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# Maldives

## Country Economic Memorandum

October 16, 1991

Country Operations Division  
Country Department V  
Asia Region

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## CURRENCY EQUIVALENTS

### Annual Averages

1985	US\$1.00	=	Rf7.098
1986	US\$1.00	=	Rf7.151
1987	US\$1.00	=	Rf9.223
1988	US\$1.00	=	Rf8.785
1989	US\$1.00	=	Rf9.041
1990	US\$1.00	=	Rf9.552

### FISCAL YEAR

January 1 - December 31

## ABBREVIATIONS AND ACRONYMS

AEC	-	Atoll Education Centers
AHC	-	Atoll Health Centers
APS	-	Atoll Primary Schools
ARI	-	Acute Respiratory Illness
BCCI	-	Bank for Credit and Commerce International
BOP	-	Balance of Payments
CHW	-	Community Health Workers
CPI	-	Consumer Price Index
GDP	-	Gross Domestic Product
ESCAP	-	Economic and Social Commission for Asia & the Pacific
FHW	-	Foolhuma Health Worker
IDA	-	International Development Association
IFAD	-	International Fund for Agricultural Development
IMR	-	Infant Mortality Rate
MEB	-	Maldives Electricity Board
MMA	-	Maldives Monetary Authority
MOE	-	Ministry of Education
MOHW	-	Ministry of Health and Welfare
MTCC	-	Maldives Transport and Contracting Company
SATS	-	Singapore Airlines Transport Services
STO	-	State Trading Organization
UNDP	-	United Nations Development Programme
WSA	-	Water and Sanitation Authority
WTO	-	World Tourism Organization

MALDIVES  
COUNTRY ECONOMIC MEMORANDUM

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Map: IBRD 23316

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## EXECUTIVE SUMMARY

1. Despite an often unfavorable external environment, and a lack of practically any domestic resources to speak of, the economic performance of the Maldives in the 1980s has been among the highest recorded by developing countries. Growth has been fueled by an expansion in tourism and fisheries, both internationally competitive sectors. However, it is the quality of economic management which has been, and will continue to be, the single most important determinant of growth in the Maldives.

### Economic and Social Background

2. The Maldives is an Indian Ocean archipelago of an estimated 1,200 small coral islands, of which about 200 are inhabited. Most of the islands are small, few with a land area in excess of one sq. km., and are low-lying, with an average elevation of 1.6 m above mean sea level. The total land area of the islands is 298 sq km, only 10 percent of which is suitable for agriculture. The Exclusive Economic Zone of the Maldives consists of some 900,000 sq km, more than 3000 times the land area.

3. The total population of the Maldives was 213,215 in 1990, and it has increased at a rate of 3.4 percent per annum in recent years. Per capita incomes in the Maldives are estimated at approximately US\$600 per annum, ranking it amongst the poorer of the small island economies. Despite smallness, remoteness, and the lack of natural resources, the Maldives has performed exceptionally well in the 1980s and in many ways has proven to be a model of development management for other small island economies.

4. Since the mid-1970s, the economy has grown in excess of 10 percent per annum, driven largely by growth in tourism and commercial fisheries, which taken together account for about one-third of gross domestic product. Other agricultural activities, which include subsistence fishing and fruit and vegetable production, account for 13 percent of GDP. Other important sectors of the economy include wholesale and retail trade, and manufacturing, the latter dominated by a nascent garment industry. Manufacturing and construction together account for 15 percent of GDP and wholesaling and transport for 22 percent; government administration represents a modest 8 percent of GDP. Factors underlying the strong growth performance include: a generally sound macroeconomic environment; an outward oriented development strategy designed to exploit the country's natural endowment; judicious public interventions to harness private initiative; a pragmatic approach to setting priorities and the formation of capable institutions to undertake and manage development activities.

5. The strong performance of the economy has been matched by improvements in the well-being and welfare of the nation's population. GNP per capita has increased at a rate of 7 percent per annum over the past decade, one of the highest in the developing world. Infant mortality has been slashed from 121 per thousand in 1977 to 34 in 1990 while the crude death rate fell from 18 percent to 7 percent over the same period. Daily per capita calorie intake and protein supply have increased substantially, access to potable water supply and sanitation facilities have doubled, child immunization is now universal, and some debilitating diseases such as malaria

have been eradicated. Primary school enrollment has increased from 26 percent in 1977 to 90 percent at present, and secondary enrollment from 2 percent to 21 percent over the same period. Women are active in the labor force, including accounting for 30 percent of the civil service, but have so far played a limited role in the thriving tourism industry.

6. The one negative aspect of rapid economic growth has been overcrowding in Male, the capital island. Around 26 percent of the country's population now live in Male, and congestion is severe with a population density of 35,000 persons per sq km and 14 persons per dwelling.

7. Rapid economic growth has created a situation of effective zero unemployment in the Maldives despite a high rate of population growth. Indeed, because of a perennial labor shortage, excess demand for labor is met by expatriate labor, which grew from 4 percent of the labor force in 1985 to over 15 percent in 1990. The majority of the expatriate labor comes from neighboring countries, although, in tourism, some expatriate labor comes from Europe. The tightening of the labor market has led to rising wage costs, and contributed to an inflation rate near 10 percent per annum in recent years.

#### Recent Economic Developments

8. Following the emergence of large domestic and external imbalances in the early 1980s, the authorities implemented a strong stabilization program during 1984-88, involving a substantial tightening of monetary and fiscal policies and a large devaluation of the rufiyaa in 1987. In response to the adjustment measures and the continuation of a favorable external environment, the overall fiscal position and the external current account began improving in 1985, with both shifting into surplus during 1987-88; gross international reserves rose significantly from a low of some US\$5 million in 1985 to US\$22 million by end-1988.

9. Having achieved successful stabilization, the authorities initiated a program of economic liberalization in 1989. Import quotas were lifted at the beginning of the year; subsequently, exports of dried and salted fish were opened to the private sector and a revised law on direct foreign investment was approved to encourage inflows of private foreign capital. The private sector was permitted to play a greater role in import trade, which previously had been the exclusive domain of the State Trading Organization. In August 1989, sectoral limits on commercial bank lending were abolished, although controls on interest rates, through ceilings on commercial loan rates, were retained. Finally, at the beginning of 1990, import duties on a broad range of items were reduced.

10. GDP growth reached 15 percent in 1990, propelled by record levels of tourist arrivals and fish catch. Tourist arrivals rose from 159,000 in 1989 to 195,000 in 1990; total fish catch rose from 71,000 metric tons in 1989 to 76,000 metric tons in 1990.

11. The strong external demand from tourism and fish exports was reinforced by the easing of monetary and fiscal policies. Following two years of surpluses, the budget recorded a deficit of 3.5 percent of GDP in 1989; the deficit rose to 14 percent of GDP in 1990. The widening of the deficit was largely due to an increase in current expenditures, including extraordinary

outlays for the twenty-fifth anniversary of Independence and the South Asian regional summit, increased outlays for security and a 40 percent increase in civil servant wages.

12. Monetary policy was relaxed in August 1989 in conjunction with the removal of sectoral credit limits. Domestic credit subsequently expanded rapidly, largely to finance buoyant import trade and tourist resort construction. The credit expansion was financed in part by foreign borrowing of commercial banks. A further acceleration in growth of credit to the private sector and the large financing need of the public sector sustained the high growth rate of domestic credit through the third quarter of 1990.

13. The resulting expansion of domestic demand led to a sharp surge in imports and the erosion of the current account surplus despite strong growth in exports and tourist earnings as well as a further increase in external grants. This, in turn, resulted in a decline in reserves, with import coverage of gross reserves falling to 2.5 months compared with a peak level of 3.2 months in 1988. Although some of the large development projects have necessitated external borrowing, and a consequent increase in external debt, the debt service is moderate and has actually improved in recent years, falling to 5 percent in 1990.

14. Maldives was buffeted by major external shocks in the first half of 1991. The Gulf War led to a major decline in tourist receipts in the first half of the year and also adversely affected the petroleum import bill as well as shipping and remittance receipts. A second shock came from severe storms which swept the country in May, damaging or destroying dwellings, boat yards, tree crops and public infrastructure, and reducing the fish catch. These costs were partly mitigated by prompt assistance from the international community.

15. Growth recovered in the second half of 1991, led by tourism and is expected to approach 5 percent for the year as a whole. However, the combination of strong growth together with the legacy of expansionary monetary and fiscal policies resulted in an increase in inflationary pressures and continued weakening of the external position. The measures announced in August-September 1990 to tighten monetary policy were successful in curbing credit growth to the private sector and reducing the demand for imports. However, money supply continued to expand at a brisk pace and domestic borrowing by the Government remained large during the first half of 1991, thereby fueling domestic demand. Recognizing the need to restore financial stability, the Government has moved to adopt a more restrictive fiscal and monetary stance, primarily through curbing fiscal expenditure and substantially reducing the level of domestic borrowing by the Government.

16. Looking ahead to 1992, continued efforts will be required to contain strong domestic demand pressures. Near-term macroeconomic policy measures that should be considered include removal of temporary cash margin requirements on letters of credit, abolition of interest rates ceilings, setting commercial bank reserve currency requirement in currency of deposit, application of commercial interest rates to public sector borrowing, continued restraint on fiscal expenditures and a broadening of the tax effort. These measures would help restore financial stability and improve the functioning of macroeconomic management.

### Development Strategy and Prospects

17. The Maldives has established a successful record during the 1980s, but the challenges of economic development will be even greater in the years to come. The nation will be competing in a highly competitive world economy and the focus of government interventions will need to shift to indirect controls as the private sector assumes a greater role in commercial activities. This points to the need for continued skillful economic management to meet the development challenges of the 1990s. Looking ahead, the Maldives faces three key medium- and longer-term development challenges:

- continue to raise living standards and provide employment for a rapidly growing labor force;
- ensure broad-based participation in the growth process, particularly of poorer income groups outside Male; and
- improve access to social services at all levels.

18. The Third National Development Plan for 1991-93 (which is currently under preparation) and the documents prepared for the 1991 Roundtable meeting respond to these challenges. Fisheries and tourism are expected to continue to be the leading sectors of the economy. Prospects for major diversification into agricultural or industrial activities remain limited, yet options for efficient diversification of products and markets, within tourism and fisheries, remain strong.

19. Although no major shift is foreseen in the basic growth strategy, there are a number of ways in which the development setting in the 1990s will be different from the past. First, there is an opportunity and need for the private sector to play a greater role in the economy. As a result of development over the past decade, and the stimulus provided by recent deregulation measures, the private sector is now more vigorous and capable of assuming an enhanced role in all spheres of economic activity. Increases in the number, scale and complexity of needed investments in tourism, fisheries and services dictate a high degree of private sector participation. At the same time, the Government will be under increasing financial and institutional pressures to maintain, upgrade and expand infrastructure and social services suggesting that it should focus its role in these areas and on creating a sound policy environment.

20. Other factors also suggest shifts in approach compared to the past. For example, while the concentration of economic activity around Male has resulted in economies of agglomeration, growing congestion pressures and the need to ensure participation in economic growth will necessitate a more regionally-balanced approach to development. Second, population growth and development will put increasing pressures on the fragile natural resource base, requiring more careful environmental management. Finally, while external assistance will continue to play an important role in supporting the country's development efforts, the limited prospects for increase in such assistance and large financing needs imply a greater need to mobilize domestic resources.

21. To meet its development objectives in this setting, the Government will need to:

- preserve macroeconomic stability and competitiveness, and take further steps to improve domestic resource mobilization;
- promote the role of the private sector by further developing the incentive, regulatory and institutional framework, and with a special emphasis on environmental protection;
- expand public investment in infrastructure and basic services, particularly in the outer atolls; and,
- upgrade and expand education, health and family planning services.

### A Policy Agenda for the 1990s

#### Macroeconomic Management

22. Sound macroeconomic management is an essential element in a policy framework to support private sector development. For the Maldives, this would imply that the fiscal deficit should be narrowed substantially in the coming years, with strong efforts made to ensure a better balance between domestic revenues and outlays. On the expenditure side, this will require careful prioritization of the public investment program and considerable restraint in current expenditures. In terms of revenues, efforts will be needed to widen the tax base, increase cost recovery measures and raise user charges for public goods and services. Monetary policy should operate in closer harmony with fiscal policy, and should not bear an excessive share of the stabilization burden. To contain short-run monetary expansion, the stabilization measures suggested above should be implemented at an early date. The early removal of interest rate ceilings will also facilitate the needed expansion of credit to the private sector. In the medium-term, introduction of new treasury debt instruments would allow for a more market-oriented management of liquidity. Concurrently, continued efforts should be made to retain competitiveness through flexible management of the exchange rate. Over time, further build-up of foreign exchange reserves is warranted to cushion the economy from external events.

#### Enabling Policy Framework for Private Sector Development

23. The private sector will play a leading role in the economic development in the 1990s. The policy environment in the Maldives has generally been favorable to, and successful in, promoting the private sector, while recent deregulation measures have provided a further stimulus in this regard. To build on this past record, and create an even more efficient, competitive and adaptive private sector, the Government needs to address remaining shortcomings in the incentive and regulatory framework, develop laws and institutions to support a market-oriented economy and pursue policies to develop further the potential in tourism, fisheries and atoll activities.

24. Incentive Policies. The incentives framework is a key determinant of profitability and efficiency of the private sector. The main policy goal



in this regard is further trade policy reform through import deregulation and tariff reform. To promote competitive access to world markets, the remaining import controls should be abolished, State Trading Organization (STO) export monopolies eliminated and access to storage capacity broadened. At the same time, a tariff reform program needs to be put in place that would reduce tariff levels, narrow bands, eliminate duty concessions and exemptions and shift towards standardized trade nomenclature.

25. Regulatory Framework. Although Maldives does not have the kind of formal restrictions on private investment and activity found in many developing countries, some deficiencies in the regulatory framework act as impediments to entry and competition. Land regulations are important in this regard, with the Government retaining ownership of all land in the country. Land lease arrangements should be rationalized by pricing land on a more competitive basis (e.g. more uniform pricing of tourist resorts and higher urban land rents), by providing land leases on a longer-term period, by altering lease conditions to provide for private transfer of lease-hold and by reviewing public lease conditions to ensure that the lease-hold serves as adequate collateral for mortgages.

26. Foreign investment will continue to make an important contribution, in terms of investment finance, marketing access and technical skills, for the decade to come. Further modification of the foreign investment law, to bring it up to international standards, would also help clarify Government's generally favorable regulatory stance to the foreign private sector. The Government should also consider eliminating differential export taxes on foreign investment in trading activities.

27. Legal and Accountancy Development. As the private sector assumes a leading role in commercial activities, the public sector will be called upon to strengthen the institutional framework that regulates orderly market conduct. High on the priority list will be the development of a modern commercial legal system. International experience suggests that a commercial code, banking and financial instruments laws, business entities and operations laws and dispute resolution arrangements are needed at an early stage. Furthermore, it may be preferable to develop packages of commercial laws, based on existing international standards, rather than single pieces of legal legislation, to ensure consistency and to provide an internationally accepted framework. In line with the development of the legal system, efforts should also be made to encourage development of accountancy standards and practices.

28. Environmental Management. Institutional development is also needed in the area of environmental preservation. More so than in many other nations, the careful management of natural resources is vital to the continued success of the Maldivian economy. In the near-term, efforts should be made to halt the use of coral mining for construction purposes and to reduce the dumping of garbage into the sea around Male and into the waters located near the tourist resorts. Vigorous implementation of the environmental action plan will ensure that the regulatory and enforcement capacity for sound environmental management is put into place.

29. Financial Sector Development. The existing financial system in the Maldives is thin, focused on financing trade and working capital and located only in Male. Efforts to broaden access, and encourage greater competition

amongst financial institutions is a high priority. In this regard, the development of the Atolls credit schemes, the introduction of a postal savings bank, and the possible development of a privately capitalised development finance institution (focused on new tourism developments) should be considered. On the resource side, interest rate controls should be removed to ensure that savers are adequately compensated and thereby induced to make greater use of the financial system.

30. Fisheries Sector Policies. The more general policies noted above will have to be complemented by more specific sectoral measures. In the fisheries sector, expansion of processing capacity, through development of new freezing plants will allow the nation to increase output, exports and incomes in the near term. Over the long-term, a greater degree of competitiveness will be required in order to sustain growth in fisheries output and incomes. This, in turn, will require a development strategy focused on increased private sector participation in processing and marketing. Key elements of such a strategy would include the diminution of public sector involvement in collecting, processing, and exporting activities, the application of a more market-based pricing and incentives system, and the development of a regulatory and fiscal framework which reinforces competitive forces while also ensuring that the sub-sector contributes to national revenues. Greater private sector participation in fish processing activities should be encouraged by opening this sector up to foreign investment (as discussed above), by sale of selected STO processing assets and by removal of export restrictions on canned and frozen tuna products. As the private sector becomes more active in tuna, and the market deepens, the need for fixed Government prices diminishes. Given certain scale economies and spatial monopsonies, to ensure competition, the Government should, if necessary, set (and revise regularly) a floor price, based on world market prices.

31. Over the long-term, development in the fisheries sector will require greater understanding of the carrying capacity of the natural resource. Increasing productivity, essential to raising incomes, will require investments in new collection facilities and possibly new generations of fishing vessels. In addition, options for diversification into reef fisheries and exotic tuna products for the east-Asian market should be actively explored, although in this area, regulatory attention is required to ensure sustainable resource management.

32. Tourism Sector Policies. The other main engine of growth in the economy, tourism, shows every sign of continued strong growth, both in traditional European markets and in the rapidly expanding Asian source markets. The key policy issue in tourism development is the question of opening new areas of the nation for tourism after the present phase of development is completed, by 1993 or 1994. After the development of the Ari atoll is completed, it will be necessary to develop a new area such as the Addu atoll. To open a new frontier to tourism will require, as first steps, international access (through airport facilities) and telecommunications facilities. Feasibility work for tourism development in the Addu atoll should be put on a fast track. Investments in commercial and productive infrastructure (e.g. electrification) should, as in the case in Male, be provided by commercial operators.

33. At the same time, the importance of good international access (provided by a number of well-known carriers) to the health of the tourist industry and to the health of the economy as a whole should not be underestimated. In this regard, a high price aviation fuel policy will discourage international carriers from serving the Maldives. In the long-term, the tourism industry promises to be a major contributor to Government revenues primarily through land lease payments. Growth in direct taxes from the tourist resorts would be more than enough to offset any revenue losses arising from more competitive pricing of aviation fuel.

34. Atoll Activities. In the atolls where agriculture and handicrafts are important activities, the key constraints are market access and finance. In agriculture, a combination of improved extension and better pest management will help raise productivity. During the 1980s, a number of projects aimed at transferring technology were undertaken in these atolls and their poor performance record suggests that market access and finance are needed to ensure that adoption of new technologies lead to sustained income growth. In the 1990s, initial efforts should focus on improving market access, by a combination of deepening harbors and construction of jetties/simple ports. As noted earlier, broader access to financial markets, through mobile credit operations of the Bank of Maldives and through the proposed establishment of a postal bank system, should be encouraged.

#### The Evolving Role of the Public Sector

35. In the decade to come, the public sector will continue to play a very important role in the growth process, but increasingly less so in directly productive activities. Instead, the focus of public sector activity would need to shift to providing economic infrastructure and social services, developing an enabling policy framework to promoting private sector development, and mobilizing domestic and external resources needed to finance growth.

36. Economic Infrastructure. As in the 1980s, the public sector will continue to play a very important role in the provision of essential infrastructure. However, with increasingly tight financial and staffing constraints and high unit costs of building and maintaining infrastructure in the outer atolls, the Government will need to: (i) set clear priorities on infrastructure development that takes into account availability of financing, recurrent expenditure implications and the capacity to implement and operate the new facilities; (ii) address cost recovery issues at an early phase of project development; and (iii) consider commercialization and private participation in the provision of services and construction of infrastructure, wherever feasible.

37. With regard to sectoral investments, urban development is urgently needed to relieve overcrowding in Male through development of Vilingilli island. In transport, future investment priorities would include upgrading the Male port, upgrading the Male airport, deepening reef basins and harbors (on a cost-sharing basis) in many of the islands and putting into place a regular inter-insular shipping service. The latter should be privately operated, although public support may be required initially. In telecommunications, continued capacity expansion is required, particularly in those islands that presently lack access and in areas slated for new tourism

development. Special attention should be provided to emerging technological developments in formulating a strategy for telecommunications expansion. In the energy sector, further investments will be required to increase generating capacity in Male. Outside of Male, and outside of the tourist resort islands (in which private investment can provide electricity capacity), there is a need for turn-key type packages to provide local communities with the technology and start-up resources needed to gain access to electricity, while ensuring that the power capacity will be self-financing over the long run.

38. Civil Service Reform. As the role of the Government in the economy evolves, the civil service system will need to change accordingly. All indications point to the need for a smaller, but better qualified civil service. This implies slower growth in numbers of civil servants, more regular salary reviews, broader pay scales and, gradually over time, an increasing number of full-time government posts to meet the needs of a professional civil service.

39. Public Enterprise Reform. Improving public enterprise performance will reduce the financing burden on the public sector, increase output and provide additional opportunities for private sector investment. While strategies for public enterprise reform will differ by enterprise, the general approach would involve a mixture of commercialization, privatization and orderly dissolution. For the largest parastatal, the State Trading Organization, a break-up of the company into more manageable parts (fisheries operations, trading, financial services) is advised. Furthermore, as the private sector demonstrates a growing capacity to manage international trading and fish exporting, the STO should gradually withdraw from these areas and concentrate on activities that the private sector is unable to provide. By comparison, the Maldives Transport and Contracting Company is already operating in areas that directly compete with the private sector, and is unable to do so profitably. Consideration should be given to private ownership and management of this firm.

40. Resource Mobilization. Financing economic development in the 1990s promises to be difficult as the unit costs of investments rise, as recurrent costs associated with past investments accumulate and as opportunities for accessing low cost external financing become more limited. Meeting this financing challenge will require: (i) restraint on current expenditures; (ii) greater emphasis on cost recovery in financing both infrastructure and social services; and (iii) a substantial broadening of the tax base.

41. As a growing share of income flows to the private sector, efficient tax instruments will need to be devised to finance essential Government services. The two traditional sources of fiscal revenues--import duties and public enterprise dividends--hold limited prospects for growth as tariff rates are reduced and as public enterprises play a smaller role. Recognizing limited institutional capacity to administer tax systems, the Government needs to introduce a phased program of tax reform that could include an urban property tax, a broad-based sales tax, a flat-rate corporate tax (applied to large entities) and a flat-rate income tax. At the same time, regularization of the pricing of tourist estate lands will be expected to make a major contribution to non-tax revenue growth.

### Human Resource Development

42. The Maldives has a proven track record in providing essential social services to the great bulk of the population. The main strategic considerations that will govern human resource development in the 1990s are:

- labor force demand will remain buoyant particularly in the private sector and less so in the public sector;
- while labor force supply, particularly of secondary school graduates, is expected to rise sharply, there will continue to be a need for expatriate labor in both the unskilled and highly-skilled segment of the work force;
- rapid population growth will necessitate continued expansion of preventative and primary health care, and primary education programs;
- at the same time, given rising income levels, the main focus of social service investments in the next decade will be in upgrading services and expanding the provision of curative health services, secondary education and vocational training;
- prospects for growth in the relative share of public expenditures for social services are limited; at best outlays will track overall expenditure growth; and,
- given financing and manpower constraints, efficient and sustainable provision of social services will require setting reasonable coverage targets, a high degree of cost-recovery and accelerated training of service providers.

43. Education. Careful prioritization of education expenditures will be required in light of rapidly rising service demand, limited teacher supply and expenditure constraints. In particular, it will be difficult to meet the objective of universal education to the grade 7 level by the year 2000. Rather than expand coverage too rapidly, emphasis should be placed on quality upgrading, through teacher training and curriculum development, which, in turn, would require the consolidation of educational service institutions. Over the long-term, to encourage broad-based regional participation in secondary education, development of boarding facilities at a regional institutions is recommended. To encourage efficient use of limited education resources, a higher level of cost-recovery should be considered based on a mix of fees, student loans and community finance. Expanding vocational training at the secondary and post-school levels is a priority; this would require increased enrollments in vocational training centers and greater participation of the private sector in the provision of such training.

