives. ... electricity tariff rates is another hardy handout that had shown resistance to all manners of fiscal distress. ... Subsidies provided by the state does not distinguish the ultra-rich with the destitute.**

On the traditional Labor Day on 1st of May, 2016, the Indian Government announced the Pradhan Mantri Ujjwala Yojana (PMUY) Scheme for providing LPG connections to those below the poverty line (BPL). In India the BPL differs from state to state and from urban to rural areas but is today at 1,059.42 Indian Rupees (less than 15 US \$) per month in rural areas. The scheme was launched by PM Narendra Modi in Ballia, to ensure 50 million LPG connections to BPL families and a budgetary allocation of (US\$1.1 billion) was made for the scheme.

Indian media reports that 22 million LPG connections were made in the first year and had crossed 58 million

**As pointed out by some many commentators, local and external, the practice of offering food and electricity subsidies on a wholesale basis to all consumers, including visitors to our shores, expatriate workers and to the rich and wealthy is an outrage and an affront to common sense.**

by December 2018. The scheme led to an increase in LPG consumption by 56% in 2019 as compared to 2014 thereby helping to reduce deforestation, enhanced the health and wellness of women and family; who otherwise used wood and coal in their homes and had benefited over 45 million Indian BPL. This was a scheme introduced in 2016 and targeted families, especially women who were surviving below the Poverty Line in rural India. While there is, of course, much comment and criticism of the scheme,

there are lessons for us.

We in the Maldives, in general, are better connected with better technology at hand. The lessons learnt by the roll out of providing 80 million women in the rural areas of India are available for us to benefit from. The subsidy was not a free for all. It was targeted, and it worked. We in the Maldives can do so much better.

As pointed out by some many commentators, local and external, the practice of offering food and electricity subsidies on a wholesale basis to all consumers, including visitors to our shores, expatriate workers and to the rich and wealthy is an outrage and an affront to common sense.

It is time to eliminate the whole-sale method and target it only to the vulnerable and the needy. In fact, it is long overdue. Today's technology allow for it happen. What was implemented in the rural areas of India, can, without doubt be better implemented here in the Maldives. But unlike in 2016, let's take it with a little bit more patience and do it right.



# A SPECTRUM OF VIEWS AND OPINIONS



**MALDIVES  
ECONOMIC  
REVIEW**

Volume 1, Issue 3, March 2020

**COVID-19**

**STIMULI & BEYOND**

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**Fazeel Najeeb**

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**Some thoughts on the Maldivian  
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Abdullah Kamaludeen

**Weather the storm, ... let's build  
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Abdul Haleem Abdul Latheef

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ensuring socioeconomic protection**  
Aminath Mihdha

**Economic impact of COVID-19 on  
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Mohamed Naseem

**Covid-19 impact and solution for  
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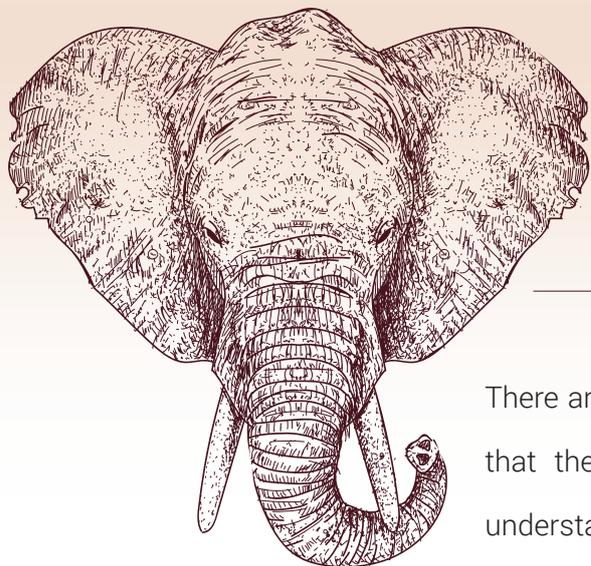
**Can we, women of this country, have  
some space to grow food and offer  
food security to our family?**  
Muna Mohamed

**Let the professionals and technocrats  
handle it**  
Ibrahim Athif Shakoor

**and more...**



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# THE ELEPHANT IN GOVERNMENT

by Umar Hilmy

There are some problems that are so foundational and historically constant that they eventually seem axiomatic and become interwoven with our understanding of the nature of reality. The inequality that we see today and have seen throughout history is perhaps one of these problems. Public discourse on the many effects of inequality is near endless, and economic and political theories, policies and movements that promote greater equity have been around for millennia in one form or the other, having produced varying degrees of success. This leads us to generally either accept this as a natural and inevitable phenomenon that we can at best just mitigate; or for the obstinate amongst us to soldier on with an optimism that runs a high risk of bordering on misguided idealism. But if you will humor me and read on, here is an attempt to unpack why some degree of obstinacy might still be called for when it comes to battling inequality.

## The Nature of the Creature

Social and economic stratification is nothing new in the Maldives. In fact, the categorization of people by social stratum is even a congenital and intrinsic aspect of our mother tongue. This is by no means a vilification of our feudal past, but merely an attempt to contextualize our current woes.

Our predominantly tourism reliant economy has no doubt benefited every single Maldivian, if even indirectly. Our national output has increased exponentially since that fabled moment in 1972, when local entrepreneurs and eventually the government started forging a new path for the Maldives.

Unprecedented wealth followed and we all prospered in our transition from a subsistence economy to a modern one.

While there is plenty of cause for celebration in terms of our achievements over the past few decades, there is also much that is plenty alarming. The wealth that has been created, predominantly in the tourism sector, has not trickled down to a healthy extent.

These imbalances can be seen in our low average wages, lack of adequate housing, our rudimentary education system and the many deficiencies in our healthcare system; to name just the usual suspects.

The World Inequality Database, published by the World Inequality Lab—a research laboratory

focusing on the study of worldwide income and wealth distributions hosted by the Paris School of Economics and the University of Berkeley; estimates that the share of the pre-tax national income held by the bottom 50% in the Maldives stands at just over 16% of total income and that the top 10% holds over 45% of total income, with the top 1% holding over 18% of total income as of 2019.

While these estimates are, by their own admission,

**While there is plenty of cause for celebration in terms of our achievements over the past few decades, there is also much that is plenty alarming. The wealth that has been created, predominantly in the tourism sector, has not trickled down to a healthy extent.**

done without proper tax data and based on imputations, it is still a safe assumption that income inequality is very high in the Maldives. Our income tax base of less than four thousand out of over five hundred thousand citizens and the more traditional Gini coefficient showing us doing not much better than our South Asian neighbors, further reinforces this argument.

Looking at the implications of the high wealth and income inequality in Maldives, a system marred by

what can only be called regulatory capture, emerges. It is perhaps to a certain extent an inherent vice of the form of capitalism we practice. History shows that unregulated capitalism eventually always leads to high concentrations of wealth in the hands of a few, with the dominant amongst us owning almost all that there is to be owned, not excluding the state and regulatory bodies. And as such, the economic inequality in our country has inevitably become political inequality. In our case, industry predates modern institutions and regulatory bodies, with the peculiar consequence of blurred lines between the regulator and the regulated from the outset as opposed to advanced economies where institutions did exist in one form or the other and were subsequently captured by high industry. From the barons of the Gilded Age in the US to the infallible technology billionaires that dominate the scene today, to Maldives' titans of industry, all playing their part to ensure regulations are formulated and implemented to meet their interests.

It might perhaps be unwise and even uncalled for to apportion blame solely on the leaders of industry for acting in their own interests. There are and always will be blind spots in the corporate worldview and it is this very quest for profit that generates the economic growth that benefits us all. Hence, this article is by no means advocating an exercise in economic cannibalism but is more a call for balance and equity. To reach this balance, a degree of



honesty is required to confront the realities we face today and to solve these problems. As such, it can be argued that we live under what political scientists call a civil oligarchy. In a civil oligarchy, the coercion that defends oligarchic fortunes is provided by the state and through bureaucratic institutions. As such, one of the key distinctions between civil oligarchies and other more nefarious forms of oligarchy is that a civil oligarchy exists with all the trappings of representative democracy. The separation of powers, other constitutional checks and balances, independent institutions and regulatory bodies fail to remedy the imbalances of economic and political inequality.

It is easy and somewhat even justified to claim that this is just the nature of things, with advanced economies performing well and their populations prospering even with high economic and political inequality. But here I put forth the counter argument this form of civil oligarchy and regulatory capture is still a threat to the republic. Because while this status quo is agreeable to most when the economy is stable, the Covid-19 pandemic laid bare the ills of a governance framework in flagrante delicto with high industry. Thousands of layoffs and pay cuts in the tourism industry were allowed with little to no consequence. Granted, businesses cannot pay employees when they do not earn, but it is still a dangerous state of affairs when a handful of industrialists have the power to leave a significant percentage of our labor force out of work with no safety net. Furthermore,

the pandemic also saw landowners in the real estate sector being afforded moratoria on their loans with no prerequisite to provide rent reductions to their tenants, effectively leaving over a hundred thousand renters in Greater Male' at the mercy of their landlords. At this point the republic ceased to be a real republic where decisions are supposed to be made for the people via their representatives but took a sinister turn where public policy was geared to a large extent towards the wealth and property defense of a few in a time of unmitigated crisis.