44. Health Services. Considerable progress has been registered in reducing communicable, tropical diseases, but more remains to be done. The provision of primary health care services, especially mother and child health programs, need to be improved in the atolls through increasing the supply of trained health workers and drugs, improving transport facilities and decentralizing administrative responsibility to local levels. As the disease

profile shifts, demand for tertiary health care services will rise. Development of the new hospital in Male will lead to a three-fold increase in curative service capacity. However, the staffing, financing and operations and maintenance requirements for the hospital are all formidable challenges that have still to be addressed. These issues also will have to be resolved for the four proposed regional hospitals. It is clear, however, that a greater degree of cost-recovery, both for hospital-based medical services, and for medicines, will be needed. In the medium-term, a major effort also will be needed to increase the supply of doctors and trained nurses through overseas training.

45. Water Supply. Provision of potable water supplies is a problem, particularly in Male where the aquifer level is at a dangerously low level, despite the development of desalination plants. The supply gap for fresh water in Male (currently about 10 percent of potential demand is met) is so large as to call for concerted action to increase supply (through offshore storage tanks) and to introduce user charge measures to price water according to its scarcity value.

46. Population. With improvements in mortality and morbidity, and continued high fertility levels, the population growth rate increased from 3.1 percent in 1980 to 3.4 percent at the end of the decade. Such exceptionally rapid population growth leads to a considerable burden on families and the Government to provide for the needs of the young and the aged. The Government has recently put much greater emphasis on child spacing programs. Urgent efforts are required to: (i) increase contraceptive availability and awareness; (ii) allow private sector provision of contraceptives; and (iii) integrate population topics into mass media and education curriculum.

47. Women in Development. The role of women in the growth process should be enhanced, particularly as household demands diminish with slower population growth. In the atolls, promotion of handicraft development promises to expand female employment opportunities. In tourism, new resort developments should provide adequate residential facilities to accommodate female employees and/or working families. In the civil service, promotion of qualified women, of which there is an ample supply, into the higher ranks of public responsibility, would have an important positive effect on gender attitudes and awareness.

#### The Prospects for Sustained Growth in the 1990s.

48. The outlook for growth in the Maldives' major external markets is optimistic for the 1990s. Following a recovery in 1991, real output in the major industrial countries is projected to accelerate slowly over the next few years, recording growth during the remainder of this decade, that is virtually identical to the 1980s. During the middle years of the decade growth would be particularly strong in Europe (which is the Maldives' major market for tourism), having been stimulated by German unification and the creation of a single market in the European Community. In the Maldives' developing-country markets of East Asia, prospects are also favorable, with growth during the 1990s expected to average only a little below the rapid rates of expansion witnessed during the past two decades. The main indicators for inflation point towards moderation in the coming years, with a modest improvement in store for the Maldives' external terms of trade.

49. The Outlook and Policies. Following a year of slow growth in 1991, the short-term outlook for the Maldives' economy is dominated by a tourism-led recovery and retrenchment in government expenditures, which taken together set the stage for a return to the robust growth of earlier years. After increasing by about 5 percent in 1991, real GDP would rebound by 8 percent in 1992 before slowing a little to 7 percent in 1993. Regarding fiscal policy, measures on the side of both revenue and spending are expected to narrow the overall deficit from 14 percent of GDP in 1990 to just over 5 percent by 1993.

50. Over the medium-term, real growth would continue strong, in the range of 6 - 8 percent per annum, led by rapid--albeit decelerating--growth in tourism. Fisheries would slow markedly, to about 5 percent per annum from almost 10 percent in the 1980s. Slowing growth over the medium-term would be moderated somewhat by government administration and agriculture; the government sector would pick-up after the current period of fiscal consolidation while agriculture would recover slowly from destruction caused by the severe storm of May 30 while making inroads into the resort community as a local supplier of fresh fruits.

51. Looking past the current period of fiscal retrenchment, fiscal management would stress a strong domestic resource mobilization effort to offset declining foreign grants and to address demands for increased current and capital expenditures. The overall fiscal balance should be set on a path that is covered by inflows of foreign assistance (grants and concessional loans) plus a relatively small allowance for domestic financing. On this basis, the overall fiscal deficit would increase slowly over the medium-term, from just over 5 percent of GDP in 1994 to just under 7 percent by the year 2000, reflecting rising disbursements of foreign assistance.

52. The balance of payments would exhibit a pattern of sustained sizable surpluses over the next decade. There would be strong external demand for Maldivian exports and tourism services. The capital account is forecast to return to a sizable surplus in the 1990s, mainly on the strength of substantially larger private capital inflows. External debt obligations of the Maldives, which are currently at low levels by international standards, are not expected to become a source of pressure on the fiscal or external accounts.

53. External Financing. The external financing needs of the Maldives are expected to rise only slowly over the early years of the 1990s, reflecting the tourism-led nature of the recovery in 1991-93 and the success of the stabilization effort. During the second half of the decade, the financing requirement would widen significantly, to an average of almost US\$45 million per year compared with just over US\$20 million in the first half of the 1990s. Substantially higher private capital inflows, and rising official disbursements will be needed to meet this requirement.

54. Based on the prospects for continued strong economic performance and on the strength of domestic policies, Maldives needs--and is fully deserving of--strong external support. Efforts should be made to explore all possible opportunities to mobilize external assistance for the Maldives. On the part of the Government, this would require clear prioritization of the public investment program, concerted attempts to make frequent contact and coordinate activities with the donor community and development of a portfolio of large,

well-defined investment projects suitable for cofinancing. The Maldives has an admirable record of effective utilization of foreign assistance in the past, and all indications suggest that future support will be used in an equally efficient manner. In light of the nation's important financing need, the Government's commitment to broad-based development and policy reform, strong support of the donor community is fully warranted.

55. Reform Priorities. The development agenda portrayed above is necessarily broad and comprehensive. Some areas will require especial emphasis in the near medium-term. In the near-term, restoration of financial stability, to be accomplished primarily through expenditure restraint, is a very high priority. Over time, as budgetary pressures mount, efforts will be needed to broaden the domestic resource mobilization effort and to shift a greater share of the economic activity to the private sector. The latter, however, will require improvements in the enabling environment for private sector development, with particular emphasis on tariff reform, commercial law development, and deepening of the financial sector and improved environmental management.

56. Two areas of future private sector activity, in tourism and fisheries, merit special attention. Both sectors could very well reach limits to growth in 3-5 years unless: (i) private sector investment in land-based tuna collection/export facilities is encouraged; and (ii) a new region of the country is opened-up (with transport and communications facilities) for expansion of resort investments. Immediate action is required to ensure a smooth pattern of growth in both these lead sectors.

57. Continued emphasis on human resource development--with a greater weight of services devoted to primary education and basic health care--remains the highest development priority for the public sector. To deal with strong growth in demand for high cost services (tertiary health care and secondary education) on the one hand, and rapid expansion in population on the other, human resource development services will come under considerable budgetary pressure. In this environment, key initiatives would include: (i) a much greater role for family planning services; (ii) continued focusing of health services; and (iii) rapid deployment of a wide range of cost-recovery mechanisms for the more high-cost social services.



## Chapter 1. REVIEW OF RECENT ECONOMIC DEVELOPMENTS

### A. Introduction

1.1 The Maldives' economy is one of the great developmental successes of the past two decades. Despite remoteness, a physically tiny land mass and limited natural resources, real growth has averaged approximately 10 percent per annum; inflation has been kept in check; unemployment is virtually non-existent; social indicators are superior to other countries in similar situations; and occasional bouts of external imbalance have been overcome by the firm implementation of macroeconomic policy adjustments. In many ways, the Maldives has become a model of developmental success for other small island economies (see Table 1.1).

1.2 Three main elements underlie the Maldives' success as a model for development. First, the Government has put in place a supportive policy framework founded upon financial stability, international competitiveness and sound macroeconomic management. Second, the Government has been able to set its investment priorities well, following an outward-looking strategy that emphasizes specialization in a few key sectors--with considerable diversification within these sectors--and strong private sector leadership in the most dynamic sector, tourism. Third, the authorities have succeeded in creating effective public sector institutions that have stressed infrastructural development and social service delivery; those institutions have also been prepared to operate as joint ventures with the private sector and, when necessary, to withdraw from unsuccessful endeavors.

1.3 Building upon its successes, the Government faces the challenge of adapting these elements of its developmental strategy so as to sustain the pace of development in the Maldives. While tourism and fisheries will continue to lead the growth process, the high cost and managerial complexity of the next generation of investment calls for a greater reliance on private investment to sustain high rates of growth and development. This, in turn, will require changes in the economic role of the public and private sectors.

1.4 This report lays out a policy agenda that is intended to facilitate the Government's task in this regard. After reviewing recent economic developments in the remainder of this Chapter, the report turns in Chapter II to establishing a growth strategy for the 1990s. In this context, special emphasis is devoted to maintaining a sound macroeconomic framework and to shifting the emphasis of development away from public institutions--which in some cases are becoming a hinderance to sustaining the pace of progress--and towards greater development of the private sector. Chapter II also discusses key sectoral issues, with particular attention paid to the all-important fisheries and tourism sectors. Chapter III turns to human resource development, with separate discussions of policies related to education and health. The report concludes with Chapter IV, which presents the medium-term outlook based upon implementation of the policy agenda presented elsewhere in the report; the Chapter also provides a discussion of issues related to the Maldives' external financing requirements in the 1990s.

**Table 1.1: GROWTH AND SOCIAL INDICATORS: INTERNATIONAL COMPARISON, 1984-91**  
(Annual % change at constant prices)

	1984-89	1990	1991 Est.	Infant Mortality Rate (per 1000)	Overall Literacy Rate (% of pop.) <u>/a</u>
GDP: Maldives	9.8	15.1	4.7	34.0	96.0
Primary sector	6.4	9.9	2.7		
Of which: Fisheries	9.3	11.2	3.0		
Secondary sector	10.2	17.5	7.4		
Tertiary sector	11.6	16.9	5.0		
Of which: Tourism	12.9	20.7	4.0		
GDP: Other countries					
Mauritius	7.5	6.6	..	21.7	83.0
Singapore	5.9	8.3	..	7.0	86.0
Tonga	2.7	2.5	..	23.4	..
Barbados	2.5 <u>/b</u>	..	..	15.8	..
Fiji	1.8	3.9	..	19.7	86.0
East Asia	7.9	6.7	..	58.1 <u>/c</u>	61.0 <u>/c</u>
South Asia	5.1	4.2	..		

/a Age 15+.

/b 1980-1990.

/c All Asia.

Source: Data provided by the Maldivian authorities, International Financial Statistics, Social Indicators of Development and Bank staff estimates.

## B. Output, Employment and Inflation

1.5 Economic Structure and Performance. The real sector of the Maldives economy is characterized by a high degree of openness and a few leading, outward-oriented sectors that have served as a strong engine of economic growth in the past several years. The most important of these sectors is tourism, which directly accounts for almost 20 percent of GDP (see Figure 1.1), almost half of foreign exchange earnings, and roughly a quarter of government revenues. Moreover, the sector provides employment for some 7000 persons (of whom one-third are expatriates), equivalent to one-eighth of the labor force. Expansion of tourism in the Maldives has been among the most rapid in the world (see Table 1.2), drawing mainly upon the European market and projecting an image that emphasizes affordable vacations on secluded, tropical islands. Details of this sector, including a discussion of policy issues and the role of the government, are presented in Chapter II.

Table 1.2: COMPARATIVE TOURISM: 1981-1988  
(Number of Arrivals from Abroad, in 000s)

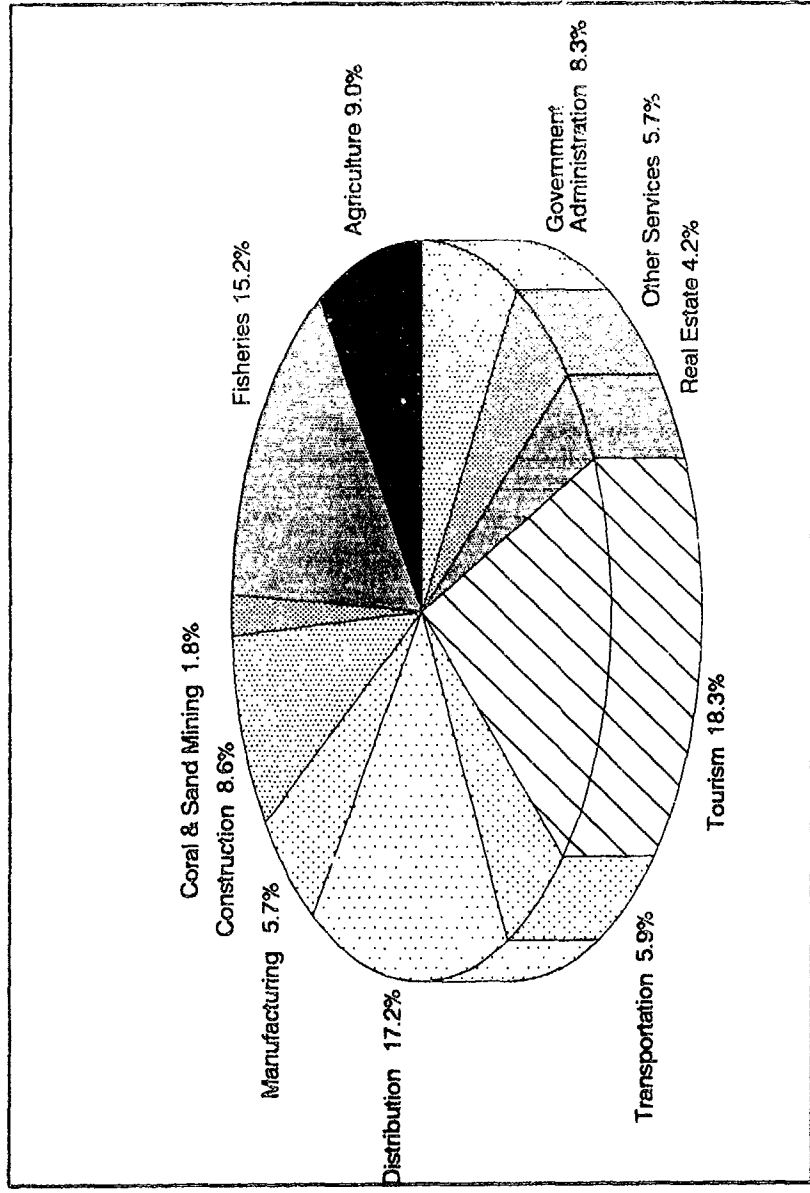
Country	1981	1988	% Change per annum
Maldives	60	156	14.6
<u>Larger Countries</u>			
Turkey	1052	3715	19.8
Australia	937	2249	13.3
Portugal	3021	6624	11.9
Thailand	1979	4231	11.5
Kenya	373	677	8.9
Tunisia	2151	3468	7.1
<u>Smaller Countries</u>			
Hong Kong	1999	5589	15.8
St. Marten	190	480	14.2
Antigua/Barbuda	85	187	11.9
St. Kitts/Nevis	35	70	10.4
Mauritius	131	240	9.0
Dominican Republic	613	1116	8.9
St. Vincent/Grenadines	40	64	6.9

Source: Yearbook of Tourism Statistics, various issues.

1.6 As discussed in more detail in Chapter II, fisheries has also grown rapidly during the past decade. In 1990, it contributed more than 15 percent of GDP, more than half of merchandise exports and provided jobs for roughly one-fifth of the labor force. In the extreme north and south of the country, fishing is the dominant--and sometimes only--economic activity. Traditionally, the most important catch has been tuna, which is exported in canned or frozen form, mainly to Thailand, Japan and the United Kingdom. In recent years, there has also been rapid growth in other types of marine exports, most notably exotic seafoods (sea cucumbers and shark products) for consumption in Asia. Despite some concern regarding the sustainability of harvesting levels of some of the exotic marine exports, Maldivian fishing operations follow environmentally sound procedures, and are among the most efficient in the world.

1.7 The other main sectors of the economy include distribution (wholesale and retail trade), agriculture, construction, transportation and government administration. Traditionally, distribution has been dominated by the State Trading Organization (STO), particularly as regards buying, warehousing and distributing a major share of imports, including essential

**Figure 1.1: ECONOMIC STRUCTURE, 1990**  
(% of GDP at constant prices)



foods and petroleum products. However, during the recent slowdown in economic activity STO has withdrawn from much of its wholesale and retail activities, opening the way for private traders who have successfully established themselves in this sector of the economy. There is limited scope for agriculture in the Maldives, owing to poor soil and a lack of cultivable land. Nevertheless, several tree crops are grown in quantity (coconuts, bananas, papayas, mangos and breadfruits) and bananas have made important inroads into supplying the resort community; less than 5 percent of the labor force, mainly women, is engaged in agriculture. Manufacturing, most notably garment factories in the southern islands, has increased in importance in recent years and now employs around 15 percent of the labor force; other operations in this sector include a tuna canning plant, a soft-drink bottling plant, a boat-building industry and enterprises producing construction materials. The transportation sector is dominated by public enterprises--MNSML (a national ship company), Air Maldives, the Department of Post and Telecommunications and MTCC (a national transport and contracting company); the private sector mainly provides local and inter-island transport for goods and passengers. MNSML has been significantly down-sized in recent years while telecommunications and MTCC services are provided on a joint venture basis.

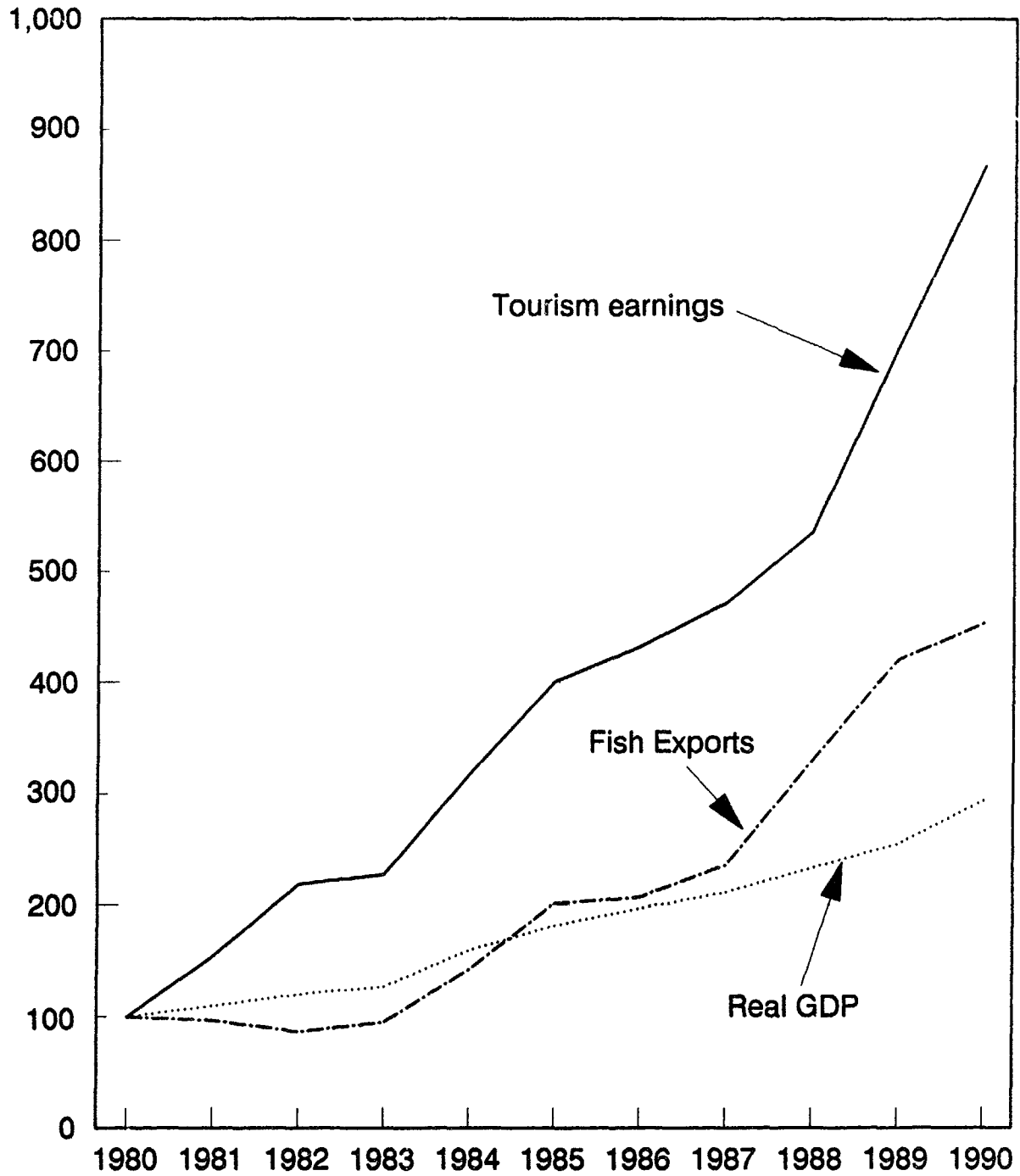
1.8 Economic Growth. For the past decade and a half, the Maldives economy has recorded a remarkable pace of economic growth, with GDP increasing by some 10 percent per annum since Independence in the mid-1970s. Led by two main sectors--fisheries and tourism, the nation has achieved output gains that are well in excess of virtually all other economies (see Figure 1.2). In 1990, GDP is estimated to have increased by an exceptional 15 percent, owing to rapid expansion in all major sectors of the economy (see Table 1.1). In that year, fiscal policy was significantly expansionary, contributing to demand pressures in transportation, tourism, mining and construction, which all grew in excess of 19 percent in real terms; no major sector of the economy expanded by less than 5 percent in 1990.

1.9 In 1991, the Maldives economy is expected to slow, reflecting the high rate of expansion in the previous year as well as adverse developments at home and abroad early in the year. Tourist arrivals were hard-hit by the combination of slow growth in Europe around year-end 1/ and the great reluctance of tourists to travel abroad during the Gulf War. In the first months of the year, tourist arrivals turned sharply downward, dropping by 9 percent in the first three months of 1991 relative to the same period in the previous year. At the same time, agricultural production (primarily tree crops such as banana, mango, coconut, breadfruit and papaya in the southern islands) was adversely affected by a severe wind storm that struck the islands on May 30; the storm also interrupted fishing and transportation activity for a few days and destroyed several boats. In addition, the failure of a large international bank (BCCI), which operates a branch in the Maldives, is

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1/ Despite some diversification in recent years, Europe (principally Germany, Italy and the United Kingdom) still accounts for more than three-quarters of tourist arrivals into the Maldives; South Asia accounts for another 12 percent while Japan represents another 8 percent (Appendix Table I.2).

**Figure 1.2: SELECTED INDICES OF ECONOMIC INDICATORS, 1980-1990**  
(1980=100)



expected to have a disruptive influence on financial intermediation. Policy actions also contributed to the slowdown in growth, with both monetary and fiscal policy adopting an appropriately restrictive stance to maintain financial stability (see Section C below).

1.10 By mid-1991, the economy had regained much of the momentum of earlier years. Tourist arrivals rebounded strongly around the middle of the year and by late July bookings were heavy for the remainder of the year. Also, generous amounts of foreign assistance came promptly to the assistance of those parts of the country that were worst-affected by the wind storm mentioned above.

1.11 For 1991 as a whole, real GDP is expected to increase by just under 5 percent, with the primary sector increasing by less than 3 percent and tourism expanding by 4 percent. Spillover effects from these two sectors-- which taken together account for more than 40 percent of GDP--as well as the policy actions noted above, would cause growth in all other sectors of the economy to drop below the exceptionally high growth rates recorded in 1990.

1.12 Labor Force and Employment. Only limited data are available on employment and the labor force in the Maldives. Census data indicate that between 1985 and 1990 total labor force rose by approximately 1.5 percent per annum, despite rapid population growth of 3.4 percent annually (see Appendix Table I.3).<sup>2/</sup> Fisheries is the most important single activity for the Maldivian labor force; in 1990 it accounted for 20 percent of the local labor force, down from almost 25 percent in 1985, reflecting a shift in the fisheries sector towards increased mechanization. The share of the labor force engaged in agriculture and manufacturing also dropped significantly between 1985 and 1990; by contrast, the share of tourism doubled, from 5 to 10 percent, indicative of the strong expansion in this economic sector during the past several years.

1.13 Total employment is estimated to have grown by around 3 percent per annum between the census years 1985 and 1990 (see Appendix Table I.3). The construction industry was a leader in this respect, with job creation expanding at an average annual rate in excess of 4 percent. Employment in the fisheries sector declined during the second half of the 1980s, at 1.5 percent per year, reflecting the adoption of more capital intensive methods of operation. Employment in other sectors taken as a whole rose at an average annual pace of 2.5 percent, indicative of rapid economy-wide productivity gains in this period.

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<sup>2/</sup> This divergence is accounted for by two factors: first, the demographic structure of the population is heavily weighted towards youth (45 percent of the population is below 15 years of age and the median age of the population is 16), suggesting that the bulk of the population growth has occurred outside the population of labor force age; and second, there was a sharp decline in labor force participation rates of both males and females between the census years 1985 and 1990.

1.14 There is virtually no open unemployment in the Maldives. For several years there has been an on-going shortage of labor in the country and it is common for persons--especially those in the public service--to hold second jobs. To meet the labor shortage, the Government has followed a liberal policy towards expatriate labor, which rose from 4 percent of the labor force in 1985 to more than 15 percent in 1990. Most foreign workers in the Maldives come from Sri Lanka, Bangladesh and India for use in the private sector, especially tourism (see Appendix Table 1.4).

1.15 Prices and Wages. Despite rapid economic growth and a tight domestic labor market, official statistics indicate that inflation has been reasonably well contained in recent years.<sup>3/</sup> From 1985-90, consumer prices rose by roughly 8.5 percent per annum, pushed up by the declining nominal value of the rufiyaa, which fell by approximately one-third during this period, and by rapidly rising rents, brought on by overcrowding in the capital (see Table 1.3). Inflation in 1990 was moderated by a substantial decline in clothing prices which reflected movements in export prices for garments manufactured in the Maldives. On the basis of preliminary data for the first half of the year, inflation is expected to accelerate in 1991, probably into double digits for the year as a whole. This outcome would incorporate the effects of a large salary increase paid to public employees late in 1990, an 8 percent drop in the value of the rufiyaa through mid-year and a continued climb in rents in Male.<sup>4/</sup>

1.16 In tandem with strong growth in output and economy-wide productivity, there has been a substantial rise in real wages in the Maldives in recent years. Average wages paid in tourist resorts rose by approximately 15 percent annually from 1985-90, a little faster than those paid in garment factories while wages in the fisheries industry have tended to lag somewhat behind other major categories in the private sector. In the public sector,

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3/ The official consumer price index suffers from several shortcomings that may understate inflation in the Maldives. For example, it is constructed using a weighting scheme base upon 1981 consumption patterns, which have become out-dated by the rapid output and income growth of the past decade. Also, month-to-month movements in some components of the CPI have exhibited considerable volatility, suggesting substantial sampling error. Greater priority should be attached to the collection and processing of these data; a similar effort in the area of the national accounts would also be helpful.

4/ No official data exist for the GDP deflator. However, on the basis of estimated declines in the country's external terms of trade, the GDP deflator would have increased by somewhat less than the CPI in recent years. Bank staff have estimated an average annual increase of 6 percent for the GDP deflator from 1985-91, compared with 9 percent for the CPI.



Table 1.3: CONSUMER PRICE INDEX, 1985-91  
(annual % change)

	Weights	1985-89	1990	1991 Est.
Consumer price index	100.0	8.9	7.4	11.5
By commodity group:				
Food	57.4	7.4	9.3	..
Clothing	8.0	9.7	-11.2	..
Rent	1.6	26.1	24.3	..
Household equipment	17.0	9.6	3.0	..
Transportation	2.6	2.2	0.3	..
Tobacco & beverages	4.4	4.1	6.0	..
Health & personal	2.5	10.8	9.8	..
Recreation & education	6.5	5.0	-0.8	..

Source: Data provided by the Maldivian authorities and Bank staff estimate.

wages tend to be lower than in the private sector.<sup>5/</sup> However, they were increased by an average of some 40 percent in September 1990, the first increase since 1988. The September 1990 increase ranged from 25 to 75 percent with the largest increases concentrated in the lower-paid grades.

1.17 Despite the real wage increases of recent years, wage levels in the Maldives still compare favorably to countries in similar circumstances (see Table 1.4). In 1990, wages in the Maldives' garment industry were considerably below other small island economies in the Pacific and the Caribbean, and not far above remuneration in comparable industries in South East Asia.

Table 1.4: UNSKILLED WAGE RATES IN MANUFACTURING  
A Comparative Perspective, 1990

<u>Country</u>	<u>Wage Rate</u> (\$/day)	<u>GDP/Capita</u> (\$)
Maldives	4.8	628
Fiji	5.2	1,910
Mauritius	8.0	1,900
Indonesia	2.3	440
Thailand	3.8	1,050
Grenada	7.9	1,370
St. Kitts/Nevis	8.6	2,790
Korea	15.8	4,943

Source: "Fiji: Incentive Policies for Growth", World Bank and staff estimates.

<sup>5/</sup> It should be noted that public sector employees tend to work less than a full day in the Maldives. Typical office hours are from 8:30 AM to 1:30 PM, and as noted earlier, many civil servants hold a second job in the private sector.

### C. Fiscal and Monetary Developments

1.18 Review of Macroeconomic Policies. Since Independence in the mid-1970s, the Maldives has established a track record of sound macro-economic management, which has contributed in a substantial way to the country's rapid economic growth and strong external position. A major test in this regard came with the emergence in the early 1980s of unsustainable domestic and external imbalances. In response, the Government implemented a strong program of stabilization in 1984-88, which included a tightening of fiscal and monetary policies and a 25 percent devaluation of the exchange rate in 1987. As a consequence, the fiscal position moved into surplus in 1987-88; net domestic assets of the banking system contracted by over 25 percent from 1985-88; and, the overall balance of payments moved into surplus in 1985 and continued to improve through 1988.

1.19 Shortly after the 1984-88 period of stabilization, policies adopted a strongly expansionary stance. After shifting from a surplus equivalent to 3 1/2 percent of GDP in 1988 to a deficit of the same size in 1989, the overall fiscal deficit widened to 14 percent of GDP in 1990, mainly on account of rapidly expanding current expenditures in the face of stagnant revenues and grants. Monetary policy contributed to the expansionary thrust during much of this period by a relaxation of policy during the second half of 1989, which encouraged rapid expansion in commercial bank credit to the private sector. The adverse effects of these expansionary policies quickly became apparent in the value of the rufiyaa, which declined by more than 6 percent vis-a-vis the US dollar during the twelve months ending June 1990. Concerned by the depreciating exchange rate and emerging developments in the Gulf, the Maldives Monetary Authority (MMA) abruptly tightened policy in August 1990 and followed-up with further measures effective January 1, 1991.

1.20 Notwithstanding tighter monetary policy, fiscal policy remained expansionary through early 1991. In late 1990, a budget was approved that anticipated an unchanged overall balance, financed by continued large borrowings from the Monetary Authority. Such large borrowings did indeed eventuate through the first quarter of 1991. However, in early 1991 the authorities took steps to bring government expenditures under firmer control, directing line ministries to sharply curtail spending on a number of low-priority items, such as travel, telecommunications, entertainment and energy. As of mid-1991, it appeared that these steps were beginning to yield tangible results; credit expansion from the MMA to the Government had slowed markedly, and there were signs that further expansion would be well-contained.

1.21 The near-term challenge will be to ensure that the stance of fiscal policy is brought into step with that of monetary policy. During the final months of 1990 and the early months of 1991, a great deal of the burden of adjustment was being borne by monetary policy, which has resulted in inflationary expansion of domestic credit to the Government and a crowding out of borrowing by the private sector. In this context the budget for 1992 figures prominently. It will be important for the Government to prepare a budget that adjusts both expenditures and revenues so as to set the deficit on a medium-term path that implies negligible net domestic financing of the budget deficit. While ambitious, such a target for the budget deficit would

take full recognition of the financial needs of emerging private sector while demonstrating the Government's commitment to the containment of domestic inflationary pressures.

1.22 Fiscal Revenues and Grants. Following several years of rapid expansion that averaged 30 percent annually, total revenues and grants barely increased in 1990 and are expected to rise by less than 20 percent in 1991. This volatile pattern is largely attributable to fluctuations in grants, which dropped sharply in 1990 following completion of a school and a breakwater project, which had been financed by the Japanese Government. Grants will increase considerably in 1991 with construction of the Centre for Social Education, which is also largely financed by the Japanese Government.

1.23 Tax and non-tax revenues are estimated to have slowed markedly in both 1990 and 1991. Import duties, which account for over half of total tax revenues, increased by less than 6 percent in 1990 and appear likely to increase by only slightly more in 1991. The slow growth in customs duties in 1990 is partly due to reform of the tariff structure undertaken in early 1990, when the Government significantly reduced import duties on a broad range of consumer products, machine tools and spare parts; duties on rice, wheat flour and sugar were abolished; and the duty on cement was lowered from 20 to 15 percent.<sup>6/</sup> Revenues from tourism taxes, which helped to sustain revenues in 1990, are expected to increase by only 4 percent in 1991, reflecting the slow pace of tourist arrivals noted earlier. Despite an increase in the bank profit tax from 20 to 25 percent, revenues from this source are expected to decline in 1991 reflecting tight monetary conditions and a reduced volume of bank lending. On the side of non-tax revenues, there would be sharply lower growth in 1991 owing mainly to a decline in profits of the State Trading Organization.

1.24 Fiscal Expenditures. Current and capital expenditures have increased rapidly in recent years, with both components rising from around 15 percent of GDP in 1985 to more than 30 percent in 1990 (see Table 1.5). After rising at an average annual rate in excess of 20 percent per year between 1985 and 1989, current expenditures soared in 1990, by more than 40 percent, out-stripping budgeted outlays by some Rf.50 million. This rapid expansion in 1990 stemmed in part from special factors, namely the Twenty-fifth Anniversary of Independence and the November 1990 South Asian Regional Summit; taken together, these extraordinary outlays accounted for roughly Rf.30 million or approximately 10 percent of current expenditures in 1989. However, the rapid expansion of current expenditures in 1990 also reflected factors that permanently boosted expenditures, most notably a salary increase of roughly 40 percent for civil servants with effect from September 1, 1990.<sup>7/</sup>

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<sup>6/</sup> The duty on cement was reduced also for environmental reasons, to conserve island reef coral which is commonly used as a building material.

<sup>7/</sup> As noted earlier, the salary increase, which ranged from 25-75 percent, was the first since 1988. It was intended to stem the drain of skilled personnel from the public service.

Table 1.5: MALDIVES: SUMMARY OF CENTRAL GOVERNMENT FINANCE

	1985	1986	1987	1988	1989	1990		1991	
						Budget	Est.	Budget	Est.
(Annual percentage change)									
Total revenue and grants	2.3	51.3	44.4	15.2	35.9	4.2	1.7	19.3	19.5
Total revenue	22.8	19.0	47.4	15.9	27.6	17.1	15.9	6.5	6.7
Tax revenue	27.6	15.1	54.9	26.8	29.9	13.4	10.5	2.8	6.5
Nontax revenue	17.5	23.8	39.1	2.2	24.2	23.2	24.6	11.8	7.1
Grants	-76.4	696.4	35.4	13.2	63.6	-29.3	-35.2	79.1	78.8
Expenditure and net lending	0.0	54.3	14.6	13.9	56.3	20.8	23.5	18.9	8.4
Current expenditure	17.5	14.9	27.3	19.3	32.5	25.9	42.8	16.5	12.1
Capital expenditure and net lending	-18.2	113.5	4.3	8.5	82.0	16.8	8.3	21.3	4.5
(In percent of GDP)									
Total revenue and grants	29.0	39.5	48.8	47.0	57.0	50.5	49.2	50.4	50.4
Total revenue	27.6	29.6	37.3	36.1	41.1	41.0	40.5	37.0	37.1
Tax revenue	15.1	15.6	20.7	21.9	25.4	24.5	23.9	21.1	21.8
Nontax revenue	12.5	13.9	16.6	14.2	15.7	16.4	16.6	15.9	15.3
Grants	1.4	9.9	11.5	10.8	15.8	9.5	8.7	13.4	13.4
Expenditure and net lending	33.6	46.5	45.7	43.4	60.6	62.2	63.6	64.8	59.1
Current expenditure	20.1	20.8	22.7	22.6	26.7	28.6	32.4	32.4	31.2
Capital expenditure and net lending	13.4	25.8	23.0	20.8	33.9	33.6	31.2	32.4	27.9
Overall balance	-4.5	-7.1	3.1	3.5	-3.6	-11.8	-14.4	-14.4	-8.6
Domestic financing	5.0	0.0	-8.1	-3.7	-4.2	7.8	5.6	5.4	2.8
Ext. finance/Capital exp. (X)	37.0	68.8	68.6	72.7	67.3	56.7	58.6	78.3	75.2

Source: Data provided by the Maldivian authorities and Bank staff estimates.

1.25 Capital expenditures exhibit substantial year-to-year volatility in the Maldives, as such expenditures depend to a great extent upon the timing of a few large projects. In 1990 the pace of capital spending slowed markedly, reflecting the completion of two large projects--a breakwater and a primary school, both in Male. Nevertheless, capital spending was sustained at a high level relative to GDP owing to continued implementation of other projects in the areas of health, transportation and electricity, as well as the launching of a regional airport project.

1.26 In 1991, fiscal expenditures are expected to slow from the rapid pace of the previous year. Despite the large pay increase granted late in 1990, current expenditures would increase by only 12 percent in 1991 owing principally to cutbacks in new hiring of civil servants and to the impact of the expenditure control measures announced earlier this year (see para. 1.20 above). This outcome, together with some under-spending on the side of capital spending, would result in total fiscal expenditures being contained well within the budgeted amount for 1991.

1.27 Budget Financing. As part of the Government's 1984-88 program of stabilization, the overall fiscal balance recorded a surplus equivalent to more than 3 percent of GDP in 1987 and 1988. Foreign financing--largely in

the form of grants or borrowings on highly concessional terms--was substituted for domestic debt, which fell by some 15 percent of GDP between 1985 and 1989. As fiscal policy shifted to an expansionary stance in 1989 and 1990, disbursements of foreign assistance increased markedly, but were insufficient to close the rapidly widening fiscal deficit. Consequently, the Government relied on significant amounts of domestic financing in 1990, when the Maldives Monetary Authority provided the Government with financing equivalent to about 5 percent of GDP; a similar amount was budgeted for 1991. However, as described above, total expenditures are expected to be contained well within budgeted amounts for 1991 while total revenue and grants would be in line with the amounts foreseen in the budget. In the face of continued high levels of donor financing, there would be an appreciable drop-off in domestic financing needs, to nearly 3 percent of GDP in 1991.

1.28 Monetary Developments. The aim of monetary policy in the Maldives is to ensure the availability of sufficient liquidity to accommodate economic growth at a pace consistent with price and balance of payments targets. To achieve this aim, the Maldives Monetary Authority relies upon minimum reserve requirements and credit/deposit ratios;<sup>8/</sup> also, the MMA sets interest rate ceilings on commercial bank loans in local currency, specified in terms of a spread relative to New York prime. The Monetary Authority also supervises banking and financial institutions and manages the daily setting of the exchange rate, which as a matter of policy, is determined by the demand for and the supply of foreign exchange. This approach to the conduct of monetary policy has generally served the Maldives well. In the past several years, inflation has been kept reasonably under control, official international reserves have expanded rapidly and the external competitiveness of the economy has been maintained.

1.29 Monetary policy was relaxed in August 1989,<sup>9/</sup> to finance new tourist facilities and buoyant import trade in the wake of the lifting of import quotas earlier that year. As a consequence, bank credit to the private sector increased strongly during the subsequent 12 months, by more than 45 percent during the year ended June 1990. During the same period, central bank credit expanded rapidly to finance the widening fiscal deficit, although this was partly offset by lower credit to the public enterprises. To rein in this growth in credit and to contain pressure on the exchange rate, the MMA tightened policy in August 1990 and followed-up with additional measures early

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<sup>8/</sup> Sectoral credit limits were withdrawn in August 1989.

<sup>9/</sup> In August 1989, reserve requirements were reduced from 35 percent to 25 percent of total deposits, sectoral credit limits were withdrawn, and the ceiling on interest rates was lowered from 5 percentage points above New York prime to 3.5 percentage points.

in 1991.<sup>10/</sup> Credit expansion responded promptly; commercial bank credit to the private sector--especially for import financing--fell sharply in the fourth quarter of 1990 before declining further in the first half of 1991. During the 12 months ending in June 1991, commercial bank credit to the private sector rose by only 4 percent while bank advances to non-financial public enterprises (the great bulk of which is accounted for by the State Trading Organization) dropped by almost 45 percent. On the liabilities side of the monetary accounts, the growth rate of broad money has mirrored the shifts in the stance of policy in recent years. Measured on a 12-month basis, the growth of broadly defined money supply picked up noticeably after the easing of monetary policy in mid-1989, reaching a peak of nearly 30 percent in March 1990 compared with 17 percent during the four preceding years. Following the tightening of policy that began in August 1990, the growth rate of broad money fell back to a little less than 20 percent during the year ending June 1991 (see Table 1.6), however narrow money grew by more than 30 percent while net Government borrowing (reflecting continued expansionary fiscal policy) continued to absorb nearly two-thirds of liquidity in the domestic banking system.

Table 1.6: MONETARY AND PRICE DEVELOPMENTS, 1986-91  
(12-month percentage change)

	1986	1987	1988	1989	1990	1991 June
Broad Money	23.3	11.8	15.8	18.2	16.4	18.8
Domestic Credit	-1.3	-8.3	-15.3	28.8	24.4	3.3
Of which: Public	-1.2	-13.7	-25.2	46.7	19.6	2.7
Private	-1.4	-0.5	-2.9	11.5	30.6	4.0
Deposit Rates <u>/a</u>	9-11	5.5-7	5.5-7	5-7.5	3-7	3-6.5 <sup>/c</sup>
Consumer Price Index <u>/b</u>	9.1	11.7	10.4	4.6	7.4	11.5

/a On 6 month to 1 year deposits; in percent.

/b Period averages.

/c March 1991.

Source: Maldives Monetary Authority and staff estimates.

<sup>10/</sup> In August 1990, the MMA announced an increase in the minimum reserve requirement of commercial banks from 25 percent to 30 percent on all deposits. Also, a cash margin requirement of 50 percent was introduced against the issuance of letters of credit for private sector imports valued at \$15,000 or above. In January 1991, the maximum credit/deposit ratio for bank credit in rufiyaa was lowered from 70 percent to 60 percent.

1.30 Interest rates in the Maldives are not highly responsive to shifts in the stance of monetary policy. As noted earlier, lending rates are subject to a ceiling that is linked to New York prime and there is only a small thin inter-bank market that operates among the four commercial banks.<sup>11/</sup> During the past several years, there have been only minor variations in deposit rates (see Appendix Table III.2 and preceding tabulation), which tend to be substantially negative in real terms.

#### D. External Sector and the Balance of Payments

1.31 Following several years of external imbalance in the early 1980s, the Maldives pursued a successful stabilization program that led to several years of robust surpluses in its overall balance of payments, which widened to almost US\$16 million in 1988. This impressive performance, which led to a five-fold increase in official reserves between 1985 and 1989, stemmed from rapid expansion of tourism receipts and fish exports; large inflows of official bilateral transfers; and, in most years, sizable private capital inflows. However, as noted earlier, there was a significant relaxation of policies in 1989-90 that was accompanied by a weakening of the external accounts: merchandise imports and travel payments expanded rapidly; merchandise export growth slowed; and, private capital shifted to net outflows. This weakening pattern continued in 1991 as a result of falling tourist arrivals in the first half of the year, declining fish prices and continued large outflows of private capital (including errors and omissions).

1.32 Current Account and Merchandise Trade. During the past several years, the structure of the Maldives' current account has been characterized by a large and growing deficit on merchandise trade--in part because of on-going deterioration in the nation's external terms of trade--which has been offset by substantial surpluses on the services account and on unrequited transfers (see Table 1.7). After shifting to surpluses of roughly 5 percent of GDP in 1988 and 1989 in response to the mid-80s stabilization program, the external current account of Maldives narrowed noticeably in 1990, to a surplus of 0.3 percent of GDP. In 1991, slower growth in imports, brought on by markedly lower growth in GDP, is estimated to have reversed the previous year's deterioration in the current account, pushing the surplus back to around 6 percent of GDP.

1.33 These movements in the current account in 1990 and 1991 are mainly accounted for by swings in key components of the merchandise trade account. In 1990, there was a particularly large deterioration in the terms of trade <sup>12/</sup> (see Appendix Table IV.2) and virtual stagnation of export

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<sup>11/</sup> Prior to mid-1991, there were five commercial banks operating in the Maldives: one joint venture between the Government and a financial institution in Bangladesh; local branches of three commercial banks with head offices in neighboring countries; and, a branch of the Bank for Credit and Commerce International, which closed in July 1991.

<sup>12/</sup> The export price for garments and exotic marine products dropped in the face of sharply higher import prices for petroleum, intermediate and capital goods.

Table 1.7: SUMMARY BALANCE OF PAYMENTS  
(In millions of U.S. dollars)

	1985	1986	1987	1988	1989	1990	1991 est.
Trade balance	-30.2	-36.6	-39.3	-38.4	-50.9	-58.9	-64.6
Exports, f.o.b.	25.5	26.9	34.9	44.6	51.3	58.1	61.1
Imports, f.o.b.	55.7	63.6	74.1	83.0	102.2	117.0	125.7
Services (net)	26.4	26.1	29.9	33.2	40.0	49.4	57.1
Unrequited transfers, net	-0.8	9.9	8.5	10.9	16.4	9.9	15.7
Current account balance	-4.6	-0.7	-0.9	5.7	5.5	0.4	8.2
Nonmonetary capital, net	5.3	3.8	11.4	10.1	-9.7	1.1	-4.9
Overall balance	0.7	3.1	10.5	15.8	-4.2	1.5	3.3
Memorandum items:							
Current account balance/ GDP (percent)	-5.5	-0.7	-1.0	5.4	4.8	0.3	5.9
Gross off reserves	4.6	6.9	8.2	21.8	24.4	24.7	25.2
(in months of imports)	1.0	1.3	1.3	3.2	2.9	2.5	2.4

volumes of fish, compared with increases of almost 20 percent per annum in the preceding three years. The total value of merchandise exports in 1990 was sustained by spectacular expansions in the volume of exports of garments and of exotic marine products (52 and 90 percent respectively), most notably sea cucumbers, dry shark fins and shark liver oil.

1.34 In 1991, the merchandise trade deficit is estimated to continue widening, but at a pace appreciably slower than in the previous two years. Merchandise imports would rise by only 7 percent in 1991 compared with more than 20 percent in the preceding two years, owing to lower economic growth in 1991, the August 1990 margin requirement against letters of credit for imports and falling petroleum prices. Total merchandise exports would increase by roughly 5 percent in 1991 (versus an average of 14 percent in 1989 and 1990) due to continued expansion of garments for export; exports of fish are expected to barely increase in 1991, reflecting a slightly larger catch that is almost fully offset by lower export prices.

1.35 Services and Transfers. The services account of the Maldives balance of payments is dominated by tourist-related items (which account for more than 85 percent of gross receipts), investment income payments and freight and insurance (which contribute almost 85 percent of gross payments). Historically, the balance on the services account has been in large surplus owing to the importance of tourism in the Maldives' economy (see Table 1.8).

1.36 After widening gradually between 1986 and 1988, the surplus on services account expanded rapidly in 1989 and 1990, before moderating somewhat in 1991, mainly in reflection of trends in tourism receipts. During the past decade, tourism receipts have increased nearly 30 percent per year, with the exception of a period of civil unrest in a neighboring country (1986) and the year of an attempted coup in the Maldives (1988). Also, as noted earlier, tourist arrivals turned downward in the first half of 1991, owing to a global aversion to international travel during the Gulf War; nevertheless, a strong



rebound occurred by mid-1991 and tourism receipts are expected to rise by some 11 percent for the year. Tourism payments have also increased rapidly in recent years, by approximately 35 percent per annum since 1985. Such rapid growth is indicative of the pace at which incomes are expanding in the Maldives, driving up the demand for business, vacation and pilgrimage (the Hadj) trips abroad.