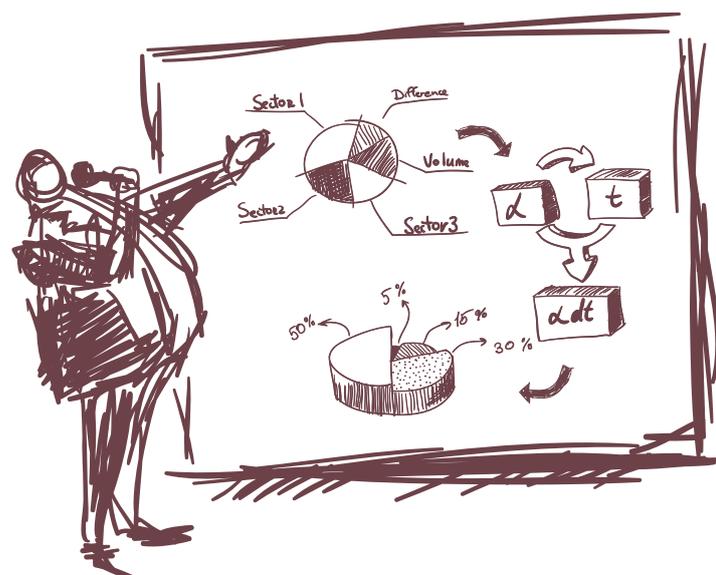
History shows that continuous plunder by oligarchs does eventually lead to crippling political and economic instability. More often than not, it is not a real popular uprising that leads the way but the emergence of demagogues who channel the disaffections and fears of the people that lead the way, with disastrous consequences. There is also room for debate as to whether the democracy movement that emerged in the Maldives around the turn of the century is perhaps a point in a vicious cycle whereby the citizenry's dissatisfaction culminated in populist sentiments leading to a changing of the guard in 2008. If we entertain the premise of a cycle of oligarchic regimes and intermittent revolutions, the core pain points that fueled the democracy movement have not really been addressed. The people wanted change, freedom and prosperity; but if we really take a cold hard look at how we are governed and how our economy works today, and the prospects for upward mobility, we are left with the same fundamental ills.

Political scientists have even documented that authoritarians are likely to emerge from situations where people feel destabilizing social and economic change or significant physical threats as Covid-19 so painfully has. As such it is imperative that we address the elephant in the room, or rather the elephant in government and acknowledge that these are serious issues that need to be addressed through policies equitable to both the people and industry.

## Disarming the Elephant

Now the question arises as to how we can tangibly address these problems. It is exceedingly clear to me that I do not have all the answers but would still hazard a few suggestions. Campaign finance reform could be a great place to start, whereby we impose measures that promote greater transparency in campaign financing in order to ensure that we know to some degree the interests which are funding our political candidates. We could also explore concepts like codetermination where employees have the right to be heard and represented when decisions that affect them are being made by corporations. Some other avenues worth exploring could be an antitrust regime and a wealth tax. Admittedly, workable solutions require a coming together of minds, deep study, grit and an indomitable will to change.

With the proverbial fox guarding the henhouse, or where the government is already heavily influenced by vested interests, the question of how we can even push forward the necessary reforms (if we are able to come up with them) is also a pressing one. Firstly, all individuals in government may not have



been captured to the same degree. There might still be public-spirited individuals, however rare a breed, who understand that preserving the republic and policies that promote economic equality will lead to a better future for all of us. We can identify these individuals and support them by amplifying their platform. Secondly, there is the power of mass mobilization. Consistent bottom-up pressure that channels the spirit of the civil rights movement, the suffragettes and freedom movements across the world could prove effective. Provided of course that we do not succumb to the charms of a demagogue as mentioned earlier.

It is ultimately one of the greatest tasks that has ►►

befallen us. Our actions will largely determine if a more economically and politically equal future can be forged from the status quo we find ourselves in. Whether this is a pipe dream or a chance to build a new world is up to us. Humanity dreamt of flying for millennia but knew only falling, until the right discoveries and initiatives eventually led to us conquering something as seemingly impossible as flight. It is in this spirit that we must confront the elephant in government, and it is with this spirit that we can tame the beast.

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## ABOUT THE WRITER

*Umar Hilmy is a practicing lawyer providing legal counsel to a diverse client base on commercial, corporate, investment, financing and compliance matters. He is also a writer and economics enthusiast. Umar holds a Bachelor of Laws from the University of London.*

# DIFFERING PERTINENT PERSPECTIVES



**MALDIVES  
ECONOMIC  
REVIEW**

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**COVID-19**  
FOOD SECURITY

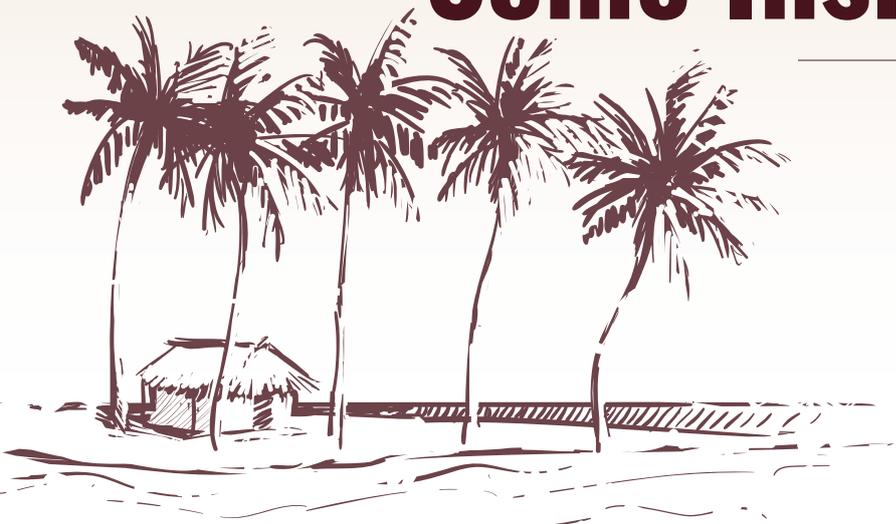
**COVID-19  
pandemic: the  
beginning of an  
end to our  
confidence in the  
voluntary self-  
refuge of food  
security**  
Ibrahim Mohamed

**also...**

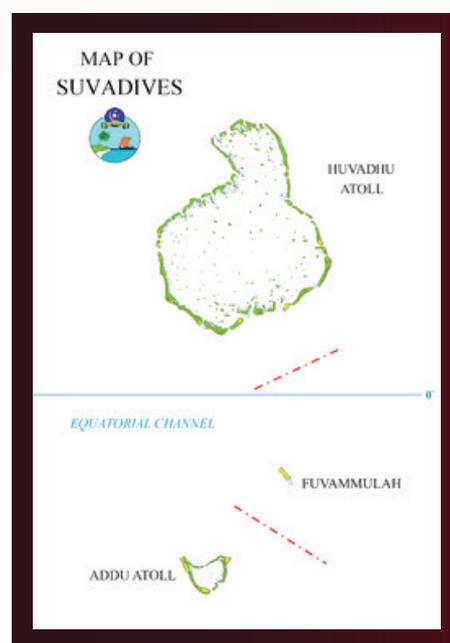
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- Food security: finding meaning at a time of global pandemic  
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# ADMINISTRATION AND ECONOMY OF THE UNITED SUVADIVE ISLANDS – Some Insights



by Shafeenaz Abdul-Sattar



## Background

The United Suvadive Islands, sometimes also referred to as 'United Suvadive Republic', was a short-lived breakaway nation that existed in the south of Maldives between January 1959 and September 1963. 'Suvadive' was an ancient name for the three southernmost atolls of the Maldives archipelago (Addu Atoll, Huvadhu Atoll and Fuvahmulah) derived from 'Huvadhu' the largest of the three atolls.

Addu, the southernmost atoll, was the location of operational facilities of the British Royal Navy Fleet's Air Arm during World War II. These were vacated after the war. However, as the British were in need of establishing facilities for refuelling and servicing

of RAF aircraft crossing the Indian Ocean, a request was made in 1951 for a survey to assess the location of the Addu base for a staging post for this purpose. During World War II the British Royal Navy had operational facilities near Malé, in Haa Alifu Kelaas in the north of Maldives and in Addu Atoll in the extreme south which were all vacated after the war.

Following approval given to conduct the survey, in early 1952 the Government of Maldives which had

held protectorate status of the United Kingdom since 1887 requested the British government for a comprehensive package of economic aid. Given the near-famine situation in Maldives, the government reiterated the plea in late 1953 to any nation that would assist, this time specifically for food aid. At this time the state was registering a budget deficit of approximately MVR 300,000. Although the British did not respond to this request, the aid requested earlier commenced in early 1954.

Britain had made a decision upon Gan in Addu Atoll as the best location for the staging post by the end of 1954. However, the leadership of Maldives had changed by this time and there was opposition within the Maldivian government to accept the proposal of the British, specifically a suggestion to consider selling the island of Gan to Britain rather than leasing it. An agreement was eventually reached between the then Maldivian Prime Minister (PM) and the British government to lease Gan for 100 years for Sterling pounds (GBP) 2,000 per annum and the PM initialled a Heads of Agreement document in December 1956. This was done without obtaining cabinet or Majlis approval and when the document was eventually presented to them, his cabinet opposed the agreement effectively blocking his formal signature. Nevertheless, by this time British authorities had already contracted the project out and commenced on-site work in Gan which had to be cleared of

buildings (and of residents who had returned to their homes and croplands there after the British vacated the island after the war) to develop the facilities further. Consequently, although the Maldivian government was not in favour of the development, the Gan base was in progress with a large proportion of Adduan men employed at the project site. Agreements had also been reached between the Maldivian authorities led by the PM and the Gan and Feydhoo residents, regarding their relocation within the atoll. However, given the disagreements within his government, the PM was forced to resign in December 1957.

After a new PM was sworn in, he insisted that the Heads of Agreement document be reconsidered, resulting in delays to the airfield construction programme and the agreements that had been reached with the Adduans regarding their relocation. Nevertheless, work continued despite the government's stalling tactics like delaying the delivery of essential food items to the atoll and withholding the salaries of the men whose wages were being transferred by the British to the Maldivian government. (Given that the Agreement was later approved along with a significant economic aid package of GBP 100,000 upfront and the equivalent of GBP 750,000 over five years thereafter, it may have been the terms of the Agreement rather than the concept of a RAF base that received such vehement opposition within the Maldivian government at a time when the country

was in severe financial distress).

At a national level the government had begun implementing steep economic and trade reform and modernisation measures. These included financial (as opposed to in-kind) remuneration for employees, requirements for travel documentation and vessel registration with associated fees based upon the length of the vessel, trade taxes, mandating the sale of all export items to the government owned Bodu Store in Malé (or to the Colombo branch of the Maldives National Trading Corporation) at administered prices, and strict penalties for not conforming to the measures. Further, traders were given only a proportion of their dues up front when goods were sold to these state-owned entities, effectively disabling them from immediate spending. It could be said that the measures implemented were effectively a precursor to modern monetary and exchange rate management techniques that are used to stabilise economies in distress. They were most strongly felt by the southern communities that were very well off by Maldivian standards at the time, with a flourishing and self-dependent system based around the good fishing in the region. These communities (especially then Havaruthinadhoo - now Thinadhoo - in Huvadhu Atoll which owned several large vessels that conducted annual overseas trade visits) which had been benefitting from the lack of border regulations and the ability to procure all their

necessities from overseas and return directly to their home islands with enough goods for themselves and for trade with their neighbours were quite significantly affected. Consequently, much resentment grew amongst these communities which were of the opinion that the services they were receiving from the government were not proportionately adequate to justify the payments they were being asked to make to the national coffers.

Residents of Addu Atoll, who had by then been instructed to refrain from going to work at Gan rebelled against the government on New Year's Eve of 1959, and decided to secede and seek assistance from Britain. They were later joined by the people of Huvadhu and Fuvahmulah, an atoll located in between Huvadhu and Addu Atolls and economically very integrated with them.

Given that the croplands of Gan had been taken over for the airbase development and a significant number of the adult male population were working at Gan, the Adduan economy was by this time almost completely dependent upon the RAF base. A more robust economic prognosis became envisageable for the seceders only after Huvadhu and Fuvahmulah joined Addu to create the United Suvadive Islands, since most of the exports from the region were being produced in Huvadhu Atoll at this time.

The revolt is believed to have been fomented and

covertly backed by the British/RAF, who needed to get the airfield completed. This is evidenced by the fact that one of the first matters approved by the Suvadive rulers was to lease Gan and 110 acres of Hithadhoo to the British government for 30 years, this time free of charge, as per their (revised) request. With the inability of the Government of Maldives to dislodge the British (who had pledged support specifically to the residents of Addu Atoll should the Government of Maldives attack them) from Addu, they too resorted to division tactics, with first entreaty, then force. With harsh lessons forced upon them, Huvadhu Atoll and Fuvahmulah eventually had little choice but to distance themselves albeit unwillingly from the Suvadive nation and return to Maldivian government rule within the first year, enabling the government's negotiations with the British on the terms of a shorter lease agreement for Gan and what later came to be known as the 'Agreed Areas' of Hithadhoo, than that specified in the Heads of Agreement document. A second attempt by Huvadhuans to join the Suvadives resulted in the government of Maldives brutally evicting the residents of Havaruthinadhoo and declaring the island uninhabited in February 1961. (It is perhaps worthy of note that British expeditions officially charted the Maldives during the preceding century, in effect giving them a deep understanding of the

geophysical features of these atolls which straddle international shipping routes, and of the people and their culture in which the occult has traditionally played a significant part for healing as well as for negative activities that have always been featured in Maldivian politics. Fuvahmulah lies a few degrees south of the equator and Huvadhu Atoll lies slightly to the north; Havaruthinadhoo, an island described to have a particularly energetic feel was also the trading hub of the atoll, and the dispersal of its population largely decimated the atoll's economy.)

Although her officials recognised the leaders of the breakaway nation as the Addu authorities at the time (whose case was simply that they wanted socioeconomic progress for themselves without any interruptions), Britain had never formally recognized the United Suvadive Islands. Once their main objectives had been achieved, the British sided with the Maldivian government enforcing communication and trade restrictions and effectively choking off the fledgeling nation within five years of its formation, forcing it to return to Maldivian government rule.



# State machinery and administration of the United Suvadive Islands

Upon the decision to secede, the people behind the rebellion and respected people from all the islands of Addu met to determine a name and leadership for their new state. They also agreed to invite Huvadhu Atoll and Fuvahmulah to join the secession. Although these meetings, state building efforts and the

formulation of the state machinery commenced immediately after the revolt in January 1959, as the leader they agreed upon refused to take the responsibility on formally until he received a written guarantee from Britain that he

and his family would be safeguarded in the event that the secession attempt fell apart, the formal announcement of secession was not made until 13 March 1959 after this was received.

Delegations from Huvadhu Atoll and Fuvahmulah who visited to accept the invitation agreed that the new nation would be governed by a 54-member Council consisting of representatives from the three atolls (12 from Huvadhu, 6 from Fuvahmulah and 36

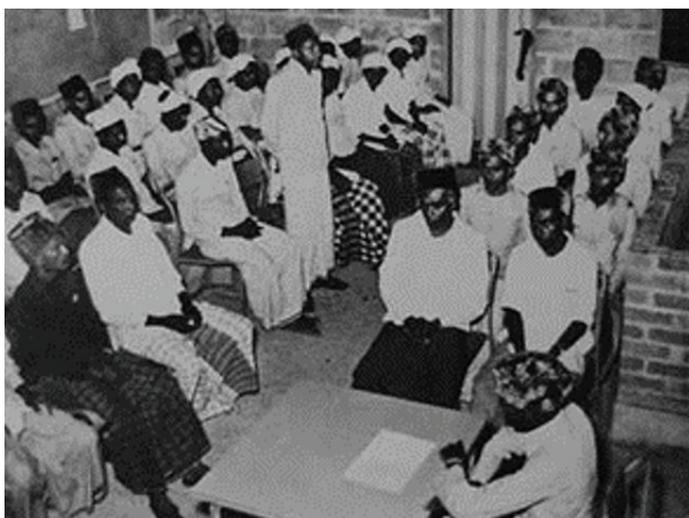
from Addu) that would meet every three months in Addu. Delegates of the other atolls were informed that their atoll's defence was their own responsibility as Adduans did not have the capacity to protect them should the Government of Maldives attack them. The president appointed an atoll chief and a

**Delegations from Huvadhu Atoll and Fuvahmulah who visited to accept the invitation agreed that the new nation would be governed by a 54-member Council consisting of representatives from the three atolls (12 from Huvadhu, 6 from Fuvahmulah and 36 from Addu) that would meet every three months in Addu**

judge for each of the other two atolls, and assigned the governance of the atoll to them. Each atoll was to govern itself through an atoll committee, whose decisions were to be sent to the Council for approval prior to their implementation. However,

given the limited time these two atolls remained within the Suvadive nation, this mechanism was not really put into practice in its entirety.

In Addu, the members of the People's Council were chosen through an election. The islands were notified of the number of representatives to be elected from each island (this number was proportionate to the population of each island) and of the characteristics required of the representative which included being a



*Photo:*

*The Suvadive People's Council in full session at Maaranga in Gan*  
[http://www.maldivesroyalfamily.com/maldives\\_suvadives\\_photo.shtml](http://www.maldivesroyalfamily.com/maldives_suvadives_photo.shtml)

literate male over eighteen years of age. The election was conducted in all the islands of the atoll after which the vote boxes were taken to Hithadhoo for counting. The People's Council convened first in Gan and later in Hithadhoo island of Addu. Disputes by people from Hulhudhoo initiated a dissolution of the initial Council in April 1961, that was followed by an election later that month which ushered in a People's Council of 52 members with greater representation for Hulhudhuans. However, it is unclear whether this process was used when the People's Council was initially formed in 1958 or whether it was only used in the 1961 election.

The Suvadive government was structured upon nine agencies; the Ministries of Home Affairs, Public Safety, Justice and Finance, the Health Office, the Education Department, the Liaison Office, the Information Service and the Tax Office and supported

by island offices and island deputy's offices in each of the islands. The government departments and ministries were based in Hithadhoo which was deemed the capital of the 3-atoll nation. A seven-member Executive Council was chosen from among the elected representatives of the People's Council and tasked with oversight of the government. This Executive Council convened in Hithadhoo. As the new state matured, government entities were restructured and regulations and directives were compiled to streamline governance aspects.

Upon a decision of the People's Council, a presidential election was held in September 1959 with two candidates contesting, and voting in all the islands of Addu. The leader who had previously been appointed by a people's committee won the election and was sworn in by the official in charge of legislative affairs. The president was in charge of Finance, Home Affairs and Communication portfolios which were run by Secretaries, under his supervision. The president's secretary, a gentleman from Huvadhu Atoll supervised the Atoll Office. Each island in Addu had an Island Chief and a Deputy who were supported by a clerk and two assistants, all of whom were paid by the Suvadive government. There were island offices in each of the islands.

Administrative reforms of the new government included registration of births, deaths, property and land, educational institutions, provision of

birth certificates and business permits, among others. Existing educational institutions such as makthabs, edhuruges and schools were assisted to improve their standards and a co-ed English medium school was established in Hithadhoo with a teacher employed from Ceylon to improve the level of education in Addu, although he returned to Ceylon before too long. English lessons for adults were also held in Hithadhoo. Social activities including religious lectures after Friday prayers every week and various sporting competitions at island and atoll level were organised/facilitated by the Suvadive authorities.