Table 1.8: MALDIVES: SERVICES ACCOUNT  
(In millions of US dollars)

	1985	1986	1987	1988	1989	1990	1991
Total services (net)	26.4	26.1	29.9	33.2	40.0	49.4	57.1
Receipts	66.9	66.8	75.7	85.9	99.3	118.6	130.9
Transportation	23.9	21.1	25.9	28.9	29.5	32.3	36.0
Travel	37.7	40.7	44.4	50.4	66.2	81.5	90.5
Investment income	0.3	0.4	0.3	0.8	2.4	3.0	2.3
Government, n.i.e.	5.0	4.6	5.1	3.2	0.3	0.3	0.3
Payments	40.5	40.7	45.8	52.7	59.3	69.2	73.8
Freight and insurance	3.4	2.1	4.1	14.3	18.3	20.7	21.8
Other transportation	14.3	13.6	15.3	13.8	9.7	10.4	11.4
Travel	5.3	8.0	9.8	11.7	19.4	24.4	26.4
Investment income	13.5	13.4	11.3	10.7	11.0	12.8	13.3
Government, n.i.e.	3.3	3.2	3.4	1.2	0.9	0.9	1.0
Other	0.7	0.4	1.9	1.0	0.0	0.0	0.0
Travel, net	32.4	32.7	34.6	38.7	46.9	57.1	64.1

1.37 Payments on investment income <sup>13/</sup> comprise remittances of profits abroad as well as interest payments on both official and private debt. Total payments of investment income declined appreciably between 1986 and 1988 (see preceding tabulation), mainly reflecting financial difficulties in the garments industry. However, there was a recovery in 1990 stemming from stronger activity in the tourism and banking sectors, and a further increase is expected in 1991. Interest payments have been stable at a relatively low level in recent years mainly on account of the Maldives modest level of external debt and the policy of relying on concessional external assistance.

1.38 With regard to the transportation account, payments for freight and insurance have increased rapidly in recent years, roughly in line with the

<sup>13/</sup> Receipts of investment income largely comprise earnings on the nation's official foreign exchange reserves. These have increased at a healthy pace in recent years, mainly reflecting the rapid accumulation of official reserves at the MMA.

expansion of merchandise imports noted above. On the side of receipts, the national shipping operation, MNSML, has tended to contribute a small net inflow, following success in downsizing operations while maintaining the operation's profitability. Other, tourist-related receipts on the transportation account (jet fuel sales and airport fees) have also increased at a strong pace during the second half of the 1980s, owing to more frequent international flights to Male.

1.39 The balance on transfers has been in large surplus (of approximately US\$10 million) in the past several years, due to substantial official grants-- particularly from bilateral sources, mainly Japan. Official transfers increased rapidly after 1986, peaking at some US\$18 million in 1989 with construction of the Male breakwater and a primary school project; they are expected to pick up again in 1991 with on-going activity at an Indian-financed hospital and the start-up of a new port project and a new center for social education. Net private transfers, which have historically recorded a deficit of around US\$1 1/2 million per annum, represents the difference between remittances abroad by some 10000 expatriate workers in the Maldives and repatriation of earnings by 4000 or more Maldivians working abroad, mainly on foreign shipping lines. In 1991, inward private remittances are expected to be particularly small owing to disruptions to shipping during the Gulf War.

1.40 Capital Account and International Reserves. The (non-monetary) capital account of the Maldives' balance of payments comprises medium- and long-term public sector loans and private capital, including errors and omissions. There are no identified flows on foreign direct investment (which are known to have been of considerable magnitude in the tourism sector), and there have been no medium-term loans from financial markets since 1986, although there has been some recourse to suppliers' credits in recent years.

1.41 After averaging net inflows of around US\$8 million per year from 1985 to 1988, non-monetary capital shifted to a net outflow in 1989 and has tended to remain in deficit since then (Table 1.7). This pattern has been largely accounted for by movements in private capital (including errors and omissions), which recorded net inflows of approximately US\$10 million from 1985-88 before shifting to net outflows of a similar magnitude in more recent years. These net outflows may have reflected the easing of monetary policy in 1990 and uncertainty surrounding the effects of the Gulf War on the Maldivian economy in 1991. On the side of official capital, small net outflows had been recorded for several years prior to 1990 when there was a shift to net inflows of roughly US\$10 million, as disbursements for project financing picked-up, especially for those financed by the Asian Development Bank and the International Development Association.

1.42 Gross official reserves of the MMA experienced a spectacular expansion between 1985 and 1989, rising from US\$4 1/2 million (equivalent to one month of import cover) to US\$24 1/2 million (covering almost 3 months of imports) mainly on the strength of a jump of US\$13 1/2 million during 1988. Since the end of 1989, reserves have flattened out, reflecting the weakness, noted earlier, in the overall balance of payments. By the end of 1991, reserves are expected to amount to some US\$25 million, equivalent to approximately 2 1/2 months of imports.

1.43 Exchange Rate Developments. Following several years of stability vis-a-vis the US dollar, the rufiyaa was devalued in March 1987 by 25 percent

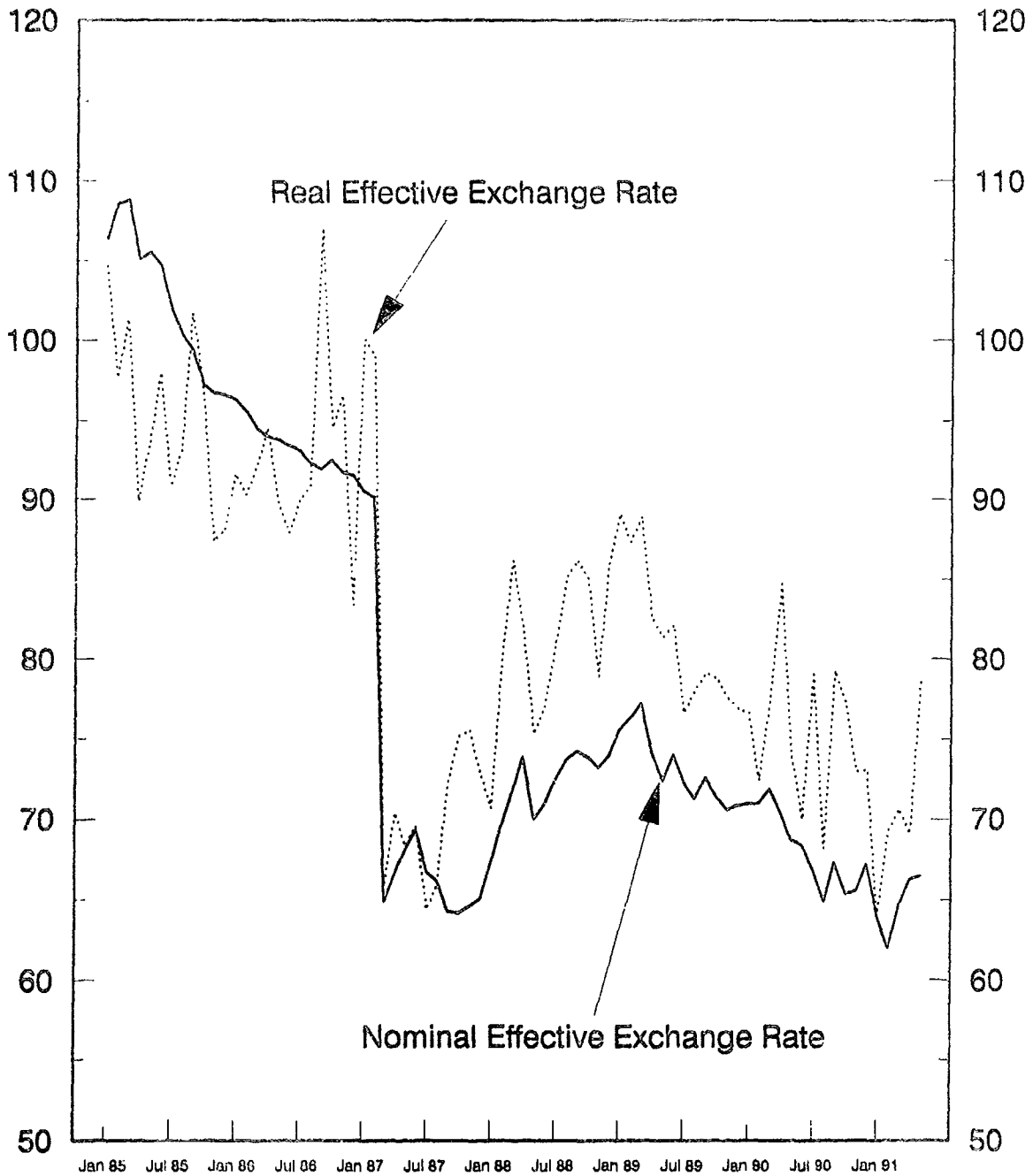
(relative to the US dollar) as part of the mid-80s stabilization program that included a shift to a managed floating rate system (see Figure 1.3). Subsequently, the nominal effective value of the rufiyaa appreciated significantly, by about 20 percent, through early 1989 at which time weakness in the balance of payments began to set in. Between March 1989 and August 1990, the nominal effective value of the rufiyaa drifted downwards, for a cumulative decline of more than 15 percent, as the authorities sought to protect the level of their official reserves by minimizing intervention in the exchange market in the face of the weakening balance of payments situation. The authorities' strategy of allowing the nominal value of the rufiyaa to drift downwards in the past two years has served as an effective device to protect the Maldives' international competitive position. After appreciating by some 35 percent during the two years following the devaluation of March 1987, the real effective value of the rufiyaa depreciated through early 1991 roughly in line with the decline in the nominal rate, just noted (see Figure 1.3).<sup>14/</sup> By early 1991, the competitive position of the Maldives was virtually unchanged from immediately after the 1987 devaluation. However, since January 1991 both the nominal and real effective rates of the rufiyaa have appreciated markedly, by some 8 and 20 percent, respectively. A continuation of these movements of the past several months would quickly erode the competitive gains achieved by the 1987 devaluation and undermine the prospects for strong, export-led growth over the medium-term.

1.44 External Debt. Judged on the basis of the standard debt indicators, the Maldives' does not carry a heavy external debt burden, owing in large part to a significant improvement in debt management and capacity during the second half of the 1980s (Appendix Table IV.6). Following a restructuring of the debt the state shipping company in 1985, public external (medium- and long-term) debt held steady for several years at around US\$60 million before rising to US\$66 million by the end of 1990, owing mainly to increased disbursements of concessional loans from multilateral agencies. Measured in relation to GDP (measured in US dollars), total debt has tended to decline in recent years, from just over 85 percent in 1987 (when the rufiyaa was devalued by 25 percent), to a little more than 60 percent in 1990. During the second half of the 1980s, debt service has tended to decline in both absolute terms and relative to exports of goods and services reflecting the trend in debt outstanding as well as the highly concessional nature of most of the Maldives' debt. By 1990, the Maldives' debt service ratio was down to less than 5 percent of exports of goods and services, which is exceptionally low by recent international standards.

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<sup>14/</sup> References to the value of the real effective exchange rate should be treated with caution, owing to known shortcomings in the monthly data for the consumer price index. See footnote 3 in this Chapter.

**Figure 1.3: INDICATORS OF THE RUFYAA EXCHANGE RATE, 1985-91  
(1984=100)**



## Chapter II. POLICY ADJUSTMENTS TO SUPPORT GROWTH

### A. Introduction

#### Growth Strategy and Policy in the 1990s

2.1 The growth momentum of the 1980s and early 1990s shows strong signs of continuing in the decade to come. The "carry-forward" effects of rapid growth in investment, trade and output will propel the Maldives forward on a growth path which promises higher incomes and living standards for the great majority of the population.

2.2 Unlike the 1980s, the growth process begins from a higher level of incomes, with higher expectations and a rapidly growing population of school graduates eager to participate in the process of economic development. With little in the way of natural resources, the key to success in the next decade lies in continued sound economic management.

2.3 There are two key policy lessons from the nation's strong performance over the past decade. The first is that growth will hinge upon continued provision of goods and services to highly competitive world markets. Attempts to impede free trade quickly erode competitiveness and lessen the economy's ability to react to new and emerging world market opportunities. In the 1980s, the Maldives demonstrated that a small, remote, island nation can achieve a high degree of competitiveness in world markets, and that such competitiveness carries in its wake a surge of investment, trade and growth. For the 1990s, an outward oriented growth strategy, building upon expansion prospects in the two key productive sectors, tourism and fisheries, offers continued high returns.

2.4 While world markets provide the Maldives with abundant opportunities, there are also risks. The shipping industry, for example, had been the mainstay of the economy in the 1960s but was, to a considerable degree, displaced by evolving regional trade policies in the 1970s. Tourism has proven vulnerable to domestic political unrest, to unrest in neighboring Sri Lanka and, most recently, to the Gulf war. However, a second important lesson of the 1980s is that the risks associated with a narrow economic base can be offset by policies which promote efficient diversification. In fact, policies which promote growth and reduce risk--through efficient diversification--have proven to be highly complementary.

2.5 The broadening of the tuna market (from dependence on exports of dried fish to a mix of dried, frozen and canned products) and the outreach efforts made in tourism to capture a greater share of Asian visitors, are examples of such diversification that have been instrumental in reducing export volatility and increasing earnings. Such efforts are best undertaken by businesses able to identify risks, seek market-based solutions and act quickly to exploit diversification opportunities. Providing the private sector with the flexibility to seek efficient means of diversifying economic activity will continue to be an important focus of development strategy for the 1990s.

2.6 Looking ahead, fisheries and tourism will continue to remain the key sources of growth in the 1990s. However, the nature of investments required to harness coming growth opportunities in these two sectors will differ markedly from those of the past two decades. In fisheries, major investments are required in processing capacity; new generations of fishing vessels need to be developed; and markets for exotic fish products tapped. In tourism, there will be an era of quality upgrading, marked by improvements in existing resorts and by expansion into altogether undeveloped regions.<sup>1/</sup> Both the scale and complexity of the new investments are considerably greater than in the 1980s. Implementing such a program would exceed the limited financial and administrative resources of the public sector. This constellation of changing investment opportunities and requirements calls into question a growth strategy predicated on public sector leadership in the commercial sectors of the economy. In the 1990s, it will increasingly be the private sector that will be better placed--in terms of skills, management capacity and access to markets and financing--to take advantage of emerging investment opportunities.

2.7 In the 1980s, the task of meeting expectations fell largely to the public sector, as the private sector was small, under-capitalized and hamstrung by a lack of supportive infrastructure and a skilled workforce. This situation has now changed. The private sector--in tourism, commerce, fisheries, industry, finance and small-scale agriculture--is larger, better capitalized, has better access to infrastructure and a skilled labor force and most importantly, has proven itself capable of competing effectively on world markets.

2.8 In the 1990s, it will be the private sector that will play a lead role in generating growth, incomes and employment opportunities. As in the 1980s, the Government will continue to play an important role in providing economic infrastructure and social services. Moreover, the degree to which the private sector can realize its growth potential will depend largely on the Government's ability to forge a policy framework conducive to efficient activity. Finally, the Government will continue to play a central role in mobilizing resources required to finance new developments. Providing economic infrastructure and social services, developing an enabling policy framework to underpin efficient private activity and mobilizing domestic and international resources needed to finance growth have evolved as the main policy challenges for the Government in the 1990s.

2.9 A shift in strategy from a public to a private-sector led phase of growth will hinge very much on the reaction of the private sector to the Government's policy framework. An enabling policy framework for private sector development will require a combination of macroeconomic policies that result in financial stability and competitiveness together with microeconomic policies that promote efficient resource allocation. Of the latter, a high priority would be attached to removal of policy-induced restraints to trade,

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<sup>1/</sup> The Maldives will continue to remain particularly vulnerable to external shocks, given the concentration of activities in two sectors. Strategies for offsetting the risks of a narrow economic base are discussed in Chapter 4.

entry and operation of enterprises, and to access and pricing of productive resources. The second implication of the shift in growth strategy is a need to refocus public sector activities away from commercial operations towards provision of essential infrastructure, environmental protection and delivery of essential social services.

### Macroeconomic Management

2.10 In the 1990s, the Maldivian economy will continue to depend on the world economy to fuel growth. Instability in the world economy will be reflected in the domestic economy through changes in prices, demand for foreign services and investment flows. In an increasingly deregulated environment, external instability will be quickly transmitted to the domestic economy --the buffer created by direct Government involvement in commercial activities will be significantly reduced. For the private sector, a stable financial system and economy-wide competitiveness are prerequisites to sustained growth in investment and efficient use of domestic resources. This, in turn, calls for the shaping of fiscal and monetary policy into a macroeconomic framework supportive of:

- o financial stability;
- o a fiscal and monetary stance that accommodates private sector activity; and
- o competitiveness with respect to world markets.

2.11 Fiscal policy is the key macroeconomic instrument for ensuring that the economy follows a sustainable growth path. In the near-term, the main fiscal challenge for the authorities will be to control expenditures, principally by the preparation of a budget for 1992 that narrows the overall fiscal deficit in line with a significant reduction in net domestic financing. Having re-asserted fiscal restraint with the 1992 budget, the longer-term objective in this area should be to align expenditures and revenues consistent with the availability of external financing so as to rely on a negligible amount of net domestic financing of the budget deficit. Attainment of this objective is likely to entail action of several related policy fronts: (i) mobilization of maximum possible concessional financing from the donor community; (ii) prioritization and re-phasing of the overly-ambitious 1991-93 public investment program; (iii) careful scheduling of public sector investments, especially by mobilization of co-financing of large projects by donors; (iv) restraint in the growth of current expenditures relative to GDP; and (iv) a significantly greater domestic resource mobilization effort, mainly to raise the domestic financing component of capital expenditures so as to compensate for likely shortfalls in external finance.

2.12 Monetary and Exchange Rate Policies. An appropriate macroeconomic framework requires that domestic financial and exchange rate policies be implemented with a great deal of consistency so as to forestall inflationary pressures and to maintain international competitiveness. Measures proposed by the Maldives Monetary Authority to restore near-term financial stability include removal of the temporary cash-balance requirement for letters of

credit, interest rate decontrol, charging market interest rates for public enterprise loans and accepting statutory reserves in the currency of deposit. In light of the deteriorating financial situation, such measures warrant immediate adoption and implementation. At the same time, exchange rate adjustment provides only a very limited means of accommodating excessively expansionary monetary and fiscal policies. The linkage between monetary and exchange rate policies is particularly tight in countries, such as the Maldives, that maintain an open exchange system, relatively free of external payments restrictions. Under the Maldives' managed floating exchange rate system, domestic disequilibria would be quickly transmitted through capital movements into pressure on the external reserves position.

2.13 The Maldives has generally managed the exchange rate with a view towards maintaining competitiveness in world markets. In particular, labor markets in the Maldives are relatively free of rigidities that tend to de-link wages and productivity, and the authorities have demonstrated their willingness to use flexibility in the setting of the nominal exchange rate. For the future it would be appropriate to at least maintain existing competitiveness through flexible exchange rate management founded on regular monitoring of movements in the Maldives' prices and costs, relative to trading partners and the country's main competitors.2/

2.14 Certain structural changes in the Maldives' financial system would facilitate better implementation of monetary policy. First, removal of the ceilings on lending rates would provide lenders with the flexibility to charge a rate that compensates for default risk; decontrol of rates would also serve to raise deposit rates (which are currently negative in real terms), generate more domestic savings and stem capital outflows. Second, the Maldives' financial system needs to develop in several directions: the Monetary Authority needs more effective instruments to implement monetary policy; reserve requirements are extremely high at present (30 percent as of August 1990), adding significantly to the cost of mediation; an interbank market needs to be developed to reduce banks' excess reserves; and, banks are being forced to carry undue exchange risk as a result of a requirement that reserves be held in rufiyaa against foreign currency deposits.

2.15 Interest Rate Controls. Since 1988 interest rate ceilings have been set on loans at New York Prime plus 3-5 percent. Such ceilings do not provide sufficient cover for inflation and exchange rate risk. The inability to fully cover lending costs is reflected in low deposit rates. Depositors are paid a rate of interest below the rate of inflation, reducing incentives for domestic financialization of savings. It is both the depositors, in terms of negative savings rates, and borrowers, in terms of reduced access to credit, who are penalized by the interest rate ceilings. Such ceilings should be removed, and a policy of promoting competition used to ensure that banking spreads are kept in a reasonable range.

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2/ It would also be helpful if greater resources could be provided for the regular collection of data that are of great value in monitoring on-going developments in this area, most notably the Maldives' consumer price index.



2.16 Adjustment to Unexpected Shocks. The Maldives' experience of the past several years has demonstrated the vulnerability of the economy to a wide variety of shocks. In many respects, the Government has done much to provide a cushion against exposure in this area.<sup>3/</sup> However, more can be done in this regard.

2.17 A country's first line of defense against external shocks is the stock of official international reserves. Despite increasing six-fold between 1985 and 1989, official reserves have not kept pace with the country's increasing exposure in recent years as evidenced by a decline in import cover from 3.2 months in 1988 to 2.5 months in 1990. A reserve cushion of this size is thin, particularly for an economy with a narrow export base. A high priority should be accorded to a greater build-up in reserves over the medium-term as opportunities arise.

2.18 In recognition of the lack of diversification options open to the Maldives, and to the vulnerability of the nation to world economic shocks, it may be prudent for Government to consider establishment of a stabilization fund to be used expressly to offset severe economic shocks. Such a stabilization Fund could be held offshore--in which case it would serve as a hedge against fluctuations in tax revenues generated by external shocks--or it could be held in the domestic banking system as a cushion against unexpected downturns in domestically-generated revenue. In either case, the Fund would accumulate during years of exceptionally strong fiscal revenues, and drawdowns would be subject to transparent rules that would limit the Government's discretion in the rate of use of the accumulated balances. The existence of such a Fund would provide a disciplinary mechanism to set aside windfall revenues, thereby going beyond the use of normal government accounts in the banking system, which generally serve only as working balances, even during cyclical upswings. While costly in terms of immediately foregone opportunities for government expenditure, such a Fund would provide the nation with an income-generating asset that diversifies the economy away from its presently high dependence on two main sources of growth.

#### B. An Enabling Policy Framework for Private Sector Development

2.19 A credible, supportive policy framework has an important influence on investment and allocation decisions of the private sector. While sound macroeconomic management is essential, other policies which have an important bearing on private sector development operate more directly on the micro-, or structural foundations of the economy. These policies, which are discussed in the balance of this chapter, can be grouped into those that affect the overall and sectoral investment environment, and those that more broadly define the

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<sup>3/</sup> For example, there has been a well-conceived effort to diversify the country's tourism markets in recent years, and the prompt actions by the Government--as well as the response by donors--following the storm of May 1991, indicate that the country is well-equipped to react to natural disasters.

institutional nexus within which private investors operate. Of the former, key areas for reform in the Maldives include trade policies and investment regulations, as well as policies specifically designed to affect developments in fisheries, tourism and atoll activities. To provide a set of practices and institutions more supportive of private sector development, key areas for reform include development of the corporate legal framework, environmental preservation and public enterprise reform.

### Incentives Framework for Private Investment

#### (a) Trade Policy

2.20 The free flow of goods and services is essential to the efficient operation of the Maldivian economy. The Maldives exhibits a high degree of dependence on international trade and services flows which together is equivalent to 265 percent of GDP.

2.21 Quantitative Controls: In 1986, strict quantitative controls were placed on imports through an import licensing system. Import restrictions were eliminated in 1989, although a general trade licensing system remains in place. Due to scale economies and control of storage facilities, the State Trading Organization (STO) retains a near-monopoly on the import of aviation fuel and government office supplies. Although STO has reduced its role in the import trade since 1990, (as a result of its large stock-holding capacity) STO holds a near monopoly in the import of basic foodstuffs, medicines and fisherman's supplies.