At the time, the best healthcare facilities in all of what is now Maldives, were at the hospital operated by the RAF in Gan. It was staffed by a general practitioner and a surgeon with monthly visits by a Ceylon-based dental officer, and there was an understanding that they would provide free treatment for Adduans employed at Gan and their families. In 1959 a health center was opened in Feydhoo and free healthcare was extended to people from all the islands of Addu during the existence of the Suvadive nation. The center was manned two days a week by doctors from the hospital at Gan and only patients who needed to be admitted for treatment were taken to Gan. During this time about six Adduan women were also trained to stand-in as nurses and employed at the Gan hospital to assist the doctors to attend to Adduan patients admitted to the 10-bed ward facility

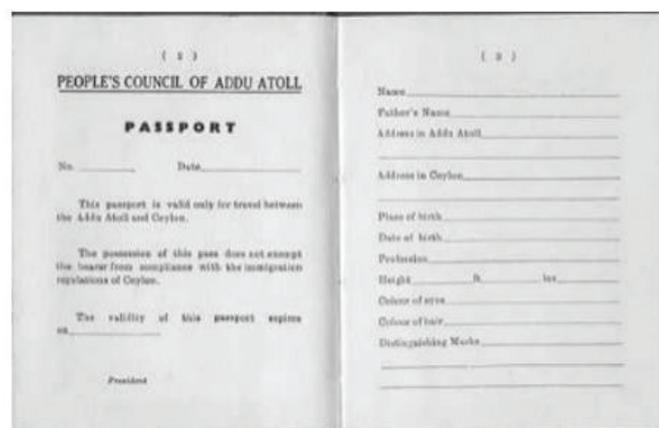
established for locals.

Regulations were established to govern the movements of locals and non-locals amongst the neighbourhoods. The British were required to obtain a special permit to visit the island communities of Addu, and apart from those employed at the base, any visits to Gan by locals either to the hospital or to the NAAFI shop were regulated, with women permitted only to visit the hospital for treatment.

Islamic scholars were appointed to adjudicate in legal matters. As a single appointee was unable to finalise cases swiftly, a group of three scholars were appointed to handle the smaller cases at atoll level in Addu, and magistrates were appointed at island level to handle simple cases. Two other scholars were appointed for the more difficult or complicated cases which were conducted in Hithadhoo. No single scholar was permitted to finalise verdicts on their own at the higher level. Directives issued over the years included those governing judicial procedures and delineating the types of cases that could be concluded at island level and those that needed to be adjudicated in consultation with the Ministry of Justice.

The usual punishments implemented were similar to those used by the Government of Maldives at the time - house arrest, exile to islands across the atoll, imprisonment with feet in stocks, whipping,

and people were sometimes hit in public for crowd control purposes. A local police force of twenty men was developed in Addu Atoll in addition to the RAF police. They wore a blue sarong and a white shirt with



Photos:

[http://www.maldivesroyalfamily.com/suvadives\\_symbols\\_of\\_statehood.shtml](http://www.maldivesroyalfamily.com/suvadives_symbols_of_statehood.shtml)

<http://independent.academia.edu/XavierRomeroFrias>

an armband and carried sticks painted white in the middle with bright red at either end.

A small daily Dhivehi language newspaper 'The Addu

Times' was published by the Suvadive authorities during the breakaway nation's lifespan. The Addu Times provided news, educational articles, government announcements, trading information, children's pages and editorials reminding people of their duties as citizens. All external communications of the Suvadive authorities were facilitated by the RAF through its postal and wireless telegraph networks and with increasing necessity for travel documents, the People's Council of Addu Atoll introduced a passport that was recognised by the Ceylonese authorities and was valid for travel to Ceylon.

The United Suvadive Islands had a national anthem, a national flag and a coat of arms. The three stars on the flag represented the three atolls that comprised the nation, and the crescent, the Islamic faith. The People's Council had its own version of the Suvadive coat of arms bearing a broad scroll covering its lower part with the name both in English and Divehi.

## Economic institutions and instruments

The sterling pound was the currency used predominantly over the duration that the British were based in Addu, both prior to the establishment of the United Suvadive Islands and after its demise.

Immediately following the revolt, the RAF provided the rice portion of wages of the Adduans employed at the base from their stocks, and covered the cash portion with vouchers that could be used at the Navy, Army and Air Force Institutes (NAAFI) shop at the base. Once the new government was better institutionalised the

Adduan employees' wages began to be paid through the Suvadive authorities.

Measures for economic consolidation and growth were devised in the early stages of the new nation. For the state's revenue generation, the People's Council approved the levying of a tax of one-seventh (in some literature this is referred to as 7 percent) of all wages and benefits received in kind by those employed by the British. The Suvadive government also collected leasehold payments from plantation owners who would normally have made such payments to the Maldivian government; imposed fines for divorce and on those found guilty of offences under the largely unchanged criminal legislation. A poll tax on every adult Maldivian in the atoll was also introduced, although this was later rescinded. Land registration was begun and most importantly for the functioning of the fledgling nation, a public shareholding company called the Addu Trading Corporation was launched.

The Addu Trading Corporation (ATC) was established in the interest of procuring the requisite supplies and earning an income for the state. Almost 20,000 pounds of share capital was raised with 1,426 shareholders purchasing a total of 6,341 shares priced at 3.15 pounds each. ATC was given a virtual monopoly over Maldivian trading in the atoll, with taxation of its profits also providing a source of income for the newly formed government. As the Corporation's shareholding was spread out among the islanders, all of them had a vested interest and

were wont to report any illegitimate trading which could undermine the ATC's monopoly position. During the period that Huvadhu Atoll and Fuvahmulah were part of the Suvadive state these two atolls also sold their export products to the ATC and purchased their requirements from there, and arrangements were made for the provision of staple food items to them.

**With about 600 Adduan adults employed at the Royal Air Force... the economy of Addu Atoll was based upon a guaranteed income from overseas denominated in Sterling pounds ... Meanwhile, Fuvahmulah remained a large cultivable island, and Huvadhu Atoll produced much of the higher quality (and hence higher value) tuna that was being exported from Maldives at the time.**

ATC had its headquarters in Hithadhoo with a trading post in every inhabited island, and employed 26 full-time staff and several part-time staff on a casual basis. To facilitate the Corporation's operations, the support of an agent (a company called Moosajee's) was sourced with the assistance of the British. Moosajee was an Indian businessman from Ceylon already importing goods for the Gan RAF base. His company indicated that they had an interest in buying dried tuna (Maldivian fish), copra, rope and Addu bondi from the Suvadives, but could only travel with fully loaded vessels. An ex-billing clerk previously

employed by Moosajee was employed to manage the affairs of the Corporation, with a monthly salary of 800 pounds plus food and accommodation. (Note: this may have been a typo in the source literature - it seems more likely to have been 80 pounds or 800 rufiyaa)

External trade by the ATC was commenced in February 1960, with Moosajee's chartered vessel providing the means for transportation of imports and exports between Ceylon and Addu. The RAF monitored only the arrival and departure times of the vessel and did not intervene in the rest of the ATC's operations. The old warehouse in Maradhoo which had been a British communication centre during World War II was used as a store, and cash sales were combined with a barter system using credit notes redeemable against goods supplied to ATC from Moosajee's. If the Suvadive government was unable to secure a sufficient amount of exportable produce for a vessel, they provided the agent with foreign currency with which to purchase the next shipment of imports and a sum of around 200,000 pounds was remitted per such shipment. Prices of some essential items were administered by the state. Detailed records of the ATC's transactions were maintained but they were not in any conventional form.

A financial institution, The People's Bank of Addu Atoll was also established under the direction of Moosajee, on Hithadhoo's Marine Drive. This was in



Photos:

<https://www.addulive.com/38446>

effect the first bank in all of modern Maldives and was managed by the same gentleman who managed the ATC, together with a local staff. The bank transacted in Sterling pounds and payments for orders placed with the Addu Trading Corporation also had to be made to the bank.

Once the revenue system was established, all public servants began to be paid their full wages on time. A total of one hundred and ten people were employed by the Suvadive administration and the ATC. Members of the People's Council received a monthly salary of 15 pounds and the President's monthly salary was 30 pounds. Teachers received 7 pounds a month while island magistrates' monthly salary was 3 pounds. At this time, the exchange rate was Rf 100 for one pound, and a 100kg sack of rice was only Rf 30. The government did not intervene in the amounts magistrates received for conducting marriage ceremonies, for which different people

paid different amounts. The fee for the provision of a marriage certificate was 5 shillings. The Katheeb in the island administration office and his deputy also received a monthly salary of 3 pounds. Mudhims of the mosques were paid by the British as they were also tasked with waking the workmen early in the morning to go to Gan for work. A labourer at the RAF base received 6 shillings 4 pence per day (around 7-8 pounds per month) while the most senior Maldivians who were employed as overseers were paid under 5 pounds a week (or under 20 pounds a month) and the total wages received from the RAF base amounted to around GBP 7,000 per month. Of their wages, the Adduans used about half on local spending including purchases from the NAAFI shop, which meant that the remainder could be tapped for import of other items and other requisite needs. At the time 1 GBP was equal to 20 shillings or 240 pence.

In March 1961, a scheme to buy a modern fishing boat for Rs 600,000 was promulgated by the Suvadive president through the newspaper. Nevertheless, this venture did not materialise with the financing structure that was proposed of Moosajee covering half the capital and the people of Addu the remainder.

The 1961 annual report of the Addu Trading Corporation indicated that 125.2 metric tonnes of dried tuna had been exported to Colombo during the year. The supply of tuna, bananas and coconuts for consumption by the approximately 3000 people

employed at Gan at the time would also have generated significant revenue, and dividends from the Corporation were distributed to shareholders in November 1961. With a turnover of around GBP 59,000 in 1962 on the limited goods supplied by NAAFI alone, the ATC was able to provide about 14,000 to 15,000 pounds towards the state's expenditures after covering its own overheads of approximately GBP 8,000. Revenue received from taxation in the United Suvadive Islands amounted to GBP 7,000 that year.

Despite this, with Britain's measures to curtail communication and trade of the Adduans in line with the Maldivian government's directives, the Suvadive economy was in trouble by early 1963. The main income earner for the nation, the Addu Trading Corporation, was under stress with debt to Moosajee's having risen to around 25,000 pounds in the previous fifteen months. Although the worth of the stock of export produce held by the ATC was in excess of the assessment of its debt at this time, the supply of goods available for barter had been exhausted due to the restrictions on external trade, and given the perishable nature of this export stock, its value was deteriorating fast. When the Suvadives returned to Maldivian government rule later that year, this unsold stock and a sum of GBP 30,000 in cash remained as assets of the Addu Trading Corporation according to the management's records.

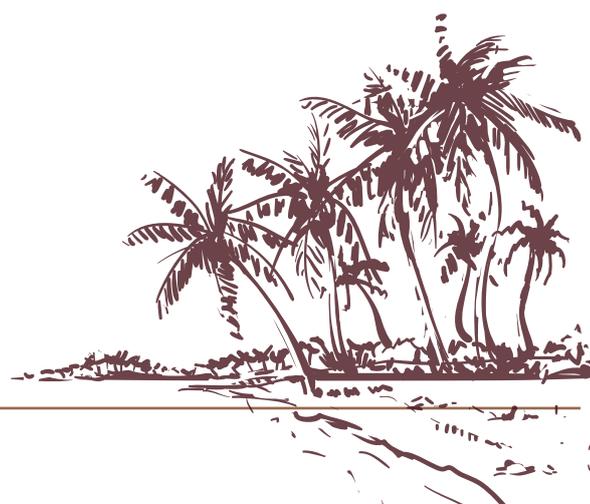
# Concluding observations

At the time the economic reforms of 1958 were implemented there were no specific policy differentiations towards the different regions of Maldives apart from a concentration towards the capital. The southern revolt was based upon a belief that secession could create a nation state that could function separately to achieve better socioeconomic progress for its people.

With about 600 Adduan adults employed at the Royal Air Force base in Gan at the time, the economy of Addu Atoll was based upon a guaranteed income from overseas denominated in Sterling pounds, for as long as the British needed locals for work. Conversely, Addu Atoll was thus almost completely dependent on the income earned from the base, and less of the atoll's population had the ability to be engaged in the production of food and exportable items given that a significant portion of the atoll's cropland had been appropriated to develop the RAF base. Meanwhile, Fuvahmulah remained a large cultivable island, and Huvadhu Atoll produced much of the higher quality (and hence higher value) tuna that was being exported from Maldives at the time.

The Government of Maldives could thus choke off economic activity in the region relatively easily by targeting the atolls separately. Furthermore, as a foreign power was involved albeit covertly at all stages of the secession, the Government of Maldives had the upper hand in the arguments it could put forth to the rest of the world against the need for secession and thus exert pressure on the British to rescind their support for the secession.

Therefore, despite significant efforts put into establishing international engagement, developing institutions and laying the foundations for economic growth, with a combined population under 20,000 and an Adduan population of less than 6,000 people the United Suvadive Islands was destined to fail from the outset due to its diseconomies of scale and strategic non-importance, particularly without Huvadhu and Fuvahmulah as part of it.



# WHEN RELEVANCE IS A REQUISITE

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ECONOMIC  
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# NEW DEVELOPMENTS FORESEE A MORE ENERGETIC CAPITAL MARKET IN THE MALDIVES

by Fathimath Abdullah Kamaludeen

The capital market development is the next step towards an effective financial sector to fuel the country's economic growth. It is a key area being discussed for financing sustainable development goals (SDGs) in developing countries. According to the World Bank, an estimated USD 4.0 trillion in annual investment is required for developing countries to achieve the SDGs by 2030. To meet this investment requirement, there is a greater need to develop and strengthen capital markets to mobilize commercial financing. The role that capital markets have in financing infrastructure development, large enterprises, and SMEs, and the links with economic growth, are increasingly being highlighted (Investments, Mar 24, 2019). To follow the global trends and to prepare the Maldives Capital Market to take up its role in fuelling sustainable economic development, the capital market institutions and the stakeholders have recently embarked on various new initiatives, aiming at establishing a more effective capital market in the Maldives. This article sheds light on these new initiatives and also the potential developments that could be explored by the Maldives towards financial sector development and sustainable growth.

## Development of the government securities market

Development of a government securities market is a crucial step towards capital market development, and the development of the financial sector. The Maldives Securities Act (2/2006) was recently amended to facilitate this development. The amendment bill was passed by the parliament on 6th December 2020 and ratified by the President on 23rd December 2020. The new amendment will facilitate development of a secondary market

infrastructure, to enable local financing alternatives for the government.

Currently, only a primary market for government securities is operated by the central bank (MMA), where T-Bills and T-Bonds are issued exclusively through private placements to a limited number of institutional investors, largely banks and the pension fund. The government securities are issued as non-tradable instruments due to the absence of a secondary market. The secondary market infrastructure is currently underdeveloped to carry out government securities transactions, leading to few domestic institutional investors, making competition scarce and financing costs high.

The current market conditions can cause economic instability, fiscal deficits, increased money supply, deteriorating exchange rate, which can weaken investor confidence. As an essential step to mitigate these risks, the policy institutions have collectively agreed to work towards developing a sound secondary market infrastructure.

According to the amendment, the secondary market infrastructure will initially be developed by MMA within an interim period of 5 years and will be transferred to the capital market institutions when the market is fully operational. The policy institutions have already sought technical assistance to develop the regulatory framework, and MMA taking the lead

role of the initial development process as provided by the amendment of the law, has invested in a securities depository system.

The project initiated for development of the government securities market recommended a PD (primary dealer) framework to engage banks as market makers, to provide the required liquidity. The

**Development of a government securities market is a crucial step towards capital market development, and the development of the financial sector. The Maldives Securities Act (2/2006) was recently amended to facilitate this development...**

regulations to be applied on the market operations have been drafted and is currently under review by the key institutions.

The policy institutions will also explore options for investing in a trading system to enable real-time trade and reporting data of secondary market activities, along with the competitive auction-based issuance of government securities. A trading system will benefit the market in the medium to long-term, in terms of transparency, price discovery and liquidity.

The new market infrastructure will enable the government to broaden its investor base and reduce financing cost. All transactions of the securities

market (both government and corporate securities) can be integrated into the new infrastructure leading to a full-fledge digital solution as required for market development. New financing concepts, participation of key players, and public confidence can be achieved.

## Development of an “Organized Private Securities Market”

Private securities framework is the next big thing to be introduced in the capital market. It is a new ‘access to finance’ framework targeted mainly to private companies, initiated by CMDA in collaboration with the Maldives Stock Exchange (MSE).

There are 3 main ways through which local businesses meet their financing needs: 1) bank loans, 2) private placements, and 3) public offerings. Only a small percentage of the private sector can be considered ‘large’ with majority being micro, small and medium sized enterprises (MSMEs).

While bank loans are the most widely used method to raise finance, it is turning out to be largely lacking to cater to the growing financing needs of the private sector and MSMEs. Public offerings on the other hand, is considered a difficult choice for most private companies due to its highly regulated nature. Due to these reasons’ local businesses are choosing private placements as the most convenient financing solution.

Private placement is an alternative to public offerings

where equity and debt-based financing is undertaken with pre-selected investors. Private placements are unregulated unless it is undertaken through a framework provided by the regulator. Similarly, private securities are investible assets issued by privately held companies and are unregulated unless it is issued through a framework provided by the regulator.

**These new concepts are reflective of the untapped potential of the capital market. To facilitate these new developments, it is necessary to bring the country’s capital market to its ready status. The key players have started to show keenness to explore new securities given the right infrastructure, safeguards and investor protection measures in place. A collective effort of stakeholders is the cornerstone of successful development of the capital market**

## FUND RAISING PROCESS



There are countries that have developed their unique private securities frameworks by taking from these concepts, and these frameworks are used by privately held companies in those countries to meet their financing needs. Given the scope, to replicate a similar model in the Maldives, a private placement framework has been developed and will be introduced very soon.

The new framework will enable private companies to issue securities by way of private placement, while maintaining their private status or without having to convert to a public company. These private offers will be opened to pre-selected investors through an offer document, or a prospectus registered with the regulator and the funding process will be undertaken through an electronic platform provided by the Maldives Stock Exchange.

The private placement market is deemed to be riskier than the main market due to private nature of these investments and the relaxation of some of the regulatory requirements. In spite of the higher

cost of borrowing due to the riskier nature of these investments, it is still an affordable option compared to other sources of financing.

An organized market to do private placements will provide regulatory oversight on the funding round and pre and post issuance disclosures of the private companies, providing the participating investors regulatory protection unlike in an unregulated setting. It is expected to provide a strong alternative to the main market and to the unregulated private placement option. By choosing the organized private placement option, private companies can gain investor confidence, build a reliable investor base, and secure their future funding needs. It also has the potential to attract foreign investors looking to do private investments in the Maldives. The private placement mechanism will be operated on an electronic platform of the Stock Exchange, providing easy and convenient experience for its users.