2.22 Private sector trade in basic food staples (rice, flour, and sugar) are allowed, but must be sold at prices no higher than those charged by STO.<sup>4/</sup> Private sector exports are allowed for all goods except frozen tuna, which account for over half of total exports and are a monopoly of STO.

2.23 Removal of quantitative restrictions has resulted in a significant increase in the volume of merchandise imports, which increased from US\$84 million in 1988 to US\$113 million in 1990. More importantly, during the post-deregulation period, the private sector has demonstrated an ability to ensure an adequate supply of imports, at a lower price than that charged by STO.

2.24 Further efforts to reduce quantitative restrictions to international trade will lower costs and improve the availability of goods in the marketplace. Over the medium-term, the Government's role in international trade should be shifted to: (i) regulating trade volumes and prices for goods that are natural monopolies (e.g. aviation fuel); (ii) ensuring the availability of essential commodities to the more remote atolls; and (iii) retaining some capacity to engage in merchandise trade to offset tendencies in the market towards artificial scarcities and non-competitive

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<sup>4/</sup> The STO price is defined to be the cost of imports plus freight to different locations. This price is generally well in excess of that prevailing in the private market.

pricing. For the Government to play more of a regulatory and residual supply role in international trade, the following series of reforms would be required: (i) the storage capacity of STO gradually shifted to private control through rental or sale arrangements; (ii) export licensing and quality certification procedures established for canned and frozen tuna; and (iii) export restrictions on tuna products abolished.

2.25 Tariffs: As a result of trade deregulation, the principal means used by Government to influence trade flows are tariffs on imports.<sup>5/</sup> The tariff code is embodied in a law on importation and exportation which categorizes commodities (according to Maldivian category descriptions) into four general categories, which are then subdivided into 14 different duty classes. The functional tariff classes are defined as follows:

- essential goods (e.g., medicines, textbooks, fuels, with duty classes of 0, 5, 10 and 20 percent);
- investment goods (e.g. cement and building supplies, with duty classes of 10, 15 and 20 percent);
- consumption goods (e.g., canned foods, sewing machines, with duty classes of 25, 30 and 35 percent); and
- protected market and luxury goods (e.g., with pepper, betal nut, canned fish, and coconut oil in the former, and with televisions and automobiles in the latter, with duty classes of 50 percent, 75 percent, 100 percent and 200 percent).

Exemptions are provided from import duties for: (i) personal use items; (ii) goods used in Government projects; (iii) Government office supplies; (iv) capital goods imported, for a pre-determined number of years, for all registered investments; (v) consumer goods sold to non-residents in duty-free stores; (vi) imports of raw materials for export-oriented manufactures; (vii) goods imported for the sole purpose of re-export; and (viii) diplomatic imports. In addition, a new program was introduced in 1991 for "duty-free" imports of goods for tourists in exchange for a royalty paid on total hotel turnover.

2.26 Import duties provide an important source of Government revenues, amounting to Rf.162 million in 1990, or 28 percent of total Government revenues. More than half of all imports into the country are under duty-free programs of one form or another. As a result, while the average import-weighted tariff rate is 27.5 percent, the effective import-duty rate is only 14 percent.

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<sup>5/</sup> Only a small number of goods are subject to export duties ranging from 3 to 5 percent. This would include, for example, handicrafts and textiles. Total revenue collections from exports were less than Rf 2 million in 1990. Re-exports, which constitute a modest share of trade in the Maldives, are free of import and export duties.

2.27 The existing import duty system suffers from a number of deficiencies. It is excessively complex; certain commodities are not gazetted and do not fall clearly within any category; average tariff rates are high because of the great number of exemptions; a high degree of variation exists between tariff classes, and there is a high degree of reliance on legislative discretion in setting tariff rates and granting exceptions. As a result, the existing structure of tariffs introduces a number of administrative distortions into the structure of consumption and production. While certain distortions may be well-advised (such as high import taxes on automobiles to reduce urban congestion, or luxury goods to enhance vertical equity), others may have severe unintended consequences.<sup>6/</sup> Furthermore, the many possibilities for import duty exemptions encourages rent-seeking behavior and results in a highly personalized system of trade preference. Finally, the combination of a liberalized trade environment, high and varied import duties and hundreds of small ports scattered throughout the nation, provides strong incentives for smuggling and under-valuation of imports.

2.28 Import duties will continue to be an important fiscal policy instrument for some years to come. With this in mind, the tariff reform strategy should focus on: (i) a reduction in exemptions, beginning with an elimination of the personal exemption allowance; (ii) use of the harmonized system to document imports; (iii) substantial reduction in the number of tariff classes, eventually to 2 or 3 (with a zero rate; a standard rate and a luxury rate); (iv) the use of domestic prices for price checking purposes; and (v) elimination of high protective duties and reducing average levels of protection on domestically produced goods. The indirect tax base should gradually be shifted to the use of a broad-based sales tax on both imports and domestically produced goods, to ensure neutral tax treatment across sectors.

(b) Enterprise Regulation

2.29 There are relatively few formal barriers to exit, entry or operation of an enterprise in the Maldives.<sup>7/</sup> Certain regulations, or Government practices, do, however, limit entry or discourage efficient private sector operations.

2.30 Land: The Government is the sole owner of all land in the Maldives and allocates it, under long-term leasehold arrangements to Maldivians,

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<sup>6/</sup> There are two clear examples of sub-optimal use of import duties. The first is the levying of import duties on all forms of construction materials which encourages the continued mining of coral for local construction purposes, despite regulations prohibiting such use. The second are import taxes on aviation fuel, which raise the cost of providing refueling services to international airlines and discourage long-haul airlines from providing services to the Maldives.

<sup>7/</sup> There are clearly areas where firms are under-regulated, such as in the areas of waste disposal and handling of hazardous materials. These are areas in which the Government is presently formulating more effective regulations, under the umbrella of the environmental action plan.

foreigners and joint-ventures for prescribed uses (ie. agriculture, residential and tourism) for a limited duration. Land may not be transferred freely between tenants but must be returned to the Government for approved transfers. Lease prices differ depending on the land classification. Only a nominal rent is charged for residential and agricultural land, while rents for tourist facilities vary considerably, are adjusted every five years and, constitute an important source (Rf. 52 million in 1990 or almost 10 percent of all) of revenue for the Government. Resort lease rates range from a few hundred dollars per month to several thousand dollars, depending on the size of the island and the vintage of the lease.

2.31 Thanks to low population densities (outside of Male) and an abundance of uninhabited islands, access to land for an adequate period of time has not proven to be a problem.<sup>8/</sup> For investors in the tourism sector, however, the standard Government land lease provides inadequate security for use as collateral to obtain investment finance and with periodic (each 5 years) price revision by administrative decree introduces considerable uncertainty. Greater efficiencies could be gained by: (i) reducing the number and scope of foreclosure clauses in the standard tourism lease; (ii) standardizing and regularizing the lease rental arrangements for all tourism islands; and (iii) relaxing restrictions on transfer of title. Over the next decade, a number of tourist resort land leases will expire and there will be a need to assign new leases to start-up resorts. It will be important for the Government to take a pre-emptive approach towards renewing old land leases to ensure that the existing owners have an incentive to reinvest tourism proceeds. It will also become increasingly important, as the cost and complexity of new projects increases, for land leases to be of sufficiently long length and with adequate security/flexibility of title to attract qualified domestic and international investment.

2.32 Foreign investment plays an important role in the Maldivian economy, providing investment finance, market access and skills that would otherwise be unavailable in the domestic market. Although precise estimates are not available, net foreign private capital inflows probably averaged more than 10 percent of GDP in the second half of the 1980s.<sup>9/</sup> Foreign investors may establish 100 percent foreign-owned corporations or joint-ventures, are not subject to corporate or direct income taxes, may utilize expatriate workers, may freely repatriate profits and dividends and are not explicitly restricted from operating in any sector of the economy. Fully-foreign owned and joint-venture operations are licensed by the Ministry of Trade and Industry, except

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<sup>8/</sup> In 1990, the length of leases provided for tourism islands was extended from 15 to 21 years, and older leases were converted to the longer lease period.

<sup>9/</sup> Private capital foreign inflows are computed as a residual item in the balance of payments accounts. This residual would also include all other errors and omissions in the capital account and, hence, would be subject to a high degree of error. Even so, those knowledgeable in the tourism industry estimate that a net inflow of foreign private investment of US\$10-US\$15 million would be approximately correct.

in the case of tourism ventures which are licensed by the Ministry of Tourism. Foreign investments are eligible for duty concessions during the construction phase of operations and, in certain cases (e.g., textiles) are provided duty-free access to raw materials.

2.33 A differential set of export duties (for foreign investors and joint-venture operations) effectively precludes operation by foreign enterprises in trading activities. For pure trading activities, both foreign investors and joint ventures are subject to the following export taxes:

dried skipjack	15%
fresh fish	20%
salted fish	20%
other seafood	20%
coconut palm produce	15%
other resource-based goods	15%

Such taxes are not applied to Maldivian enterprises and are designed, in theory, to discourage foreign investment in already well-established trading sectors of the economy. Since domestic enterprises are now well-established in these sectors, consideration should be given to abolition of differential export taxes for different classes of enterprises.

2.34 In an effort to attract more foreign investors, in 1989 the Government promulgated Law No. 25/79 on Foreign Investments. However, rather than serve as transparent guidelines for all foreign investment, the Law simply codifies prevailing practices of approving all investments on a case-by-case basis and reserves the right for Government seizure, if necessary. Further amendments to the Foreign Investment Law should attempt to inject greater clarity and specificity to sectoral access restrictions (on a negative list basis), capitalization requirements, repatriation privileges and winding-up procedures. In accordance with developments in the legal system and accountancy profession (see below), reporting and registration requirements should also be specified in the Foreign Investment Law.

2.35 Financial Market Development. The domestic financial market in the Maldives is thin and is dominated by South Asian state commercial banks. The ratio of broad money to GDP, a common measure of financialization, stood at only 45 percent at the end of 1990. Banking services are very limited and are concentrated in Male. The banks are active primarily in mobilizing savings and providing short-term, working capital credit (84 percent of total lending) for tourism and trade.

2.36 The banking sector consists of the Maldives Monetary Authority and five commercial banks: the Bank of Maldives, and local branches of the State Bank of India, Habib Bank, the Bank of Ceylon, and the Bank for Credit and

Commerce International.<sup>10/</sup> Commercial banks accept deposits and provide loans in both local and foreign currencies. In 1990, total domestic credit was equivalent to Rf.553 million, of which 54 percent was absorbed by the central government and the parastatal corporations.

2.37 Financial Market Access. The principle constraint to financing further private investment in the Maldives is a lack of access to domestic sources of finance. The existing commercial banks are individually too small to handle major projects and, as a result of a lack of competition, tend to focus operations on lower-risk, trading activities. Outside of Male, access to any sort of financial institution is very limited. In both tourism and fisheries, there will be a demand for investment finance to upgrade existing hotels, broaden resort development, adopt a new generation of fishing vessels and expand fish processing capacity. To increase competitive forces, it may well be advisable to proceed with development of a domestic, development bank. Experience from other countries suggests that such banks can only work well when they are privately owned and operated, and follow sound commercial banking practices. Careful scrutiny of existing proposals to establish a new DFC is needed. For the atolls, a strategy of broadening financial market access would be the development of a network of postal banks, as proposed by the Ministry of Post and Telecommunications and deepening the regional services provided by the Bank of Maldives. Such banks would initially operate a narrow range of deposit taking and payment clearance services.

2.38 Certain policies affect operations of private enterprises in particular sectors of the economy. There are sets of policies which have an important impact on output, incomes and performance in fisheries, tourism and atoll-based activities.

(c) Sectoral Policy: Fisheries

2.39 The fisheries sector has grown rapidly during the past decade, with output increasing from 35,000 mt in 1980 to 76,000 mt in 1990. Fish consumption in the Maldives is one of the highest in the world, at around 90 kilograms per capita per annum. Nevertheless, approximately three-quarters of the skipjack tuna catch is exported, 63 percent in canned and frozen form, and the balance as traditional salted and dried skipjack. The Maldives accounts for 4 percent of world production of skipjack tuna, and just under 2 percent of total world tuna supply.<sup>11/</sup>

2.40 During the past decade, the industry has been transformed from dependence on exports of salted and dried tuna (and reef fish) to a mixture of exports of frozen, canned and dried fish. Secondly, since 1984, 1,600 of a

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<sup>10/</sup> The BCCI branch in the Maldives closed in July of 1991. It is estimated that approximately US\$3 million in Maldivian deposits have been lost due to the worldwide failure of the bank.

<sup>11/</sup> This section draws heavily from the Asian Development Bank, Maldives Fisheries Sector Strategy Study, Interim Report, July 1991 and World Bank, Third Fisheries Project, Staff Appraisal Report, 1991.

total of 1,900 traditional pole and line fishing vessels (dhonis) have been mechanized. This has resulted in a reduction in the labor force employed in fisheries, but an increase in incomes due to productivity gains. Between 1983 and 1989, the annual tuna catch per fisherman rose from 1.4 tons to 3.1 tons. As a result, despite sluggish price developments, gross earnings (per fisherman) increased by 13 percent per annum.

Table 2.1: FISHERIES STATISTICS

	1980	1990
Production ('000 tons)		
Tuna	34.6	76.3
Other Fish	30.4	73.3
	4.2	3.0
No. of Vessels ( <u>dhoni</u> )	2,119	1,931
No. Mechanized	805	1,611
Share of Catch by Mechanized Boats (%)	78	97
No. of Fisherman	24,330	20,987
Domestic Consumption ('000 tons)		
Total	12.8	18.2
Per capita (kg/annum)	83.6	85.0
Exports		
Total ('000 tons)	21.8	50.6
Frozen Skipjack	14.0	17.0
Dried Skipjack	3.3	4.5
Canned Tuna ('000 cases)	0	619
Salted Reef Fish	4.5	.8
Maldives Exports as % of World Skipjack Trade:	5.7	4.2

Source: Ministry of Fisheries and Agriculture, and Asian Development Bank, Maldives Fisheries Sector Strategy Study, draft report, July 1991.

2.41 Tuna Resources: Maldives' tuna fishing is unique in the region; it is totally artisanal, continuing a tradition first documented 600 years ago. By contrast, most tuna fishing by other Indian Ocean countries is predominantly industrial and has only been developed over the past 25 years.

2.42 The reefs and islands of Maldives act as shelters for many types of fish, which attract oceanic tuna. The limited assessments of Indian Ocean tuna stocks and the analysis of catch records indicate that skipjack resources may yield well over 350,000 tons on a sustainable basis, while current catches are about 200,000 tons. Improved data collection is required to provide a better estimate of the sustainable catch level. In the past, excessive private sector exploitation of beche-de-mer, giant clam, black coral and turtle has caused a near depletion of these resources. The fragility of reef-



resources underscores the need for regulatory measures to ensure sustainable levels of fishing activity.

2.43 Fishing Operations. Traditional all-purpose boats used by fishermen in Maldives, dhonis, are among the most cost-effective tuna fishing vessels in the world. The registered fishing fleet consists of two types: about 3,700 small craft, mostly used for reef fishing inside atolls and for transport, and about 1,900 mas dhonis up to 15 meters in length, mostly motorized (more than 1,650) and engaged in pole-and-line fishing for tuna and occasional reef fishing.

2.44 Fishing in Maldives is traditionally limited to one-day trips. Catch rates per boat trip vary from area to area and depend not only on weather and fish resources but also on the fishermen's ability to sell the fish. Catches could be easily increased in some of these areas if facilities for collection and processing of fresh tuna were improved and fuel was readily available. In areas where "mother vessels" operate, production is often constrained by the limited operational freezing and cold storage capacities of these vessels and the lack of adequate fish collection capacity from nearby fishing grounds.

2.45 Fuel Supply: Improvements in fuel availability to fisherman will also be necessary to ensure a high degree of utilization of new storage and processing capacity. Better fuel distribution systems would involve: (i) price decontrol, which would induce greater private participation; (ii) abolition of the small subsidies paid on fuel for fisherman, which discourages use of existing fuel depots and (iii) broadening the network of fuel storage depots.

2.46 Future Processing Requirements: Fisheries output and exports are principally constrained by a lack of sufficient processing and collection facilities, and by a lack of facilities for providing fuel to the fisherman. In the near-term, the envisioned expansion of freezing facilities in the South, and the replacement of high-cost freezing supplies with land-based collection centers, is expected to relieve the short-term processing constraint. Such investments, however, are expected to accommodate an increase in output of approximately 5-6 thousand metric tons over the next two to three years. Further increases in export capacity will require investment in freezing and collection capacity in other parts of the nation, replacement of the aging freezing vessels with land-based freezing/collection facilities and improvement in operations of the tuna canning plant.<sup>12/</sup> Such further investments in

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<sup>12/</sup> The State Trading Organization (STO) operates 10 mother vessels that can receive and freeze fish, and a land-based cannery at Felivaru. Three mother vessels, each with substantial freezing and holding capacity, are more than 20 years old, and their costs are relatively high, at about US\$225-275/ton. Four vessels are converted fishing vessels between 10 and 20 years old and their operating costs are very high at US\$300-350/ton. Only three mother vessels are in reasonable condition, although their freezing capacity is also less than what is needed. In contrast, freezing costs are around US\$120-140/ton at the land-based Felivaru freezing plant.

land-based collection and exporting facilities will likely exceed the public sector's capacity to finance them. To maintain the fisheries growth momentum, the private sector should be encouraged to invest in new freezing facilities by removing licensing restrictions on the export of frozen tuna.

2.47 Administrative Pricing. Collection, canning and exporting of fresh, frozen and canned tuna has been a monopoly of STO. For dried tuna (Maldivian fish) and reef fish, marketing is done by the private sector and prices are competitively determined. STO procures tuna at uniform-prices (for large and small fish) set by the Government. During the past five years, the real price for tuna paid to the fisherman has declined, despite a doubling, between 1985 and 1990, in the export price (Table 2.2).<sup>13/</sup> Furthermore, price adjustment have been administratively determined, erratic and not clearly linked to changes in world market prices or processing costs.

Table 2.2: SKIPJACK PRICE DEVELOPMENT, 1985-1990

Year	STO Price for Fresh Skipjack over 2 kg. (Rf/kg)	STO Real Price (1985 Rf/Kg)	Frozen Tuna Export Price (US\$/mt)
1985	1.80	1.80	520
1986	1.95	1.76	630
1987	1.95	1.61	890
1988	1.95	1.46	1,134
1989	1.95	1.39	908
1990	2.00	1.28	983

Source: Ministry of Fisheries and Agriculture, and State Trading Organization.

2.48 Given the tendency of the tuna market towards natural, local oligopolies, some measure of price regulation would be in order. The existing administered price system could be improved by: (i) regularizing the price review process (e.g. a biannual base); and (ii) establishing a transparent price formula, that links domestic prices with trend-world market prices and provides for a reasonable return on processing costs. The "official" price could then serve as a floor price with the private trade free to purchase, process and export at a higher price. By encouraging greater competition in collection, marketing and exporting of fresh, while at the same time maintaining a residual position in the market, the Government could encourage both increased returns to the primary producers and greater efficiencies in processing and handling.

<sup>13/</sup> Despite falling output prices, incomes of tuna fisherman have continued to rise due to increases in productivity.

2.49 Technology and Productivity. Mechanization of the Dhoni fleet, together with the expansion of storage and processing facilities, has proven successful in increasing productivity of the traditional fishing industry. Looking ahead to the next decade, with stable real prices, further gains in productivity will be necessary in order to raise incomes in the fisheries sector. With practically all of the existing dhonis already mechanized, this raises the question of what new technologies can be advanced to continue to improve productivity in the sector.

2.50 While purse seine "drift-net" fishing would be an alternative, it is not clear that this would be of any lower cost than the existing pole-and-line technology. Furthermore, adoption or encouragement of such technologies would be highly capital intensive, potentially displace existing fishermen and damage the nation's reputation for producing "dolphin friendly" tuna products.

2.51 Productivity Growth. At present, the cost of production of tuna in the Maldives is amongst the lowest in the world. Furthermore, existing information suggests that considerable scope remains for expanding output before the nation would reach a sustainable level of natural resource use.<sup>14/</sup> Therefore, technologies geared to increasing the catch-per-boat would not, in general, endanger supply for the industry as a whole. Prototypes of new generations of pole-and-line fishing vessels, which have some on-board storage capacity and a greater range, have been developed. Given the profitability of investment in new vessels, it would be advisable for the Government (STO) to halt the subsidization of boats produced at the Alifushi shipyard. Public support should, however, be provided to an identification of appropriate boat technologies that would increase the range and storage capacity of the fleet.

2.52 In the processing sector, experience to date with the use of canning technologies has been discouraging, particularly so in comparison with freezing. Economies of scale, in the use of tin-plate, electricity and management, together with lower labor costs, would convey considerable advantages to Thailand in the tuna canning industry. While possibilities may exist to lower costs in the existing canning factory, further investment in canning capacity does not appear to be warranted.

2.53 During the 1980s, diversification of the tuna export mix was an important strategy for increasing output and stabilizing incomes. In the 1990s, there appears to be a similar potential in the largely under-utilized exploitation of reef fisheries. To date, a small amount of lobster has been produced for the domestic tourism industry. Considerable scope for expansion exists because of strong excess domestic demand and little adoption of existing technologies to date. A future strategy for encouraging private investment in reef fisheries would involve: (i) an active extension outreach program by the Ministry of Fisheries and Agriculture; (ii) encouragement of

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<sup>14/</sup> The sustainable yield from tuna depends very much on actions undertaken by fleets of other nations, operating in the waters from which the tuna migrate. Better assessment of sustainable yield levels will be necessary for planning future sectoral development.

foreign investment in the sector; and (iii) development of quality control standards and testing procedures for reef fish. Improved quality control standards would also be important if the Maldives were to break into the Japanese sashimi, kani-sushi and arashi market.

(d) Sectoral Policy: Tourism

2.54 Tourism Development. The Maldives has astutely developed the potential for tourism offered by the coral islands and the surrounding marine environment. Its particular assets include unpolluted beaches, unique opportunities for diving and snorkeling among spectacular coral and marine life, clear aqua-blue lagoon waters and a desert island atmosphere. During the past 20 years tourism has grown at a rapid pace, from some 1,100 visitors in 1972 to 195,000 in 1990. Over the same period the number of resorts increased from 2 to 64, while bed capacity grew from 280 to some 7,800. During the 1980s, growth averaged 16 percent per annum, as against an increase in global international arrivals of under 4 percent a year and above the 9.3 percent per annum average increase recorded in East Asia and the Pacific the fastest growing region in the world.<sup>15/</sup> In the mid 1980s, tourism established itself as the lead sector of the economy. The sector currently accounts for about 18 of GDP and more than 60 percent of foreign exchange earnings; and Government revenues directly derived from tourism represent more than a quarter of total revenues.

2.55 In the past five years about three-quarters of all tourists came from Western Europe, 20 percent from Asia and the remainder from other parts of the World. The majority of tourists arrive in groups arranged by travel agents/tour operators; relatively few tourists arrive entirely independently. Most visitors come for either one or two weeks with the average duration of stay now around 9 days, compared to about seven days in the early 1970s.

2.56 As the total number of visitors increased, the seasonal fluctuations in arrivals tended to become less pronounced. In the late 1970s and early 1980s the period December-March had very high seasonal peaks but these had largely disappeared by the late 1980s. The moderation of seasonal fluctuations has resulted in higher bed occupancy rates, from some 44 percent in the early 1980s to some 59 percent by the late 1980s.

2.57 Government Policies. The remarkable growth performance of the industry can largely be attributed to the pragmatic approaches and policies followed by the Government. The key characteristic of Government policies is the heavy reliance placed on the private sector for the development of the industry while assigning to itself a role of providing general support to private initiatives. At present, more than 80 percent of the resort islands, which by law remain in the public domain, are leased to the private sector. All resorts are managed by the private sector and about 60 percent of the management companies are Maldivians. Resort development companies, which originally started with modest investments, have mobilized most of the capital

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<sup>15/</sup> Figures based on the UNDP/WTO, Tourism Sector Review, December 1990.

necessary towards successive upgrading and expansion phases. Retained earnings have been an important source of capital.

2.58 Government's view of its own role in tourism development has evolved over time from a relatively liberal laissez-faire stance to a more active one of providing guidance and direction. The role of support is exercised through several activities and policies. First, regarding basic infrastructure and international communications, Government has limited its responsibility to providing the basic international airport facilities necessary to fly in with modern wide-bodied aircraft the increasingly large numbers of tourists and to improving civil aviation access with existing and potential markets. Telecommunications have been contracted out to a public/private joint venture while in all other matters (e.g. utilities, waste disposal) the resort islands are fully self-supporting.

2.59 Second, a basic regulatory framework has gradually been developed aimed at setting minimum requirements for entry into the industry and for addressing a number of key concerns such as adequate Maldivian participation in the industry, the safeguarding of socio-cultural values and the protection of the physical environment.

2.60 Third, regarding provision of finance, Government has limited itself to maintaining a liberal regime for foreign investment which has permitted investors to mobilize investment funds abroad. The role of the commercial banks established in the country has focussed on providing working capital, and tourism's share of commercial bank loans and advances has ranged between 30 and 60 percent. Long term finance has not been available from domestic banking sources and Government has not provided any finance on concessional terms or intervened in the market to achieve this objective. The Government recognizes that the lack of flexible long term finance is posing a constraint to the growth of the industry.

2.61 Tourism makes a very substantial contribution to the Maldivian economy. Foreign exchange earnings increased from US\$45 million in 1985 to US\$85.5 million in 1989. Tourism accounts for about 18 percent of GDP (similar to Fiji's 11 percent and Barbados' 24 percent but lower than in Bermuda's 61 percent and the Bahamas' 64 percent), provides employment to nearly 7,000 workers (of which one-third are expatriates). Employees remit a large part of their earnings to their families in their islands of origin. The annual transfer to households in the atolls can be estimated to be on the order of Rf.55 million or more than US\$5 million per annum. According to a 1987 ESCAP study on the economic impact of tourism, the import content of tourism was estimated at 38 percent and the total contribution to GDP from each dollar earned was estimated at 44 percent.

2.62 Tourism contributes to government revenue through taxes and charges levied both directly and indirectly on tourists. The bednight tax - US\$6 since November 1988 - yields the highest direct revenues (some US\$10 million in 1990). Next in importance is the lease income from resorts (some US\$3.7 million in 1989). On the islands that were developed at an early stage, the leases only yield some US\$60-70 per bed per year while for new resorts leases in recent years have been set at around US\$2,000 per bed per year, following a

bidding process. In addition, revenues also accrue indirectly in the form of duties paid on imports consumed by tourists (which can be estimated at some US\$5 million in 1990). For 1990 total Government revenue from tourism can therefore be estimated at some US\$19 million.

Table 2.3: TOURISM STATISTICS, 1980 AND 1990

Item	1981	1990
Tourist Arrivals ('000)	43.7	195.2
by Destination (%)		
Germany	25.4	21.4
Italy	16.5	20.4
United Kingdom	3.8	11.6
Other Europe	27.0	24.5
Japan	1.9	7.1
Sri Lanka	3.3	4.2
India	16.8	3.8
Other Asia	1.6	3.9
America and Oceania	3.0	3.0
Seasonality Ratio <u>/a</u>	1.9	1.3
Average Stay Duration (nights)	7.4	8.6
Annual Bed Occupancy Rate (%)	45.4	65.8
Accommodation Capacity-Total (beds)	3,915	8,710
Resorts/Hotels (beds)	3,394	7,787
Guest Houses/Vessels (beds)	521	923
No. of Resorts	37	59
Total Tourist Expenditure (\$US mill)	15	81
per Arrival (US\$)	300	422
per Night (US\$)	41	49

/a The seasonality ratio is defined as the highest monthly arrival divided by the average monthly arrival.

Source: Ministry of Tourism and Maldives Association of Tourism Industry.

2.63 Demand Prospects: In the 1980s, tourism was the fastest growing industry in the world and growth in demand in the Asia-Pacific region was the fastest in the world tourism market.<sup>16/</sup> At present, the Maldives accounts for somewhat less than 4 percent of total visitor arrivals in the Asia-Pacific region. For the peak periods of the year (November to March), demand is well

<sup>16/</sup> Tourism receipts for the Maldives are only 3 percent of the total for the Asia-Pacific region.

in excess of the country's supply capacity. During the off-season (June to September) demand is relatively strong from the rapidly growing Asian market. Prospects for demand growth remain strong thanks to: (i) the very small share of the total Asian market presently held by the Maldives; (ii) a substantial number of repeat visitors; (iii) improved recognition of the Maldives in destination markets; (iv) improved, regular air-links with a number of European markets; (v) untapped potential in parts of northern Europe; and (vi) largely untapped potential in South and East-Asian source markets.

2.64 The Asian markets provide the greatest source of potential growth for the Maldives, with marketing efforts now focusing on the Hong Kong, Taiwan and Japanese markets.<sup>17/</sup> Growth in the number of Asian visitors will help improve the seasonal flow of tourists, and hence increase year-round capacity utilization.

2.65 Worldwide, the tourism industry suffers from volatility in demand and Maldives is no exception. In 1983, 1986, 1989 and 1991, growth in tourism demand in the Maldives slowed due to, respectively, recession in Europe, ethnic strife in Sri Lanka, an attempted domestic coup and the Gulf crisis. With the exception of the cyclic downturn in Europe, none of the other events could have been anticipated or countered by the Maldivian tourism industry.

2.66 A number of policy measures can, however, be undertaken to offset the risks of volatile tourism demand. The first is continued diversification of source markets, with efforts to mobilize investment finance and marketing outreach focused on the Asia-Pacific market. The second is to broaden the tourism market to provide more emphasis on business travel. This would require construction of conference facilities on the larger resorts, and focusing part of the marketing effort on the conference market.<sup>18/</sup>

2.67 Supply Prospects. The existing supply of quality resort rooms is approximately 8,000. Plans exist to add an additional 2,500 rooms and upgrade some 2,000 rooms by 1993, leading to a total capacity of 10,500 resort-quality rooms at an estimated cost (between 1989 and 1992) of approximately US\$100 million.<sup>19/</sup> The Male airport is being upgraded to meet the safety conditions necessary to handle more wide body jets. By 1993, when the airport

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<sup>17/</sup> Double-digit growth in Asian tourist demand is expected to continue throughout the next decade. Although shopping and golf are typically the two attractions most desired by Asian tourists, the Maldives 'niche' in the market appears to be in providing an affordable, stress-free and congestion-free waterside environment.

<sup>18/</sup> Small conference facilities exist in two of the resorts and plans exist for development of such facilities in a number of other resorts.

<sup>19/</sup> Cost estimates for the 25 resorts being upgraded and expanded were provided by the Maldives Association of Tourist Industries. More than one-third of the total costs are for the development of resorts in the Ari zone, the most expensive of which, at US\$28 million, are the estimated development costs of Huvahandhu/Vilamandhu.

is upgraded and the additional room capacity installed, there is expected to be approximately 25 percent more visitors and a 40 percent increase in tourism earnings--the higher earnings reflecting quality upgrading and an increase in occupancy rates.

2.68 After 1993, options to expand room capacity within a reasonable (3 hour speedboat ride) proximity of the Male international airport will be nearly exhausted. For growth in tourism to continue, investments in the Ari atoll will need to be completed and thereafter new regions will have to be developed.

2.69 At present, Gan is envisioned as a possible site for future tourism development. Gan has both an airport and a golf course left behind by the British Royal Air Force. It is in the southern part of the nation (the Addu atoll) which has relatively less employment opportunities and social facilities than the central and northern atolls. This region is an important source of migratory labor for the existing tourism industry and has adequate electricity generating capacity and a network of causeways linking several of the islands.

2.70 For investment in tourist facilities in regions to proceed, adequate air links and telecommunication facilities would need to be provided. In light of the importance of maintaining the momentum of tourism growth in the nation, a high priority in public investment planning should be accorded to: (i) regional airport upgrading; and (ii) providing telecommunications links with the possibility of extending hookups to the other main centers in the Addu atoll. An assessment of the technical and financial feasibility of alternative investment options for the Addu atoll is urgently required.

2.71 The ready access to the Maldives provided by many international carriers, most notable of which is Singapore International Airlines, conveys benefits well in excess of the landing fees and other charges levied by Government. The ready availability of aviation fuel, at a competitive price, is one determinant of the degree to which international carriers will choose to break long-haul journeys in the Maldives. With the new generations of wide-body jets providing the technical capacity to overfly South Asia on the Europe-to-Asia route, it is increasingly important that tax policy does not create unwarranted disincentives to airlines that wish to refuel in the Maldives. At present, a 10 percent import duty, plus handling charges by STO and the airport authority and storage charges are levied on imported aviation fuel. These together with small volumes provided, raises the costs some 25 percent to 50 percent above those prevailing in competitor nations. In most nations aviation fuel (by international treaty) is treated as a re-exported commodity, and is exempt from import duties and taxes of any kind. Serious consideration should be given to: (i) removal of the import tax on aviation fuel; (ii) private sub-contracting of aviation fuel supply and management activities, with frequent price monitoring and contract tendering used to ensure a competitive supply price.<sup>20/</sup>

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<sup>20/</sup> Such contracts would also include provisions for honoring existing long-term commitments to international carriers as presently exist.



2.72 Tourism Taxation and User Fees. The tourism industry is an important provider of government revenues directly, through lease payments on resort islands, a (specific) turnover tax on hotel stays, landing fees and a departure tax. Indirectly, a significant share of import duties stem from those levied on goods used in the construction of resorts and those consumed by tourists, as well as duties on aviation fuel imports. Various studies have estimated the total tax incidence to be on the order of 30 to 35 percent of gross receipts. While not extraordinarily high by international standards, the effective tax rate is considerably higher than in the fisheries sector or in urban commerce and finance. Continued surveillance of the effective tax rate in the tourism sector is needed to ensure that the industry is able to maintain a competitive position in world markets.

2.73 Still, tourism is likely to become an increasingly important source of government revenues. Assuming that it will be possible to increase the average government revenue per tourist bednight from US\$2.5 to US\$6 by the year 2001, total government revenues would amount to US\$20 million from this item alone and to US\$45 million from all sources combined. Furthermore, if by then the lease income from all resorts would have been raised to the level obtained under recent lease agreement, i.e. on the order of US\$2,000 per bed per year, the revenues from this item alone would increase from an estimated US\$4 million at present to US\$32 million by 2001. Total revenue from all sources combined would be US\$70 million.

(e) Sectoral Policy: Atoll Activities

2.74 Approximately one-third of the population resides on more disadvantaged islands which have little fisheries or tourism related activities. Out-migration, reliance on remittances, together with "home-garden" agriculture and development of fisheries provides a possible means of support to this population. Considerable efforts have been made to transform traditional agriculture, modernize artisanal fisheries and re-introduce handicrafts production on the more remote islands. These efforts have tended to be frustrated by a lack of regular market access to Male and, consequently, by the high costs and irregular supply of raw materials.

2.75 Agriculture is of considerable importance in many remote islands. The sector is dominated by production of fruits and vegetables; contributes approximately 10 percent of GDP; has recorded a strong growth performance in the 1980s, and provides the main source of incomes to about one-quarter of the population. Although land resources are limited, the agricultural sector exhibits considerable potential for growth in fruits and vegetables to supply both domestic demand and the tourist market, together with provision of industrial crops for fuel and fiber needs. To realize this potential, improvements in market access is a high priority. In addition, efforts are needed to increase the number and specialized qualifications of the extension service personnel, to introduce integrated pest management programs, to provide a more 'market-oriented' system of agricultural land leases and to improve the statistical reporting system.

2.76 Efforts to improve incomes in remote islands have been more successful when simple ports/jetties (or port deepening works) have been

provided to otherwise hard-to-reach islands. This has opened the possibility of more regular contact between the remote islands and Male and, in some instances, has led to direct product supply links to resort islands (e.g. for horticultural produce). Future efforts to improve incomes in the more remote islands should focus first and foremost on provision of simple port (or better port/jetty access) facilities to accommodate inter-island shipping.

### Institutional Development

#### (a) The Legal Framework

2.77 A good legal system provides confidence to the private investor. The legal framework provides a basis for the orderly execution of transactions; a well-designed and widely understood legal system lowers transaction costs and reduces risks associated with commercial dealings. In the Maldives, the commercial legal system is still in the very early stages of development. This impedes formation of institutions complementary to private sector development (e.g. accountancy, financial markets), raises uncertainties (particularly in the mind of outside investors) regarding the sanctity and enforceability of contracts, and limits the Government's options for raising revenue (e.g. lack of legal accounts).<sup>21/</sup>

2.78 In the past, the lack of a legal framework was of less significance because transactions were smaller and the Government played a large role in all commercial sectors of the economy. As the Government's role in the commercial sector recedes, and as the private sector undertakes more large-scale projects, the absence of a commercial legal framework becomes an increasingly serious impediment to investment and private sector activity. In recognition of the need to modernize the legal framework, the Government has promulgated a Decree on Limited Liability Companies, a Foreign Investment Law and a Contracts Law.

2.79 Further development of a commercial legal framework should receive a high priority. To meet the needs of the growing corporate sector (particularly for resort development), legal framework development is required in banking (central and commercial), financial institutions, financial instruments, real estate, torts, taxation, business entities, agencies, formation, bankruptcy, anti-trust and dispute resolution. Both a uniform commercial code and the statutory basis for regulating activities in the

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<sup>21/</sup> The Government has made efforts to bypass the lack of a commercial legal framework by allowing offshore jurisdiction for dispute resolution in resort development contracts involving foreign parties.

aforementioned areas are required.<sup>22/</sup> In developing and promulgating commercial laws it is important to consider both the domestic enforcement capacity (which will initially be limited) and, as an open-economy, the need to provide a legal system familiar to outside investors.

2.80 Existing procedures used to develop and promulgate new commercial laws have been time-consuming and have resulted in frequent amendment and revisions. It may be more expeditious to develop a series of laws (e.g. a broad-based commercial code) for parliamentary consideration rather proceeding with one law at a time.

2.81 Accountancy. Development of standard, uniform means of accounting provide investors with an objective standard for judging the financial viability of going concerns. And, in so doing, provides a framework for broadening ownership of larger entities (private companies, parastatal corporations). Efforts should be made, in conjunction with the development of the corporate legal framework, to adopt internationally recognized accounting standards. Licensing procedures should be developed for domestic accountants and firms larger than a certain size (e.g. turnover of US\$1 million) should be required to maintain certified accounts. At the same time, training in bookkeeping and the use of micro-computer based accounting packages should be integrated into the secondary school curriculum and efforts advanced to increase the numbers of Maldivian students provided overseas accountancy training.

(b) Environmental Preservation

2.82 As a nation built upon fragile coral atolls, dependant for economic survival on the resources of the sea and the splendor of its natural beauty, environmental preservation is crucial to the sustainability of practically all economic activities. Improving management of natural resources requires, inter alia, a mixture of near-term regulatory interventions and strengthening of existing institutions.<sup>23/</sup>

2.83 The human induced damage to coral reefs and associated marine life has become an issue of increasing concern. The extent of the loss of biodiversity is not known. Coral mining to provide building materials not only destroys marine life, but also reduces the coastline protection against both normal and storm tide and wave induced erosion. Sand dredging for land reclamation or construction materials results in suspension of particulate

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<sup>22/</sup> One of the handicaps associated with a shallow backlog of common law experience is that there are few precedents upon which to base legal opinion. It may be worthwhile for the Maldives to adapt to local conditions the restatements of various forms of civil law, published by the American Law Institute of the United States. Such restatements codify a considerably longer history of common law jurisprudence than would be otherwise available to the judicial system of the Maldives.

<sup>23/</sup> This section draws heavily on J. Pernetta, Environmental Management and Planning in the Republic of the Maldives, CSIRO, March 1990.

matter which can smother nearby corals. Solid waste smothers corals and pollutes the Male reef. Discharge of raw sewage introduces nutrients which lead to the growth of algae adversely affecting coral communities.

2.84 There are several naturally occurring problems affecting coral reef growth and regeneration rates, which are of concern with the framework of overall wise management of the Maldivian reef systems, as well as potential impacts resulting from global climatic change. Coral bleaching and subsequent mortality is associated with thermal stress in corals, many of which are currently growing at their upper temperature limits. The crown of thorns, a natural predator of corals, has undergone explosive population growth. The Male and Hulule reefs have substantial cracks of unknown cause.

2.85 There are several other forms of marine pollution. Sewerage contaminates coastal waters with coliform bacteria causing human health problems. Oil transport leaves tarballs near the northern shipping lanes and was the source of one oil spill accident in the harbour. The effect of hydrocarbons from increased motorization of the fishing fleet has not been assessed.

2.86 Intervention Priorities. Coral mining for the domestic construction industry continues to be a major threat to the sustainability of reefs and coastal aquatic life, while increasing the vulnerability of heavily-mined islands to climatic disturbances. In certain areas (e.g. Male island) and in certain sub-sectors, mining of coral for construction purposes (e.g. new resorts) is banned, yet enforcement continues to be weak. Although coral mining for construction purposes is a traditional industry, the pace of development has dictated a demand for construction materials that well outstrips the pace of sustainable management of coral resources. Consequently, an effective ban should be placed on the use of coral for residential or commercial construction purposes, and stiff penalties imposed for such violation.<sup>24/</sup> Such measures should be complemented by a reduction in import duties on building materials.

2.87 Second, the dumping of garbage into the Male bay, by tourist resorts, boats and Male-based businesses is damaging the water quality and jeopardizing the attractiveness of the near-by resort areas. A combination of improved sanitation facilities in the capital, strict enforcement of penalties for dumping in the bay, together with mandatory adoption of approved sewage treatment/incineration facilities by the resorts is needed to combat this immediate pollution problem.

2.88 Over the longer-term, increasing economic activity in the Male atoll while broadening the focus to include other regional centers of growth is bound to strain the nation's fragile natural resources. As part of the Environmental Action Plan, tabled at the Colombo donor meeting in 1989, the Government has laid out a comprehensive program of environmental studies,

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<sup>24/</sup> The Government could play an important role in this by banning the use of coral for building property owned or leased by the Government and or any of it's associated agencies.

regulatory development and training, designed to upgrade the institutional capacity to plan and manage economic activities in harmony with the natural environment. Developing such capacity will take time, and further financing is required for selected portions of the program of activities which are to be conducted during the next five to ten years.<sup>25/</sup>

### C. Evolving Role of the Public Sector

2.89 In the 1990s, the public sector will continue to play a leading role in the Maldivian economy, not as an active participant in the provision of goods and services in the marketplace, but as regulators molding a policy framework to enable efficient private sector development and as the providers of essential infrastructure and human resource development services complementary to growth.<sup>26/</sup> This evolving, supportive public sector role implies continued emphasis on the selection and provision of economic infrastructure, a restructuring of the civil service to meet changing needs and a diminution in the role and operations of the public enterprises.

#### Infrastructure Provision

2.90 The provision of economic infrastructure, principally in the areas of transport and telecommunications, will remain a major thrust of Government policy in the 1990s. At the same time as new investment is proceeding, the 1990s will herald the need for greater attention to relieving overcrowding in Male.

2.91 Urban Development. With less than 2 square kilometers of living space, overcrowding and congestion in Male has become a serious concern. The population in Male in 1990 was 52,000 compared to 45,800 in 1985, for an annual growth rate of 4.1 percent. There are, in addition, nearly 3,000 foreigners residing in Male, approximately half of the total working in the nation. There are a total of 4,000 housing plots in Male and an average of 14 persons per dwelling. The trend in Male is to build multi-story facilities, however a shortage of potable water supplies (see Chapter 4) imposes an effective ceiling on the carrying capacity of the island.

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<sup>25/</sup> In addition, efforts have been made to foster environmental awareness by developing primary school curriculum materials on the environment and by integrating the use of such materials into the existing school system.

<sup>26/</sup> Human resource development strategies will be discussed in more detail in Chapter 4.

2.92 Vilingilli, a neighboring island, has been selected to accommodate the population overflow from Male.<sup>27/</sup> To develop Vilingili, initial investments by the Government in a port, an extension of the electricity grid and telecommunications hook-up would be required. Thereafter, residential and commercial development should be done on a lease or sale basis by the private sector, with the proceeds from the land leases used to recover costs of the initial infrastructure development. In addition, as the number of inhabitants in Vilingilli increases, social services will likewise need to be provided. While costs of urban settlement on Vilingilli are likely to be high, it is important to focus administrative resources on one major settlement project at a time, with a view towards full cost recovery through an appropriate (market-mirroring) tariff setting policy on urban land use.

2.93 Regional Development: In addition to developing Vilingilli to absorb the spillover from Male, efforts will be required to broaden regional growth opportunities. The Government's strategy, which is to develop a small number of regional growth centers, appears to be sound. Successful implementation of this strategy would hinge on identification of economically viable development opportunities and the provision of essential infrastructure to improve access and communication.

2.94 Transport. The structure of Maldives' transport sector has been patterned by the small size and dispersed location of the coral islands. For domestic communications inter-island sea transport is the dominant mode. For international goods transport, both shipping and aviation play an important role, while for international passenger transport, aviation is practically the only mode.

2.95 Inter-island transport of passengers and goods goes largely by sea and is faced with numerous constraints which cause considerable increases in costs. Costs are adversely affected not only by the scattered location of the islands, but also by the small quantities to be transported, the reefs surrounding the islands which cannot be crossed by larger more economical vessels, and the high incidence of strong currents. All these factors require that compromises be made in vessel design with the end result that transport costs are higher and hence become a serious impediment to development.

2.96 The main network of inter-island transport consists of a radial pattern linking the 18 outer atolls to Male. Atoll exports to Male are principally unprocessed, low value and bulky goods such as sand and coconut destined for use in the capital. Atoll imports consist mainly of high-value basic foodstuffs, consumer goods and petroleum. Traditionally, transport was by sailing boats but their mechanization has resulted in a marked improvement in inter-island transport services and sailing vessels are gradually

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<sup>27/</sup> In Male, residential land rents are close to US\$1000 per square meter per annum. As Government owned property is leased at only a nominal rate for urban dwelling (US\$10 to US\$30 per square meter per annum), the bulk of the rental gains accrue to private parties. In developing Vilingilli, it will be important for the Government to price urban land appropriately to obtain revenues for recovering the costs of infrastructure development.

disappearing. However, because of the constraints under which inter-island transport is operating, the quality of service to and from the outer atolls remains poor.

2.97 Lack of a regular source of inter-insular transport is a major constraint to development of economic activities, other than fishing, outside of Male. At present, practically all inter-insular shipping capacity (and 85 percent of international capacity) is in the private sector. There are strong positive externalities associated with regularizing shipping services to a small set of potential growth centers. Rather than provide this service directly, it may be appropriate for the Government to tender licenses for inter-insular shipping; the proceeds would be used to offset the costs of temporary support for service to those growth centers that are deemed to require regularly-scheduled services, but which would otherwise be unprofitable.

2.98 The civil aviation sector has come to play an increasingly important role in Maldives not only on account of tourism, but also for international and domestic communications. The remarkable increase in tourist arrivals at Male airport in recent years is matched by the rate of increase in other traffic, though from a much lower base. The Male airport on Hulule island near the capital Male, is the most important facility and represents the largest single investment in the country. In addition there are three regional airports. The airport at Gan on the extreme southern Addu Atoll makes use of military facilities vacated by the U.K. in 1976. A second regional airport about midway between Gan and Male opened at the end of 1986 while a third in the north was opened in 1990. The investment in these airports and in two new regional aircraft has improved communications with the concerned atolls considerably. The future development strategy in civil aviation should aim for efficient operation of the existing facilities, while providing broader access to air-transport links through a carefully phased expansion program. The Government's policy of maintaining a very small domestic airline has served the nation well--further fleet expansion does not appear to be warranted in the near-term. With respect to airport capacity expansion, highest priority has already been attached to upgrading of the Mali airport. In the future, priority should be given to airport-upgrading to serve increased tourist flows.

2.99 International Maritime Transport. The country's main port at Male offers lighterage facilities for ocean-going vessels. The facilities, which come under the Maldives Ports Authority (a parastatal enterprise) are being upgraded and improved to cope with rapidly increasing traffic. Cost recovery is not a main objective for the port and this aspect should receive greater attention in the future. Stevedoring operations are carried out by Maldives Transport and Contracting Company (MTCC), which is 40 percent privately owned, and by private operators.