The platform will bring fund seekers and fund providers to a common place with regulatory

oversight. Provided these features, it can be a well-suited alternative financing solution to the private sector. It will enable easy access to capital, increase participation of institutional and private investors, encourage entry of new market participants, and increase healthy competition in the local financial markets, thereby contributing to the growth of the economy via accelerated business activities.

## Potential new developments

There are many innovative financing products, schemes and mechanism that can be facilitated through the capital market. These new programs can contribute to achieving social and public welfare goals of the country. Given its scope and potential, the new capital market strategy is seeking to align the interest of the capital market and the society. Some of the potential developments that can provide social and welfare benefits are discussed below in the context of the Maldives.

## Savings Bonds

Savings bonds is a security used in the U.S to provide alternative financing avenue for the U.S treasury to raise finance to meet the borrowing needs of the U.S government. These bonds are bought by the U.S citizens as gifts, and are used toward financing education, supplementary retirement income, and other special events. The Maldives can also adopt a similar concept as a public welfare program of the government.

Through savings bonds, the government can provide opportunity to the public to make a market return from their savings while also addressing its borrowing needs. It will serve as a safe financial instrument that can be effectively used as a close substitute to bank deposits, hence can be appealing to the public. The primary target group for these bonds can

be individuals, small businesses, and family units, who tend to be more risk averse, looking for safer alternatives to invest their savings. The concept can connect easily with the people as it provides a risk-free investment opportunity with guaranteed returns. These bonds can be issued in the form of Sukuku (Islamic Bonds), especially because the instrument will be targeted towards the 'common man' and would serve the purpose of catering significantly to solve issues in the economy resulting from excess liquidity in the Financial sector.

These bonds can be issued through a special purpose entity of the government as a technique to better manage the government debt from issuance of these bonds. Additionally, an already established subsidiary, preferably a financial entity with

government ownership can be engaged as the market maker, as a measure for cost minimizing, while also providing additional revenue opportunities through trading activities.

These bonds can provide long-term benefit of promoting a savings & investment culture and increase public participation in local financial markets, thereby achieving greater financial inclusion & public welfare.

## Crowd Funding

### TYPES OF CROWD FUNDING

01. Investment based crowd funding: Invest in a business and receive a stake in return, normally shares.
02. Loan based crowd funding: Lend money to individuals or companies in return for a set interest rate. It is called peer to peer or peer to business lending.
03. Donation based crowd funding: Donate to a person or charity (something in return may be promised).
04. Reward based crowd funding: Given money in return for a reward linked to the project or cause.

Crowdfunding is an internet-based way for individuals, and businesses to raise money in the form of either donations or investments from multiple individuals. It can provide both economic and social benefits including fund raising for business ventures as well as for philanthropic and social missions.

There are countries that are operating their unique crowd funding platforms under supervision of the securities market regulators. Countries like Malaysia, Singapore, Indonesia, Canada, Australia, UK and USA are operating Islamic crowd funding platforms and has gained impetus.

Islamic crowd funding is a potential area that can be explored for Maldives, given the Muslim population

and the growing demand for shariah compliant investment opportunities. It is extremely appropriate to our culture and can build trust in our society and in our local financial market.



# Conclusion



These new concepts are reflective of the untapped potential of the capital market. To facilitate these new developments, it is necessary to bring the country's capital market to its ready status. The key players have started to show keenness to explore new securities given the right infrastructure, safeguards and investor protection measures in place. A collective effort of stakeholders is the cornerstone of successful development of the capital market. The national capital market forum conducted in 2019 under the theme "capital markets for social harmony" echoed that collective is the shared sentiment of the stakeholders. With the support of all stakeholder, the developments can be staged; stage 1: tackle market readiness, stage 2: new concepts and pilot programs 3: effective awareness and front-line promoters. The new approach should emphasize out of the box thinking and collective effort towards execution.

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Ms. Fathimath Abdullah Kamaludeen was appointed as Director General for Market Development of the Capital Market Development Authority on 25th May 2016. She is responsible for undertaking and overseeing market development initiatives of the Authority. Prior to her appointment as Director General, she also worked as the Board Secretary and Head of CEO bureau engaging in various strategic level work of the Authority. She served as the Acting Chief Executive Officer of the Authority from August 2019 to January 2021 and is also the member representing the securities market regulator on the board of Maldives Pension Administration Office (MPAO) since March 2020. She has over 5 years of experience in capital markets.

Ms. Fathimath holds a Master's degree in Management (Finance) from the University of Melbourne (Australia) and a BBA in (International Business & Management) from North wood University, Michigan (USA).

# CLARITY AND RANGE

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Volume 2, Issue 2, December 2020

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Ibrahim Athif Shakoor

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# INTERVIEW WITH GOVERNOR ALI HASHIM AT MALDIVES MONETARY AUTHORITY

Thursday, 11 March 2021, 14:00-1515 hrs

**MER:** In his presidential address to the People's Majlis on 4 February, the President stated that the Government is working on revising policies to ensure there are no shortages of U.S. dollars. This is an issue at the forefront for all businesses as well for Maldivians who have children studying abroad, relatives of those seeking

medical attention outside the country and generally for everyone. So, we would like to get your reflections on how important and relevant these changes are and what kind of changes you would anticipate and like to see?

**Governor Ali Hashim:** This is an issue tackled by my predecessors as well, and all the previous governors have looked at this issue very carefully. However, the economic agents' support to new measures to solve



this has been lacking.

As you know, with every shock the first impact is on the foreign exchange. If you look at the Global Financial Crisis, the Asian Financial Crisis or the Tsunami shock, you would see that the first area to get hit is the dollar availability in the market. Even with that, everyone knowing it, no one wants to really tackle this issue, until I think now. There is wide support from the public, there is wide support within

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. All Governors have written about. So that's the direction we are going to move into. That's a precursor to the direction we are taking.

**MER:** There must surely be some options that are being weighed, on both sides. What options might there be? I think it is very justifiable to say that something must be done, this is a real issue that hits the economy every time, time after time. So what options, do you think there are in terms of addressing the foreign exchange situation?

**Governor Ali:** We are thinking on the supply side of it. If you look at our Balance of Payments, 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. We can more than manage with it.

With what MMA gets, currently through taxation, through the airport passenger service fee, through other means, it's manageable. But it has never brought the exchange rate to par. Never. Always there has been a rate that is a bit more than the official exchange rate. And then it keeps varying according to the economic situations, outside the Maldives. Its mostly coming from outside. So, what we are saying is that if we can manage with this little amount, I am purposely not trying to give the amount, which I

think you can estimate, you can find out about that. If we can manage with that until a shock, that means that if we can get twice or thrice that amount, we will manage in any situation. We will be very resilient in terms of foreign exchange. So that's what we are trying to achieve. We are not trying to say that everything, for starters, which I am sure that the financial institutions, the multilateral institutions would want MMA to do more. We want to go slowly. It's a give and take process. So that is why you see us very silent on this. Yes, the time is right for it, and we will do something through regulations to ensure that

**On revising measures to address the dollar shortage**  
**“I said it will be on the earning side. .... If you want a word in there, I think the word will be a surrender requirement.”**

the supply side is taken care of.

**MER:** Are you in a position to say more clearly. We know there is a shortage. How is the shortage going to be addressed?

**Governor Ali:** I think we will survive even if we have half of what the country earns. Even if we have half we can manage. 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

**On minimum wage**  
**“... generally, it will do good for us... so, in the longer term, I think we usually absorb it ... the shock is there, and then everything adjusts and then we go on.”**

a number. I want the actors and the players in the market to tell me, what they are comfortable with. That process is happening.

**MER:** So, you are having that conversation with the players?

**Governor Ali:** Yes

**MER:** Now as the pandemic hit, there was published opinion that this time we might be forced to officially devalue versus what actually happens in the market. But what we are seeing is that after reaching 20, it has fallen and that has been published as well. As you will understand that there is fair amount of concern especially in the business community. So even if we don't want to talk numbers, we can perhaps talk about ... will there be a request for conversion? Or something aligned to asking the revenue to be

parked, for a given period of time, say one month, or two months, after which it's your revenue, you can do whatever you want with it. But that period will allow the banking system to do so much more than they are able to do right now. Therefore, allowing for small time entrepreneurs, many businesses, to expand their opportunities. So even as we understand your hesitancy to define or to give numbers, which kind of option, request for conversion, are ask it to be parked for a period of time, or any other third option, we are sure you'd have many more options, what kind of option will you be favouring?

**Governor Ali:** I said it will be on the earning side. On the supply side. If you want a word in there, I think the word will be a surrender requirement. And then we will fine tune that requirement.

**MER:** So that actually excludes any speculation that there might with regard to an adjustment of the exchange rate, at this time at least?

**Governor Ali:** Yes, because we are of the opinion that the exchange now is speculative, any parallel rate at the moment is speculative and rate should be where it should be at the official rate.

**MER:** The IMF and the World Bank have been saying all along that the fixed exchange rate is appropriate for the country, in spite of the fact that at every crisis we face foreign exchange shortages. But do you think it is still the case that as far as IMF, World Bank

other institutions ... ADB , who actually have some interest in advising the government, or expressing their opinion to the government. Do you think that is still their position?

**Governor Ali:** IMF, I am not there with them 100%. I am there somewhat. But I do understand when they say that you should not have capital controls. So, no, we are not going to bring in capital controls. We are giving assurances to IMF that this not about 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, and the assumptions that we have.

**MER:** There has been the talk of and also some fair amount of work that is being done in terms of introducing a minimum wage in the Maldives. What do you think, that an introduction of the minimum wage has in terms of the competitiveness in the economy, recognising that it can come from two, actually three important sides which is the services side, i.e. tourism, fish exports side and then of course domestically there is the case of the wage to local and foreign workers? What are your views in term of competitiveness per se, of the economy?