2.100 Growth of traffic in recent years had led to a need to expand capacity of the Male port. In the atolls, shallow harbor entrances and reef basins inhibit movement of goods. Presently, the Government is implementing a program of deepening reef entrances and harbor basins in 60 islands. Under this program, the island residents provide retaining walls while dredging and

construction work is funded by the Government. In Male, a second phase of the port development project is being financed by the Asian Development Bank, OPEC and UNCDF. This project is designed to increase docking and storage capacity and reduce loading delay times from a 4-day average to a matter of hours.

2.101 Regular, world-class, telecommunications services are essential if the Maldives is to develop further in tourism and ancillary services. Between 1988 and 1990 a digital electronic exchange was completed, providing 10,000 direct exchange lines and replacing the previous electro-mechanical exchange of 3,000 lines. In addition to upgrading capacities in Male, telecommunication services were extended to seven atolls, south of Male. Furthermore, radio-telephone hookups were provided to Mahibadhoo (a northern Atoll) and the central Alifu atoll. Plans exist for extension of the nation's telecommunications link to the far north and far south over the next decade. Since 1988, telecommunications services have been operated by a joint venture with Cable and Wireless, which has a ten year license to operate and maintain all national and international telecommunications.

2.102 Further extension of the telecommunications network is essential, particularly in light of excess demand in Male and the need to open new Atolls as centers for growth. While telecommunication operations are now largely in private hands, the Government should continue to play a leading role in regulating phone tariffs, securing funding and planning to assist the industry expand telecommunications access. In the more remote islands, solar-powered, radio phones would be the best option at present. However, in areas targeted for future growth as tourism/services centers (such as Gan), satellite-supported technologies may be more cost-effective and should be explored.

2.103 In the energy sub-sector, the Maldives Electricity Board (MEB) has six power stations with a total installed capacity of 12 MVA, of which nearly 8 MVA is in Male and 3 is in Gan. Factories and tourist resorts maintain their own generators, as do some 87 private individuals residing outside the reach of the MEB grid. In Male, electricity demand has been growing by 20 percent per annum over the last five years and the MEB has been forced to resort to rationing to meet peak-hour load demands.

2.104 Future energy capacity, operated by the MEB, will be required in major growth centers. At present, the Asian Development Bank is supporting the provision of a new power system in Male, which will approximately double existing transmission capacity. In addition, the Government has identified 14 islands to be electrified during the period 1990 to 1993. For these islands, it is not clear that there is adequate demand to meet the costs associated with provision of publicly supported electrical generation facilities. Some measure of technical support to private provision of generating capacity may be a more appropriate investment strategy for such islands. This would involve provision of a technology package (e.g. small scale generators) which could be installed (and costs recovered) by the Government but would then be operated and maintained privately by the inhabitants of the concerned island.



### Civil Service Reform

2.105 During the 1980s, the ranks of the civil service swelled rapidly as labor-intensive social services, new infrastructure projects and commercial activities of the Government expanded. By 1990, the number of civil servants reached just over 10,000 of whom 60 percent were working in the capital city; the total wage bill reached Rf.145 million or 19 percent of total government expenditures and net lending. During the 1980s, the numbers of civil servants increased by 5 percent per annum, and was equivalent, by the end of the decade, to nearly one-fifth of the total labor force.28/

2.106 For most of the past two decades, the civil service offered guaranteed employment to secondary school leavers and graduates (the latter being obliged/bonded to serve in Government).29/ Salaries paid to civil servants were fixed and held below private sector levels for long periods of time. To offset the lower salaries, civil servants were encouraged to devote half of their working time to the private sector.

2.107 As the role of the public sector becomes less commercial, less staff will be required in line agencies and in the parastatal enterprises. While staffing needs will continue to increase, most notably in education and health, the greatest need will be for staff with higher technical skills, rather than unskilled laborers and administrators. This points to the need for a considerable slowdown in the growth in numbers in the civil service, recruitment of a greater number of more specialized and skilled personnel, and a falling number of unskilled or semi-skilled workers in public service. Furthermore, with the number of secondary school graduates expected to rise rapidly in the 1990s, the Government can no longer provide guaranteed employment to all school leavers nor is there any reason (with a growing supply to select from) to oblige secondary school graduates to join the civil service. Likewise, for students sent under official scholarships for training abroad, it would be preferable to introduce an option for repayment of the scholarship costs, rather than rely on the use of a bonding system for an extended period of time.30/

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28/ After the aborted coup in 1989, the number of personnel in the National Security Service was doubled to about 1500 persons.

29/ As a result of a shortage of trained personnel, combined with a rapid expansion in the functions and services of the Government, the majority of public sector posts were provided to students who did not complete secondary schooling. There remains a need for in-service training to bring many of these individuals up to the skill level required for their existing posts.

30/ Perverse incentives are created by the use of the bonding system. Officials may be sent for overseas training simply to ensure that they will continue to remain in public service, rather than to augment gaps in skills needed for a particular task.

2.108 The civil service salary structure and review process should provide incentives necessary to recruit and retain staff needed as demands on the public sector change. The granting of far higher salaries to civil servants posted in the capital city rather than in the Atolls encourages rapid migration to the capital. This gap should be narrowed over time. Second, the narrow band between salaries of civil servants of different ranks discourages skilled individuals from joining the Government. A broader range in civil service salaries is needed to ensure that the Government can continue to attract qualified personnel to technical and senior administrative positions. Third, after being held constant for two years, civil service salaries were increased by an average of some 40 percent in late 1990.<sup>31/</sup> This allowed the civil service to regain a measure of competitiveness, particularly for unskilled labor. However, the lack of a regular civil service salary review adds to fiscal uncertainty and, in an inflationary environment, can lead to a rapid erosion in the competitiveness of Government in retaining civil servants. Although the aggregate size of the civil service wage bill will continue to be a very important for macroeconomic management, annual review and revision of salaries would ensure that the competitiveness of the Government is not eroded.

2.109 The policy of encouraging civil servants, at practically all levels, to work half-time in the private sector has enabled the civil service to retain many highly skilled, entrepreneurial staff. At the same time, this policy has injected a remarkable measure of practical understanding of the needs and practices of the private sector into policy making. However, such a policy has not been without its costs in terms of the difficulties associated with avoiding conflicting responsibilities. As the public sector assumes more of a regulatory role in the 1990s, and as the activities of the private sector multiply, it will be important to have a sufficient number of public sector officials "on-duty" to provide essential services and backstop the regulatory system. It will also become increasingly important to minimize opportunities for conflict-of-interest. A rapid transition to a separation between the civil service and the private sector is not advised. Rather, a more gradual transition, in which certain posts in each Ministry are designated (and compensated) as full-time, and others as half-time would be more appropriate.

#### Public Enterprise Reform

2.110 Public enterprises play an important role in the Maldivian economy. In addition to providing utility services, nine public enterprises hold a dominant position in transport, communications, tuna processing and in

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<sup>31/</sup> In 1990, the numbers of civil servants fell by nearly 8 percent as the Government was unable to recruit unskilled laborers to work in the civil service. At the beginning of 1990, there was a twofold gap between private and public sector salaries for unskilled laborers. The wage increase was designed to halt the erosion of the Government's competitiveness in the labor market, particularly at the unskilled worker level.

exporting, warehousing and trade in essential items.<sup>32/</sup> The public sector is also actively engaged in banking, insurance, resort operation, wholesaling and a host of other operations. The largest of the parastatal corporations is the State Trading Organization, with an annual turnover of Rf.920 million.

2.111 At present, all of the state enterprises are making a profit, and some, such as the STO, provide an important contribution (Rf.35 million in 1990) to Government revenues in profit transfers. Profit transfers from the enterprises have been on a rising trend and in 1990 accounted for about one-fifth of total government revenues.<sup>33/</sup> Recognizing that greater efficiencies could be gained by commercializing parastatal enterprises, the Government has partly privatized the Maldives Transport and Contracting Company (to 23,000 local investors), the Telecommunications Company (to a joint venture with Cable and Wireless) and the Maldives Inflight Catering Service (with SATS Catering). In addition, to encourage financial discipline, the Government requires that the parastatal enterprises obtain permission from the Ministry of Finance for any borrowing, both domestic or foreign, in excess of an amount agreed at the beginning of the year. This helps to discourage the public enterprises from using preferential access to the domestic financial market to offset poor financial performance. Despite efforts to impose a hard-budget constraint, and inject a measure of commercialization into the management of the parastatal enterprises, problems do remain. Many of the parastatal enterprises operate with a confusing mix of social and private-profit objectives; most suffer from over-employment; have non-transparent accounting and management responsibility systems; and have little actual autonomy in making important decisions.

2.112 Looking to the future, the need for further reform of the parastatal enterprises continues. As private sector activities expand, there will be less of a need for large-scale Government involvement in commercial activities. The Government will continue to play an important role, however, in ensuring that there is competition in the markets, but this may be accomplished more through regulatory and residual-market activities, rather than through direct, regular commercial involvement. To make this transition, it will be necessary to: (i) institute those changes necessary to enable more competitive operations by the parastatals; (ii) gradually inject a greater measure of private operation and management into those firms for which public sector management and operation is no longer necessary.

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<sup>32/</sup> The nine public enterprises are the State Trading Organization, Maldives Transport and Contracting Company, Maldives National Shipping and Management Company, Air Maldives, Maldives Inflight Catering Company, Maldives Electricity Board, Maldives Port Authority, Dhivehi Raajjeyge Gulhun (telecoms) and the Bank of Maldives.

<sup>33/</sup> The STO is the largest of the parastatal corporations. It's principal activities are operating the tuna cannery, procuring and exporting canned and frozen tuna, and buying and distributing imports of essential goods and petroleum products. In addition, the STO own shares in local garment firms, in an insurance company and in the Bank of Maldives.

2.113 No single approach is appropriate for reforming the operations of the public enterprises. In the absence of a domestic capital market, it will be difficult to transfer ownership to a broad spectrum of the population. For some of the enterprises, private placements would be a possibility, but this would often times mean foreign ownership and operation. Moreover, in the absence of a domestic corporate tax system, privatization could result in revenue losses.<sup>34/</sup> All of this points to a graduated approach to public enterprise reform, involving a mixture of commercialization, divestiture and orderly winding-up where needed.

2.114 The Government has taken important measures to scale back public enterprise activity. Notable in this regard has been the liberalization of Maldivian fish exports and the reduction in STO trading activity in 1990. Looking ahead, for STO, the scope and sweep of operations has become greater than can be efficiently managed under one organization. The fisheries activities, for example, could be more efficiently managed in a single corporate entity.<sup>35/</sup> Likewise, trading operations could be spun off, part of the warehouse assets sold and the balance operated under lease arrangements with the private sector. As for STO's passive investments in banking, insurance and garments, these could be transferred to central government management. Dividing STO into more manageable units, while divesting those activities more appropriately located in the private sector, would have the advantage of: (i) increasing management control over a major corporate entity; (ii) focusing STO activities in the small scale fisheries area; and (iii) shifting the trading activities from active involvement to more of a trade-service wholesaling role.

2.115 With total sales of Rf.21 million in 1987, the Maldives Transport and Contracting Company (MTCC) ranks as the second largest parastatal entity. The main responsibilities of the MTCC include importing and supplying building materials, construction, repairing engines and operating sea and land transport services. Due to competition from the private sector and an aging equipment stock, the financial performance of the MTCC (excluding front-office trading activities) has been poor. In recent years, the MTCC has sold part of its international fleet to the Ports Authority and has scaled back its construction and engine repair activities. The MTCC is operating in areas where the private sector is already actively engaged, and in many instances is providing social (outer island shipping) rather than commercial services. Trading operations of the MTCC will likely come under increasing pressure from the private sector as private storage capacity increases. Over time, the more

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<sup>34/</sup> Revenue losses would not necessarily occur if the assets were sold for the net present value of expected future income flows (profit payments) to the Government.

<sup>35/</sup> The Felivaru tuna processing plant has been losing money since it was established and is responsible for an overall loss on STO's fisheries operations. If fisheries activities were contained in a separate corporate entity, management would be forced to either improve or eliminate operations in the canning factory.

uneconomic services provided by MTCC should be wound up, and the company should be placed under private ownership and management.

### Financing Public Sector Activity

2.116 Despite an increase in private sector activity, government expenditure requirements are projected to remain in the range of 30 to 40 percent of GDP for the balance of the 1990s. While concessionary sources of financing may provide 5 to 10 percent of GDP, domestic sources, tax and non-tax revenues would be expected to provide between 20 to 30 percent of GDP in public savings.

2.117 Tax reform is the natural outcome of an evolutionary process in which the private sector plays an increasingly dominant role in growth and development. As high import tariff rates are reduced, compensating sources of revenue will be required. As public enterprises play a smaller-and-smaller role in the economy, the possibility of generating large non-tax revenues from the state enterprises will diminish. In other words, as a growing share of income is generated in the private sector, the Government will need to develop tax instruments to mobilize resources to finance the domestic component of public expenditures. Such new tax initiatives should take into account limited administrative capabilities; however, the absence of such capabilities should not itself slow progress towards a more broad-based and efficient tax system.

2.118 In 1990, the total tax effort provided only 24 percent of GDP in revenues, with nearly 27 percent provided by non-tax transfers and 9 percent provided by external grants. In tax revenues, customs duties dominate, while in non-tax revenues, land lease transfers from STO and landing fees are the most important sources of revenue. Over the next decade, the Government's tax reform objectives will be to change the revenue mix by: (i) broadening the tax base to increase buoyancy and horizontal equity; and (ii) reducing distortions introduced by differential taxation of domestic and imported goods, different types of imported products, different classes of domestic investors and different sectors of the economy.

2.119 Tax Reform. To facilitate taxation, the focus of reform efforts should be to shift from a high degree of dependence on customs duties to the gradual use of a domestic sales tax. Initially, a sales tax could be applied at the wholesale stage, in conjunction with the lowering of customs duties and the abolition of duty exemptions. As administrative capabilities improve, the sales tax could be generalized and then applied more broadly, in a value-added type of arrangement.

2.120 Reforming direct taxes will be more difficult, and will require advances in the legal framework and in domestic accountancy skills. However, as private sector corporate activities increase, it would be appropriate to introduce both a corporate profits tax and a personal income tax. Initially, such taxes could be designed to minimize administrative collection costs, while gradually building up a broad base of filers. A high cutoff for inclusion could be established to shelter the poor (and reduce collection costs) and a system of presumptive payments and self-reporting used to build-

up a potential audit trail. A low flat-rate tax (5 percent of reported profits and income) would further ensure compliance and minimize administrative costs. Gradually, as the Government's capabilities to administer direct taxes improve, it would be possible to bring the tax rates to levels more in keeping with those prevailing in competitor nations. This would also provide the possibility to shift the system of licenses and fees, which now provide an important source of non-tax revenue, onto a corporate profits and personal income tax base.

2.121 Cost Recovery. Improvements in the tax system will take time to complete. However, the nature of the public investment requirement for the 1990s is such that considerable emphasis will have to be given to systems of user-financed cost recovery for provision, operation and maintenance of essential infrastructure and services. In telecommunications and energy, existing cost recovery systems should be sufficient to recover public outlays. For new urban developments, setting urban-property tariffs to levels more closely resembling those prevailing in the market will be necessary if costs are to be recovered. One alternative for recovering costs of municipal services would be the creation of a municipal tax. This would provide an indirect means of recovering water use and other urban changes that, for technical reasons, are difficult to collect directly. In the social sectors, as discussed in Chapter 4, a high degree of community participation in financing, together with full-cost user financing (student loan schemes) for tertiary schooling and an increasing number of medical products and procedures is needed.

### Chapter III. HUMAN RESOURCE DEVELOPMENT

#### A. The Role of Human Resource Development

3.1 Human resource development has been an important contributor to rapid economic growth in the Maldives. It is also central to improving the welfare of the low income population and to encouraging broad-scale participation in the growth process. During the past decade, considerable progress has been made in providing essential social services to the great bulk of the population. During the next decade, the principal challenge will be to provide essential social services to a rapidly expanding population while improving quality to meet changing needs.

3.2 Investment in education and health care has an important effect on labor force productivity. Preparing the labor force to meet the challenge of highly competitive world markets is crucial to the success and sustainability of the growth process. As noted in Chapter 2, the pattern of growth in the Maldives will continue to be outward oriented and centered on fisheries, tourism and ancillary services. To leap the divide between primary sector jobs and high-productivity tertiary sector activity requires a skilled, healthy and competitive labor force.

3.3 Human resource development also plays an important role in increasing labor force mobility, and hence widening opportunities for participation in the growth process. Efficient provision of social services provides the skills needed to support the transition from low productivity employment in remote Atolls to more dynamic development in regional growth centers.

#### B. Human Resource Development in the 1980s

3.4 A decade ago, policy makers in the Maldives faced a very poor and rapidly growing, young population, with average annual incomes barely exceeding US\$100 per capita, a high incidence of infant mortality and morbidity, widespread lack of access to potable water supplies, low literacy rates and practically no internal capacity for secondary or post secondary education. Basic social services were predominantly provided by private health care workers and religious institutions, using traditional techniques. While a start had been made at developing a primary health care and public education system in the 1970s, coverage remained skewed towards service provision in the capital city and even then was grossly inadequate.

3.5 The Government response was to devote increasing resources to an ambitious program of primary health care, sanitation and public education, while at the same time encouraging the use of expatriate labor to meet the immediate excess demand for labor. From 1985 to 1990, the number of expatriates employed in the Maldives increased four-fold from 2,100 to 8,700, or from 6 percent to 15 percent of the labor force. To accelerate development of a skilled domestic labor force, an aggressive program of human resource development was mounted. Government education expenditures increased from 7

percent in 1979 to 17 percent in 1989 of total government spending. Over that same period, health and sanitation expenditures increased from 6 to 18 percent of total public outlays.

3.6 Although centrally administered, particular care was taken in the design of the primary health care and education systems to involve and integrate the activities of traditional health care and education providers. A network of primary health care centers was established and 322 out of a total of 557 traditional mid-wives (foolhamas) were trained in diarrheal control, vaccination and other primary health care techniques. The network of primary schools was expanded, a unified curriculum developed for the parochial schools and efforts made to introduce new subjects, such as environmental science, commerce and fisheries management at the primary school level, to meet emerging local concerns and conditions.

3.7 The results of a decade of rapid expansion in public investment in human resource development are impressive (See Table 3.1). Basic literacy in the local language (Dhivehi) has been achieved; primary school coverage is in excess of 90 percent, for both the male and female population; and the supply of students with secondary and tertiary training has increased exponentially from a very small base. In the health sector, infant mortality rates have declined, the prevalence of communicable, tropical diseases has been sharply reversed and more than half of the population has been provided access to safe, potable water supplies. In terms of literacy, infant mortality and access to electricity and clean water, the Maldives' social indicators are significantly better than those of other low income Asian nations and are amongst the highest of the low income developing countries worldwide.

3.8 These remarkable achievements in improving social indicators, which occurred in the space of a decade, were made possible by a combination of (i) effective prioritization of social service resources towards primary education, sanitation and preventative health care; and (ii) steady growth in resources provided for social services, as a result of rapid economic growth, prudent use of external assistance and the unwavering emphasis placed by Government on human resource development as a long-term development strategy.

#### C. Human Resource Development: Agenda for the 1990s

3.9 Looking ahead, human resource development priorities will need to be revised in the light of changing demographic and labor market conditions, progress registered to date in health, education and sanitation, and the prospect of rising costs and impending limits to social service expenditure growth. Provision of social services will continue to be constrained by a shortage of trained personnel and by the vast distances, irregular transport and communication barriers.

3.10 Demographic Outlook. The 1990 census showed that the population of the country stood at 213,215. The current annual rate of growth is about 3.4 percent, a rise from a 3.2 percent annual growth rate between the census of 1966, 1977 and 1985. This is an extremely high growth rate and, if sustained, it means that the population will double its current figure in 20 years. If the crude death rate, given as 8.0 per 1000 persons in 1986, continues to decline and the fertility rate is sustained in its current range



Table 3.1: TRENDS IN SOCIAL INDICATORS, 1977-1990

Social Indicator	1977	1990	Low-Income Asia
Life expectancy at birth (yrs)	46	64	62
Crude birth rate (per 000)	44	43	30
Crude death rate (per 000)	17	7	10
Infant mortality rate (per 000)	120	34/a	161
Population with access to health services (%)			
Total	40	61	75/b
Male	100	100	
Atoll	24	48	
Population with access to safe water (%)			
Total	7	64	57/b
Population per physician (000)	16	7	1
Population per nurse (000)	20	2	2
Population per hospital bed (000)	4	2	1
Population growth rate (%)	3.1	3.4	2.0
Adult literacy rate	81	95	60
Primary school enrollment (% of 5-14 age group)	27	90	104
Secondary school enrollment (% of age group)	2	21	37
Households with electricity (%)			
Total	10	69	45/c
Male	60	94	
Atolls	2	63	

/a An estimate based on a comparison of the 1980 and 1990 census would place the infant mortality at a substantially higher level.

/b Refers to the most recent estimate for India.

/c Refers to the most recent estimate for Malaysia. All other values for low-income Asia are most recent estimates provided in World Bank, Social Indicators of Development, 1990.

Source: Ministry of Planning and the Environment, and World Bank, Social Indicators of Development, 1990.

of 6.5-7.0 percent, then the annual population growth rate will rise even further.

3.11 The age distribution shows a population which is very young, with 46.8 percent of the total under 15 years of age. Based on the 1990 census results, life expectancy is about 58 years. The Infant Mortality Rate (IMR)

is subject to uncertainty. Vital registration records suggest a figure of 34 per 1000 live births,<sup>1/</sup> while that derived from the 1990 census is higher. The fall in infant mortality has been the principle contributor to the decline in aggregate mortality levels and, combined with a very high fertility rate to the skewing of the population profile towards the very young (47 percent of the total population below 15 years of age with only 15 percent between 6 and 10 years old). This results in an extremely high dependency ratio of 1.02,<sup>2/</sup> implying a considerable burden on households and the government to meet the needs of the very young and the elderly. The most important effect of a young, rapidly rising population, is on demand for social services. If unchecked, population growth over the next decade, will result in a near-doubling in demand for primary education and health care.

3.12 Labor Force Outlook. In the 1980s, the labor force was characterized by an excess demand for both skilled and unskilled labor, with an increasing reliance on the use of expatriate labor. Total employment is estimated at about 65,000 persons, of which nearly 8,700 are expatriates. Of the expatriate work force, approximately half work for the Government and public enterprises, with the balance concentrated in tourism and garment manufacture. The vast majority (87 percent) of all expatriate workers originate in South Asia, and provide both unskilled and skilled services. A smaller number (12 percent) of the expatriate laborers are of European origin, provide skilled services, and are employed principally in the tourist industry and public service.

3.13 Tight domestic labor market conditions are the result of a number of factors including: (i) a lack of trained/skilled personnel; (ii) the high reserve wage for formal sector employment resulting from the relatively good returns afforded in fisheries and agriculture; (iii) the high costs, both real and psychic, associated with migrating to Male or residing apart from one's family; (iv) strong international demand for Maldivians to participate in shipping; and (v) attitudinal barriers which hinder wider participation of women in the labor force.

3.14 The use of expatriate labor has been a key 'safety-valve' for the Maldives economy. The level of expatriate labor use is high for two reasons: a lack of skilled labor and unwillingness to compete with low-wage (South Asian) labor. Prospects for substitution of unskilled labor are limited and any measures to limit use of expatriate labor may adversely affect competitiveness. The more important challenge, however, will be to provide skills to a growing population of school leavers.

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<sup>1/</sup> Indirect estimates are used to derive the census values.

<sup>2/</sup> The dependency ratio is defined as the ratio of the young (0-14 years old) and elderly (over 64 years) population to the adult (15-64) population. Average dependency ratio's for Asia are .6. For developed economies, dependency ratios are on the order of .3 to .5. In the Maldives, 47 percent of the total population are below 15 years of age and 3 percent are above 65 years of age.