**Governor Ali:** This question is really, really interesting because it will undo an economist. If I'm to give you

an economist's answer, which is where we stand, we are talking neoclassical, so definitely you have equilibrium rates and then you have the minimum wage, if that is higher, yes, you will have that gap, inflationary impact will come in, prices will go up, then it will feed in back too, our product prices will increase. Now does that make us not competitive? That's an economist's argument.

But this whole thing, where it undoes is that the model does not apply in certain places. It's only labour economists that come up with the answer supported with data. They use data and they come up with different country experiences. So, if you read that report, there are so many countries that are listed

## On inclusion of expatriates in minimum wage

**“So,... our minimum wage will stand for expatriate labour as well.”**

there. This happened here, that happened there, all of these are short term, and the data supports that short term. If you look at it in the long term, again you'll have that ... But again MMA is saying to the Majlis that these are the impacts. And generally, it will do good for us.

**MER:** We think our readers will be very intrigued, when you say that it will be good. How do you think

it will be good?

**Governor Ali:** Here you'll have to breakdown the industries as well. Different industries are different. That model was made with profit maximization and competition in the labour market. Neither of which we are sure here. Yes, profit maximisation is there automatically ... what they are saying is that if you take those assumptions, and yes firms are behaving like that, then you're going to end up with this answer. Where it will benefit is that, because, if you look at some of the labour economist's work and if you look at the background of firms that went into there, you will see that some of those firms employed labour on the margin. I don't want to take an example here because your readers then will think we targeted a certain area, but there is an area here where the labour is hired at the least cost. Labour is hired not because of productivity. MRP of labour is below that of hiring wage, below the MRP of labour. You are hiring for the sake of doing something. That's not the most productive and not the most efficient. So, by having a minimum wage, will push the firm to deliver better, between the efficiency gains and productivity gains as well. So, productivity gains can come in by more automation, may be, more machines doing the job. I know you know which sector of the economy I am referring to. So those areas have to improve and minimum wage is one that will force them to improve.

The downside is, like what we are saying and all of

## On diversifying the financial sector

**“They keep quoting that Cayman Islands is successful. But I think ... the ship has sailed. But we can again be innovative ... Can we be that hub for Islamic Finance, can we as a 100% Muslim country be the champion of it, compared to the others in the region?”**

our economists are saying, that we will have inflation that impacts on, but again your term - competition. All this is short term. So, in the longer term, I think we usually absorb it and then we come out of it quite well in this country, gets absorbed first, the shock is there, and then everything adjusts and then we go on.

**MER:** The recommendations of the Minimum Wage Board has been published. The report talked about a minimum rate, it talked about sectoral differences, it also recommended that even the foreign labour should be included when setting the minimum wage. The report also reported about remittances that also they have calculated working with the ILO team. The report has been done, the appropriate personnel and professionals have been involved, and the report

has been published and its available for download. The report talks about from the cost side. They have recommended between 6,400 – 8,600. But they have also recommended sectoral differences for example in the tourism industry, which is referred to in our earlier question about what it will do to the competitiveness of at least the middle range tourist resorts. It has recommended the inclusion of expatriate labour. How would you feel about the inclusion of expatriate labour?

## On competitiveness of the banking sector

**“The market is ...oligopolistic ... It’s dominated by a few with the government as a major shareholder. So, we have to point fingers ... And that comes around and I will have to take part of the blame.”**

**Governor Ali:** If you break down our expat labour by countries, and then plug in the minimum wages of their home countries, you will see that we are not hiring from the most efficient, again what applies to the firm also applies on the supply side of this in the labour market as well. The productivity of those labourers .. the lowest is 17 dollars, minimum wage. And you know the market price. If you are hiring at 150 to 200 dollars, all of these countries, their minimum

is below that. If there are countries, the productivity is higher in our market, but we’re not hiring that much, maybe we will get better qualified, better productive, that you don’t have this huge learning curve, that you bring them in here and train them here, for them, then, to move on to another country with a higher wage, instead of being that ground, instead of being that ground why don’t we take the best with what we are giving? So, you will find in the labour market that substitution between countries, which is good for us, because then at least the finished product is better, or the finished service that you deliver is better, of a better standard, according to the niche market that we are, even in both the sectors that we talked about, fisheries and tourism. We can afford to do that. Why don’t we lift up everything to that level?

**MER:** The sense we are getting is you would actually like to see a system where, we start with a minimum wage across the board not excepting any particular ethnic group, or any other group, we start across the board with a minimum wage. Is our interpretation correct?

**Governor Ali:** Yes. Within industries, I think there’s a good argument, because I just said that the behavior in different industries is quite different, there is quite a good argument for a differential wage between industries. But across countries, no. So,... our minimum wage will stand for expatriate labour as well. I think the government is right in trying to

postpone it for a while, because maybe it is not the right time. Because you can see this inflationary impact and because we are saying so.

**MER:** The reason we are raising it is because if there was to be for example a discrimination at the introduction stage, where locals are imposed

**On amendments to MMA Act**  
**“I think it helps the economy**  
**... It also gives us much more**  
**authority in terms of having**  
**financial inclusive policies and**  
**then ensuring that institutions**  
**are part of it.”**

a minimum wage and expats are not, that's an indirect incentive for local businesses to actually opt foreigners. That's going to be counterproductive. There are going to be unintended consequences. So, we are very clear now on your position. Your position is, no, there shouldn't be any discrimination in terms of introduction, so it should be for all nationalities. That's very clear. Thank you very much for that.

The issue of minimum wage is a hot topic in the U.S. as well, where President Biden having promised to raise the minimum wage to 15 dollars from 7 dollars. Some people who talk about this issue say that minimum wage, that extra money with the people, and with that class of people, you're not going to raise

the wage of managers who will buy bonds or shares, this category of people will actually spend this. So, the money actually goes into circulation. It goes into circulation, especially in a country like ours where the multiplier effect is so high and our saving is low. And with this class of people, part of it with the expatriate labour will move out in remittances, but if it is the locals it will be spent in the economy. It will move through the economy and will move through and work itself into many more expenses and therefore allow for an effect that can counter the other side as well. What are your thoughts on that?

**Governor Ali:** That is MMA's official answer to that. Inflation is coming because of the aggregate demand side. As you are saying, once they spend, you have aggregate demand shifting and that will help the economy. That's where our official answer is. Which segment are you talking about? And most of the labour studies are so US centric, the good studies So, who is it impacting on? The next level, it doesn't affect that much, so, there are so many questions that you can raise. Each study has its own failures as well.

**MER:** This issue of international financial centre, everybody talks about it, and we've been hearing this for 25 plus years, and we have done studies, meanwhile the world moves on and technology has changed. Has the ship sailed?

**Governor Ali:** Are we saying that is our banking market leverage saturated? Do we have enough financial

instruments out there? Here is there a connection between money supply and inflation effects. Is it really connected? We don't have all these instruments, right? So, we welcome any change, whether in terms of extra banks, or extra financial instruments being introduced into the economy, that's what we are welcoming. That's the answer. Then comes the next thing, and I think the ship has sailed on that. But yes, the government still, multiple governments still have that idea. We need to diversify this economy. Is there another area where we can move in and out of our core area. Go into another area and develop that, whether it's in IT or whether it's in finance. So, these two things being juggled around. In finance, I think, we think it is possible. They keep quoting that Cayman Islands is successful. But I think, like you say, the ship has sailed. But we can again be innovative, and that innovation, I think, can come from Islamic Finance. Can we be that hub for Islamic Finance, can we as a 100% Muslim country be the champion of it, compared to the others in the region?. Malaysia is now the pseudo leader in that, can we mirror that and say, we can do better. The government is trying to place that in a Special Economic Zone; placing it in a SEZ always brings to me this negative image. We've seen places fail with that.

Successful places are so far and few without getting that bad name associated with it. It does not bring a very positive image. It shows that some amount of transparency is not there. So, this is a very difficult

question to answer., What I think of a SEZ and financial hub is quite different from what the governments has. But we are searching for an alternative area that we are comfortable with, like fishing at least the pole and line fishing is quite a good brand, the tourism is a fantastic brand. So, can we set up another brand that we make a name for ourselves so that the economy is more robust against any shocks. That's what we are searching for. People like me don't seem to be supporting it.

**MER:** The reading we are taking from your response

**On the current crisis**  
**“The pandemic was [is] a**  
**fantastic opportunity for**  
**change... let's bring meaningful**  
**change ... let's go become more**  
**resilient than we were before...**  
**Let's take it on and keep it**  
**permanent.”**

is that you are not particularly in favour of a typical international financial centre model, for example you mentioned Cayman Islands, but you would like to start something if not entirely new but something at least relatively new to the Maldives which is an emphasis on Islamic Finance, whether we can be the hub in this South Asia region. In that case what do you think will be our strengths, our key selling points in terms of making us the regional Islamic finance

hub? In terms of liquidity where are we, in terms of competitiveness of the services where are we, in terms of the availability of professional services, accountants, tax advisors. So, what do you think is our in terms of establishing or positioning ourselves in South Asia market as a hub of South Asia for Islamic Finance?

## About the future

**“I think we should go into a digital currency ... something that I am really looking forward to ... because that will enhance the transaction rate ...”**

**Governor Ali:** First and foremost I think is that the Islamic community in this region, they don't have an anchor, so we think we can provide that anchor and provide on the Shariah side at least if we combined the Shariah team with the Malaysian, it will be quite strong, and then can provide those instruments that they are looking for which is partly provided in those jurisdictions but not fully backed. So, we can give backing to those instruments. Yes, all the areas that you talked about we are weak on, we need to develop more and do much more. So, we have a long way to catch up. That's why I am saying that the SEZ means that then you put it in this area that is being protected and no one on this side is looking into. Do we have those people to ensure that the banks that

are in that area functions within regulatory norms and accounting standards. Those functions can only be met properly if we bring from outside. All of it will be shrouded in this protective cloud that you put around it. So it will take some time.

**MER:** What are the issues in the banking industry. When we say competitiveness in the banking industry, what are your thoughts on the banking industry's competitiveness and what are the causes and consequences of whatever we have that we say is competitive or otherwise?

**Governor Ali:** I think the Majlis asked this question. When you take over as governor when will you be able to decrease the rate of interest? You have to look at what are the components that are going into keeping interest rates there. I told them, it's in your hands, you are the ones, I don't think MMA alone can do it. So, the first reason is that our judicial system is not geared to the financial market. The entire judiciary needs to be educated on financial instruments and how important it is for a good functioning economy. Their judgements are impacting on it, and they don't see that link. For them to understand that link is going to be difficult. Again, it's hard to think of a judge who doesn't have that background. So, in the current environment the banks cannot enforce when it comes to foreclosing Foreclosure cannot be enforced.

Again, a bankruptcy law has to come in this country. So many things we are behind in that's preventing the

financial industry functioning at the most efficient level. So they will factor that in into their interest rates. You and I who have borrowed peanuts are paying for it, because our borrowings are at a higher rate than what it should be while the bigger borrowers are enjoying rates and a bigger slice. That is contributing to the interest rates being so high.

The market is an oligopolistic market. It's dominated by a few with the government as a major shareholder. So, we have to point fingers like that as well. And that comes around and I will have to take part of the blame. I get often asked is the private sector crowded out? Yes it is. So, that's another issue that needs to be addressed. We have to do more. This is a difficult area. Yes, there has to be more competitiveness in the banking sector. In an oligopolistic market that competitiveness is not there.

**MER:** That means you are encouraging the entry of more financial institutions, lenders, so that there is more competition between the institutions and the kind of cartel-like behaviour is eliminated and that

therefore the consumer benefits as a result. The oligopolistic tendencies that we see in the market, even without additional brands or products entering the market how would the central bank or the owners of the institution work to lower those sorts of tendencies?

**Governor Ali:** One area to start is transaction costs. Reduce the transaction costs. My predecessors started the payment gateway project, which is in MMA Strategic Plan 2018-2022. Financial inclusion is another. So, to make the system more instantaneous and to reduce the costs of the transaction itself if the central bank can do that you can then get costs on the downward path, and yes we would love to encourage more competition and we're looking at that area, especially that area. So, that's why you have people, lot of people come and discuss setting up a bank but the actual applications have been far and few, because I think they are trying to see what the landscape is going to look like.

In October we'll have the payment system ready. By mid-year you will have at least a picture of how it will look like, because already we've started the work. We are also looking at inviting a digital bank. You can have other banks operating more services. We would love to see microcredit as well. An internet service provider can apply for a non-bank financial institution license to give that service. Those are the ways we can reduce costs. These services move out of the



formal banking. So different things could reduce the stress there and they could concentrate on providing the traditional banking services, providing the account services because they do have all those accounts with them.

**MER:** We have deliberately avoided operational level questions and one of the questions at that level might be something which people relate with difficulties in foreign exchange flows in the country, which is credit card acquiring. But we are not going to ask that question now. So on to the next question, the MMA Act was amended recently. What prompted this and what were the shortcomings that in your view the revision addresses and what advantages and perhaps any disadvantages that it brings in? We know that the amendment sharpened the language in terms of MMA's objectives and there is a sharp focus on MMA's price stability mandate which was not there before. So, what are the strengths in terms of macroeconomic policies and financial stability policies that this revision brings?

**Governor Ali:** First and foremost, it addresses the governance issue, how MMA operates and who has what role to play. So, you have pure demarcation between the board and the governor. The foreign exchange objective has been removed because it's a cause of the price stability or one of the root causes connected to price. It gave more focus to MMA in terms of governance, and then it provided the

required independence. So, if you read the Act MMA as an independent institution with a coherent set of objectives. So, in terms of foreign exchange situation the president sets the regime. The president sets the regime of the exchange while MMA sets the rate at which you operate within the regime and how to operate within. I think it helps the economy by saying so, so that all the financial activities are done, all macro prudential activities are done here, the onus of correcting it is on the MMA. It also gives us much more authority in terms of having financial inclusive policies and then ensuring that institutions are part



of it.

MMA can tell, look this is the new programme, and you have to take part in it. Previous governors tried a lot to coerce, talk and pat their back and tried to get them to implement strategies. Instead, we have both now. We can implement it, and if they don't implement it, we can then throw the law at them. So, this little extra bit has come from the law. MMA Strategic Plan

2018-2022 was done with the IMF help, and one of the governors who worked on the advisory team had faced a lot of issues and one of the issues was the independence of the institution. He was a champion of that, and because of his experience he tended to portray that much more than anything else because of his experience of what he had gone through. But I think we've fallen short of his objective, but that is the objective we want to reach. This is a stepping stone to that, so maybe the next amendment will give that. Is the country ready for it? There are other improvements that have to come before that for us to have that amount of authority on the financial system.

**MER:** Any specific message or reflection that you'd like to give for our readers?

**Governor Ali:** The pandemic was a fantastic opportunity for change... again going back to Milton Friedman going back to him... he loves crises because he thinks crises bring so much of disruption and then after the disruption, you bring in change. His changes are very much open market, Adam Smith kind of. The crisis has brought that for us. Each one of us has been impacted and we know that experience. So, each reader knows what has happened at home, what has happened at work, what has happened to their daily life, and each one would know that these are the changes that we have to bring to our life now, because every shock out there, since we're so small,

so reliant on outside, that we're going to be within it. If something happened in this region, the effect will reach here some time because we're so connected and we're so small. So, let's use this situation and, yes, the government and we also have to use this situation, like the foreign exchange situation we have now. When we talk to the market actors and players they understand. They say, look, you yourself are within it, you're part of it. And, we're coming out of it. We're sure to come out of it. I think we're going to coming out of it I'm looking at it economically, I'm seeing that t. Let's take it on and keep it permanent here is something out of sync out there. I don't know what it is but I think there's going to be a crisis some time soon. We will hit a crisis. So it is better that But I didn't even dream of something like this, not even in my wildest dreams. So, accept this change, and let's bring meaningful change. let's change and go and become more resilient than we were before. That's the message. Even in your home life I think you have to make some adjustments. We will be that in the future.

**MER:** Going forward, what are your very top priorities in the next three years or so, your priority 1, 2, and 3.

**Governor Ali:** I will take on the SAP's [MMA Strategic Plan 2018-2022] payments system, because that will put us on par, our payment system will put us on par with the world. Instantaneous payments. As I make a payment, it should hit your account just like that, I'm

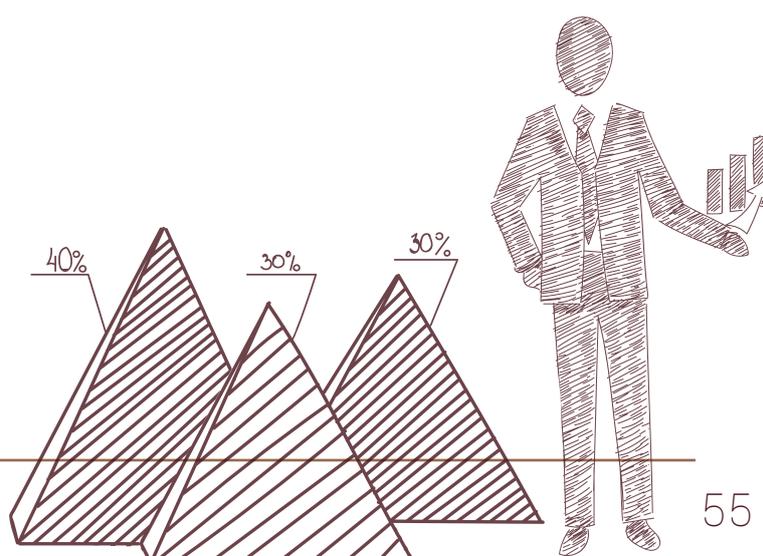
not sure it will be like that but that's where our goal is at. So, that has to come in.

**MER:** How many years are we talking about before that happens?

**Governor Ali:** To be that instantaneous, we can have it by next year, after the testing phases we can have it. Before, the banks were a little bit reluctant. Now, they also understand. That is what I'm saying. They have experienced shutdowns, lockdowns, trying to work from that cocoon but give services equal to that and then everybody is trying to catch up to that. That is where we are. They are more willing than they were before. This is the time. So, this is my priority, have the system. Second, let's improve the financial laws that enhances the system. We need an asset registry. We need to know the movable and non-movable assets. We need to deal with bankruptcy I think somewhere there we should have safeguards not put somebody in total debt-like situation but how to get out of it and how to protect others from a person like that. Then the last, I think we should go into a digital currency.

**MER:** Really?

**Governor Ali:** I think so. A central bank digital currency is something that I am really looking forward to, but again that needs a lot of convincing. Jamaica is going to do it. Vietnam did it. Let's really look at that because that will enhance the transaction rate, it's going to be much faster because the ledger is at least with you and from your ledger to give it out is going to be like really fast. So, the transaction rate is going to increase and then those who afraid of being in the system (I think we have small percentage of people who don't want to be in the system) they can use this digital currency that ensures that, not all your transactions, but ensure that a percentage of your transactions are anonymous as cash. Definitely we have to cover that part. Because that is what some people want: cash. It's so anonymous.





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