3.15 While increasing use of expatriate labor has allowed the Maldives to meet rising manpower demands and maintain competitiveness, this has not been without costs. The estimated transfer payment abroad associated with employing 8,700 expatriate workers in 1990, is likely to be on the order of US\$5-10 million, or nearly 4-7 percent of national product.<sup>3/</sup>

3.16 Trying to substitute domestic for foreign factors in the presence of a severe skills shortfall has not been easy. The domestic labor force is subject to a high degree of turnover and employment of under-qualified individuals.<sup>4/</sup> This in turn increases costs associated with identifying, training and familiarizing the work force.

3.17 For much of the 1980s, the demand for labor by the public service grew at over 5 percent per annum. As noted in chapter 2, public service employment expanded to just over 11,000 persons in 1990, or nearly 20 percent of the total workforce. In addition, the public service provided a means of guaranteed employment for all secondary and post-secondary school leavers, through a scheme which bonded students to public service for a defined period of time.<sup>5/</sup>

3.18 In the 1990s, labor force demand is expected to increase by approximately 5-6 percent per annum, leading to the creation of nearly 40,000 man-years of labor demand over the next decade. The highest rates of growth are expected to be registered in the services sector, particularly in tourism, commerce and construction. In contrast to the 1980s experience, the bulk of growth in labor force demand is expected to take place in the private sector, with the public sector playing an important role only through further expansion in employment of primary health care and education staff.

3.19 Labor force growth over the coming decade is expected to be sufficient to meet rising domestic labor demand. The number of students graduating from secondary and post-secondary educational institutions is expected to rise rapidly, from just over 300 per annum in 1990 to more than 1200 per annum by 1993. The main challenge, however, will be to equip these students with the skills needed to compete in the market place. For this, vocational training programs which involve the private sector (see 3.34) become very important. This will provide a pool of new labor force entrants in the skilled and semi-skilled segments of the work force. Gaps, however, will persist in both the unskilled and skilled segments of the labor force.

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<sup>3/</sup> This is based on the assumption that 80 percent of the expatriate workforce is unskilled or semi-skilled and transfers an average of US\$300 per annum in remittances and that the 20 percent, or skilled workforce, transfers an average of \$2000 per annum in remittances to the home country.

<sup>4/</sup> For example, it is estimated that nearly fifty percent of all primary school teachers have had no formal training.

<sup>5/</sup> The bonding scheme has been relaxed in 1991 for all those except students on post-secondary level training financed by the Government.

To maintain competitiveness, it would be prudent to continue to maintain a flexible policy towards the use of expatriate labor.

3.20 Budgetary Considerations. For much of the 1980s, public expenditures on education, health care and sanitation grew at a rapid pace. This reflected an increase in both public investment and in current outlays. In 1990, total social service spending was equivalent to 35 percent of total public expenditures or 16 percent of gross domestic product. Compared to other developing nations, the share of public expenditures allocated to social services is very high. Faced with increasing requirements for public investment in economic infrastructure and maintenance of existing assets, it is difficult to envision further growth in the share of public expenditures allocated to the social sectors.

3.21 During the next decade, it will be difficult to increase public expenditures on health, education and sanitation any faster than the rate of growth in Government revenues. This would imply, however, real growth in the range of 3-5 percent per annum in social sector spending in the coming decade.

3.22 At the same time, unit costs of social service delivery are expected to rise much more rapidly as the focus shifts from provision of preventive to curative health care and from primary to secondary and post-secondary education. The spectra of a slowdown in resource growth and rapidly rising costs implies a need to prioritize expenditures and to design appropriate financing mechanisms for the more high-cost services.

3.23 Efficiency in Service Delivery. Setting realistic coverage and service delivery targets, within the context of reasoned development priorities, will be the main means of accommodating budgetary restrictions. Increasing the efficiency of social services is another strategy to offset budgetary limitations, increased service demand and rising unit costs. This can be achieved by: (i) gradually decentralizing administrative responsibilities for primary health care and education programs from Male to atoll-based administrators; (ii) increasing the domestic supply of doctors, nurses, teachers and other technical personnel who are now recruited in large numbers from abroad; (iii) institute cost-recovery on a selective basis for existing, discretionary education and health-care programs (e.g. for publicly provided drugs, technical education courses and curative medical services); and (iv) improve management of existing programs (one example would be better stocking programs for medical and educational supplies).

3.24 Coverage Targets. Setting appropriate priorities, particularly with respect to the degree of secondary and tertiary service coverage, will be critical to making effective use of limited social service resources. During the past decade, the Government has been successful in extending primary schooling, preventative and primary health care and sanitation services to the bulk of the population. Maintaining widespread access to essential social services will remain the highest priority in the social sectors but will become a major challenge in light of rapid population growth, shortages of trained staff and budgetary constraints.

3.25 While universal access to primary health care, sanitation and primary education services is advisable because of the welfare improvements

and positive externalities generated, the same cannot be said for the full range of higher education and curative health care services. Such services are considerably more expensive to provide and require complex systems of management and administration.

3.26 International experience provides some indication of the degree of higher-order service provision that the Maldives might reasonably expect to provide in the coming decade (See Table 3.2). As these figures indicate, the Maldives would require about six times as many doctors, three times as many nurses, twice the hospital bed capacity and just under three times the secondary school throughput to be at a level of higher-order social service provision on par with the middle income Asian developing nations. This would represent a dramatic increase in social service capacity, yet is far below that targetted by Government. More detailed observations on sectoral priorities and programs is provided below.

Table 3.2: SECONDARY EDUCATION AND CURATIVE HEALTH CARE:  
ASIAN MIDDLE INCOME NORMS AND THE MALDIVIAN GAP

Coverage Ratio	Middle Income Asia	% Difference from Maldives
Population per physician	1,020	624
Population per nurse	601	299
Population per hospital bed	1,551	98
Secondary Education (% of age group)	57	271

Source: World Bank, Social Indicators of Development, 1990 and Ministry of Planning and the Environment, Government of the Maldives.

#### D. Strategic Priorities in Education

3.27 Both formal and non-formal education in Maldives have made remarkable strides in the last decade:

- o the percentage of children aged 6-14 enrolled in grades 1-5 has increased from 27 percent to 90 percent;
- o secondary age level enrollments increased from 2 percent to 21 percent; and
- o total enrollment in government schools has grown 20-fold, nevertheless, private schools and community-supported schools account for 11 percent and 47 percent of total enrollments. These proportions are unique to Maldives, reflecting a higher than usual involvement of family and community in education.

Problems, however, remain in quality and strength of the national teaching force, in a burgeoning secondary school enrollment which demands massive capital and human investment, and in training an ever increasing number of school leavers for a limited skilled and trained workforce. Government priorities rightly focus on quality improvement in teacher education, regional expansion of secondary schooling, and refinement of curricula and materials for both formal and non-formal learning.

3.28 Education Expenditures. The allocation of resources to education in the Maldives compares favorably with neighboring countries. During the period 1979-89, the share of education in total government expenditure increased dramatically from 6.7 percent to 17 percent. Education's share of government recurrent expenditure increased as well, from 10 percent in 1979 to 18 percent in 1989. The distribution of the Ministry of Education's (MOE) recurrent expenditures between sub-sectors in 1986 was: administration 17 percent, primary 26 percent, secondary 38 percent, vocational training 9 percent, teacher training and curriculum development 7 percent and maintenance 3 percent. It is notable that salaries and allowances account for only 65 percent of recurrent expenses, leaving 35 percent for textbooks and other materials.

3.29 Constraints. Despite rapid growth in teacher training, the education system continues to be constrained by a shortage of trained personnel. Doubling the number of primary teacher trainees and introducing lower secondary teacher training would provide the Government with the opportunity to substitute skilled Maldivians for the existing 450 expatriate teachers. Secondary education continues to expand dramatically, yet is plagued by high repetition and poor quality, particularly in the english language area. Examination results at the "A" level are dropping despite the doubling of students taking such exams. The dearth of computer and commercial studies accentuates the problems of trying to make schooling relevant to workforce needs. Many of the newer educational institutions, designed to fill specialized skill-gaps, are under-staffed, under-equipped and lack proper boarding facilities for students from distant atolls.

3.30 Demands. Over the next decade, it is estimated that the number of students requiring primary schooling will increase from 37,000 (per year) to at least 56,000. At the same time, the potential pool of secondary and vocational school candidates will witness explosive growth, increasing from approximately 7,000 in 1990 to nearly 35,000 in the year 2000. Existing capacity for secondary and vocational school students is below 1,000 at present.<sup>6/</sup>

3.31 Strategic Priorities. The main stated objectives of the Government are: (i) to provide universal basic education (grades 1-5 level) by the year 1995; (ii) to provide universal extended basic education (grades 6-7 level by the year 2000); (iii) to make education more relevant to the local

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<sup>6/</sup> For primary training alone, the MOE estimates that a capital investment on the order of US\$40 million will be required to provide additional classrooms, and an additional US\$8 million per annum will be required to meet additional recurrent costs.

environment; (iv) to improve education quality; and (v) to increase trained manpower for national development. Key strategic initiatives include:

- to provide universal basic education, double shifts will be continued, more classrooms constructed, more teachers trained, early childhood care and education extended and non-formal training programs sustained;
- to provide universal education to grade 7, the MOE plans to decentralize in-service teacher training and build more classrooms in Atoll Education Centers (AECs) and Atoll Primary Schools (APs) so that all Atolls may offer grades 1-7;
- to make education more relevant, the MOE envisions the design of a fully integrated curriculum, with particular emphasis on work-oriented skills and environmental awareness;
- to increase trained manpower for development, the Government plans to increase the capacity of preservice and inservice teacher training, expand vocational and technical training, decentralize educational management, expand and diversify secondary education and non-formal education in the Atolls, strengthen career development and vocational counselling and maximize overseas education and training opportunities; and,
- to upgrade quality, the MOE strategy focuses on upgrading key staff, reducing unit costs, strengthening media productions, encouraging more innovative teaching methods, conducting surveys and research, and improving management and supervision.

3.32 While the objectives and strategies are sound, they imply a rapid increase in the scope, cost and level of complexity of education services provided. As noted above, financial support for education in the Maldives has increased rapidly in the 1980s--it will be difficult to sustain such growth. Furthermore, the existing education system suffers from a lack of trained personnel and complementary inputs, leading to a widespread reliance on high-cost expatriate teachers and under-utilized facilities. Both the budget and the human resource constraint may necessitate a reduction in the rate of service expansion, and in the context of slower growth, a reordering of investment priorities.

3.33 Education Targets. Meeting primary education enrollment targets will be difficult to achieve. In 1989, the net enrollment ratio (ages 6-10) was only 67 percent in schools outside Male, with wide variations among the atolls. Considerable late-age entry, poor teaching and high (average 18 percent) repetition rates across all grades promote a misleading gross enrollment ratio of 98 percent. Nevertheless, about 20 percent of the age-group (about 6,000 children) do not attend school. To accommodate these children would require at least another 300 teachers and more classrooms--such an increase in teachers cannot be accommodated with the existing teacher training facility. To provide universal education to the grade 7 level would mean about 80,000 students in school by the year 2000 or one third more than

in 1990. Meeting the primary education challenge may well require greater emphasis on upgrading private providers of education services. In addition to expanding access, MOE should focus attention on the need to improve the quality of teaching.

3.34 Quality improvement is the biggest stumbling block to continued development of the education system. Improving education quality requires both time and financial commitment. Foremost is the need to train more teachers to higher levels, especially in the English language as the official medium of instruction. This, in turn, requires a more capable group of teacher educators, curriculum developers, head teachers, supervisors and administrators. Quality improvement also requires consolidation of the EDC, specialized educational institutes and existing training centers to ensure that adequate staff and equipment exist to meet curriculum development and teacher training needs.

3.35 Vocational Training. Over 5,200 youths in each age-year (grades 8-10) of the population are eligible for school or employment annually. With the Government no longer guaranteeing employment to secondary school leavers, increasing private sector employment and greater unemployment can be expected. About 20 percent of the workforce (20,000 persons by year 2000) are expected to require administrative, vocational or technical skills in the 1990s, but the school system does not equip them with such skills. Insufficient attention has been given to developing courses in commerce, secretarial skills, computers and basic accounting at secondary level or as post-school training opportunities. Current specialized training institutes can only absorb about 550 enrollees annually from those leaving grades 9 and 10, and the standards for entry are increasing. Formal vocational training is extremely expensive, yet skilled trades are in demand. Increasing enrollments in the vocational training centers may only be a partial answer. Links with private enterprises through apprenticeships or sandwich courses, re-designing curricula on a modular format over shorter periods, linking skills training with entrepreneurial training and marketing skills, and substituting local tools for expensive fixed equipment in vocational institutes are all avenues worth exploring.

3.36 Financing Equitable Growth. Increased provision of secondary, specialized and post-secondary education services in the 1990s will lead to a considerable increase in unit training costs. To contain expenditure growth, cost-recovery systems for secondary and post-secondary education should be considered, based on a mix of initial fees, student loans and community finance. Second, the spread of secondary and vocational training facilities should be limited to a small set of atolls, which would then serve as focal points for future economic development activities. Finally, to ensure a greater measure of regional equity in the allocation of secondary schooling and vocational training opportunities, boarding facilities should be provided (again, on a cost-recovery basis) as part of the package of regionally-based, secondary education.

#### E. Strategic Priorities in Healthcare and Sanitation

3.37 Health Status. There have been notable gains in health status over the past decade. Much of the priority during this period has been given to



extending immunization coverage, improving diarrhea control and case management and reducing communicable diseases. These efforts have led to a changed and more complex health profile. Children and communicable diseases still dominate the nation's health profile but increasingly, social and behaviorally determined health problems are emerging and will increase and complicate demands on the health services. The changing characteristics of the epidemiological pattern requires detailed study. Reducing infant and child deaths further will also become more difficult as the proportion of those deaths not due to readily preventable causes increases.

3.38 Success in achieving universal childhood immunization (UCI) coverage in 1989, ahead of schedule, had twin origins; first, the effective mobilization of centrally based teams visiting the atolls quarterly and, second, a policy decision reached in concert with the Ministry of Education, to make full immunization a requirement of school entrance.

3.39 Although still a major cause of child morbidity and mortality, there has been a steady decline in the prevalence of diarrhea and in the case fatality rate. The completion of the sewerage disposal system in Male in 1988, improved sources of drinking water throughout the country and improved case management through widespread use of oral rehydration have contributed to this important trend. Instead of diarrhea, acute respiratory disease (ARI) is now the main cause of death among children under 5 years of age and the leading reason for visits by children to health facilities in the atolls.

3.40 Progress has been made against other communicable diseases. There has been no indigenous case of malaria over the past eight years and anopheline mosquitos appear to have largely disappeared. Other mosquito borne diseases show mixed trends. Dengue fever appears to be the rise while filariasis has declined. Improvement in health conditions and health service access has been uneven, with Male residents enjoying considerably better services than those in the atolls. In the atolls, infant mortality (particularly for those in the first month of life) is more than 10 times higher than that in Male due to poor delivery conditions, low birth weight, congenital anomalies, respiratory infections and, for the older babies, malnutrition. Key health problems remaining include acute respiratory illnesses, diarrhea and pregnancy complications.

3.41 The main objective of the Government in the health sector is the provision of adequate and equitable distribution of essential health services to all Maldivians by the year 2000. For the next decade, the focus will be on improving efficiency and service quality by upgrading regional hospitals, easing transport constraints for medical workers, strengthening specialist services in the Male hospital, increasing the training of CHWs, FHWs and midwives, developing island-based delivery homes, and broadening the scope of the mother and child-care program. 7/

3.42 Health Expenditures. Improvements in health conditions can be traced to the sustained commitment of a sizable share of public resources to

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7/ Republic of Maldives, Development Constraints, Plans and Strategies, Prepared for the Roundtable Meeting, New York, October 1991.

preventative health care interventions. Public expenditures on health and sanitation increased from Rf.11 million in 1985 to Rf.140 million in 1990, of which Rf.99 million was allocated for water and sanitation.<sup>8/</sup> As a share of total government expenditures, the health sector has averaged 5-6 percent of total government expenditures (and net lending). Major increases have been registered in terms of outlays on preventative care in water and sanitation, with expenditures rising from less than 1 percent of government spending in 1985 to 12 percent in 1990. In 1990, public investment accounted for Rf.101 million of total health spending, of which nearly all was for new water supply and sanitation projects.

3.43 The Healthcare System consists of the 95-bed hospital in Male and three regional hospitals with a total capacity of 43 beds; a network of 23 Atoll Health Centers (AHCs) (at least one per atoll) staffed by 50 community health workers (CHWs), who supervise a network of 180 family health workers and 550 midwives or foolhama. The principal focus on the health system is on the provision of primary health care and mother-and-child services including immunization, diarrhoeal disease control and nutritional surveillance.

3.44 Center. At the apex of the health care delivery system is the Central Hospital in Male. Built about 25 years ago with about 45 beds, it now has 95 beds. Maintenance of both facilities and equipment is inadequate, partly due to budgetary problems. The staff includes 31 doctors, of which only 10 are Maldivian. There is an acute shortage of staff nurses, all of whom are trained outside the country. The hospital has a bed occupancy rate of about 65 percent, which considering this is the only functioning hospital in the country is not particularly high. With a limited capacity to undertake more advanced procedures, those that can afford to do so seek medical services in India or Singapore. Some very modest charges are made at the hospital depending, to some extent, whether the patient is residing in Male or not. An example is the 3 rufiyah a day charge for inpatient care in the common ward.

3.45 Financed by the Government of India, a new 200 bed hospital is under construction at Male and is due for completion in September 1992. The Indian Government will staff the hospital for 5 years, although some national staff will also be assigned. It is intended to maintain the Central Hospital at a 45 bed level for obstetrics/gynecology, ophthalmology and dentistry once the new hospital opens, so there will be a 250 percent increase in the availability of beds at Male in 1992. As the costs per patient treated in the existing Male hospital are approximately 20 times that of a patient treated in one of the regional health posts, the expansion of Male-based tertiary services could lead to a considerable drain on health sector financial

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<sup>8/</sup> There was very little spending on water and sanitation projects before 1985. In 1987, outlays on water and sanitation increased to Rf. 19 million; in 1988 to Rf.32 million; in 1989 to Rf. 19.9 million and in 1990 to Rf.99 million.

resources.<sup>9/</sup> To ensure effective use and sustainable operation of the Ghandi hospital the following measures should be adopted: (i) the cost-recovery system for medicines, treatments and specialist services should be immediately revised with a movement towards full user finance; (ii) a management and staffing plan for the hospital developed; and (iii) as part of the management plan, an estimate made of recurrent cost requirements and financing strategy for the new hospital, at various levels of capacity utilization.

3.46 Regional Hospitals. Part of the decentralization strategy of MOHW is to create four regional hospitals. At present, the regional hospitals are staffed with a single expatriate doctor and support staff and function as a larger health center. The intent is to develop these district hospitals as regional centers and upgrade their facilities to be able to conduct basic surgical services. If the plan to develop these regional hospitals goes ahead, it is expected that the demand for beds at Male may diminish. A critical review of the needs and development of hospitals through the country is urgently indicated.

3.47 Peripheral Health Services. The backbone of the health services for the scattered islands are 23 Atoll Health Centers (AHC), staffed by a single community health worker (CHW), who is a paid Government worker. It is planned to improve or replace older AHCs and increase the staff to two CHWs. Family Health Workers (FHW) serve the atolls and work from the island administrator's office. Also located at island level are traditional birth attendants, called foolhamas. Foolhamas may be either traditional (usually older women) or trained (a mixture of trained traditional foolhamas and newly trained foolhamas). About 50 percent of all deliveries are conducted by untrained foolhamas.

3.48 Due to costs and availability, transport poses a significant problem for the administration and management of rural health services, affecting supplies, staff, and supervision. While some health centers have boats, most do not. Transport difficulties become particularly severe during health emergencies. Transport strategies (including the handling of emergencies) for rural health services would benefit from a comprehensive review.

3.49 Other factors hinder further progress towards improving health conditions, particularly in the Atolls. The first is a severe shortage of trained professionals and the second is an inadequate supply and poor delivery system for drugs. The labor problem results from the small numbers with tertiary training nationwide as well as the relatively low salaries paid for Atoll based health workers. Inadequacy of the drug supply can be traced to: (i) the Maldives dependence on international aid agencies for the project-related provision of many essential drugs; (ii) the State Trading Organizations near-monopoly position in drug importing; and (iii) irregular

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<sup>9/</sup> The comparison of the regional hospitals with the new Male hospital needs to be qualified by noting that the regional hospitals are, at present, performing more of a health center function than a multi-service hospital operation.

transport and difficult communication between the islands and the Atoll-base CHWs.

3.50 Decentralizing responsibility for the administration of key public health programs from Male to the Atolls, and from the Atolls to the islands will help improve efficiency in health service delivery. Greater control over budgetary resources, together with provision of complementary equipment should reduce administrative delays and enable the Atoll population to make better use of existing health centers. Decentralization of administrative responsibilities should also help sustain supply of pharmaceutical products, as the island population often have knowledge of and access to dhonis (small boats) travelling to the capital of which central government officials are unaware.

3.51 Training. Improving the supply of skilled health professionals, through overseas tertiary training, is essential to meet rising demands for health services over the next decade. The country is woefully short of national medical doctors and nurses but, with planned training programs, this will be slowly overcome.

3.52 Population. The very high population growth rate and fertility rate places severe strains on the nation's ability to provide social services and generate productive employment opportunities. In contrast to practically every developing economy, the population growth rate increased from 3.0 to 3.4 percent per annum during the 1980s in the Maldives. The costs of high population growth will be far more severe than in the past as a result of congestion in Male, limited supplies of potable water on many islands and, in general, rapidly approaching ecological limits to the carrying capacity of many of the Atolls. Lowering the population growth rate (through child spacing programs) is one of the highest priorities, on both economic and environmental grounds, for the decade to come.

3.53 Family Planning activities have been conducted through MOHW's Child Spacing Program. Accessibility to and acceptance of family planning has been low. Where contraceptives have been made available there is evidence of demand but only married couples are eligible to receive them. It is estimated that the current contraceptive prevalence rate is about 7 percent. Outlets in the atolls have been limited by political and religious opposition to FHWs providing contraceptives. The concern expressed by the President and Minister of Atoll Administration during the National Conference on the Maldivian Child (July 8-11, 1991) over rapid population growth was swiftly followed by a decision of MOHW to supply FHWs with contraceptives (initially pills and condoms).

3.54 A start has been made on developing a more effective program but, clearly, there is much to accomplish before family planning becomes more widely accepted and used. Key programmatic steps would include:  
(i) continued, high-level political support for "child spacing" programs;  
(ii) increased provision of contraceptive supplies to the island health posts;  
(iii) decentralization of contraceptive provision authority from the Atoll to the island level of the health system; (iv) decontrol of the domestic marketing of condoms to enable private participation in distribution; and  
(v) integration of population topics into the regular mass media programs.

3.55 Sanitation. Potable water is the most scarce resource on many of the islands, and particularly so in Male. Considerable progress has been registered in the past decade in supplying potable water and sewage facilities. But there are formidable problems ahead. With the steady intrusion of salinity into the fresh water meniscus, only about 25 percent of Male's ground water remains fresh and this proportion will diminish. So shallow wells as the source of water have gradually had to be abandoned. The Water and Sanitation Authority (WSA), with foreign assistance, has embarked on the development of de-salination plants and three are now operational. Water is provided to the community through standpipes rather than house connections, in an attempt to limit demand. However demand and expectations are rising for good quality water, not only for cooking and drinking but also washing and bathing. The current output of the desalination plants is 1000 cu/m per day, while to meet popular expectations for a more bountiful water supply, it is estimated that 10,000 cu/m per day would be required. Until this supply gap is closed, it is difficult to envisage the completion of longer term plans to make metered house connections.<sup>10/</sup> Rain water is used extensively and is blended with the desalination water, and construction of private tanks for rain water collection is also encouraged. Credit has been made available to enable individuals to construct private tanks and, as a result, about 1000 tanks have been built. The completion of a water borne sewage disposal system <sup>11/</sup> in 1988 was an additional demand on Male's water supply. Options for the future are under consideration including a scheme to collect rain water in nearby lagoons and pipe it to Male. This would entail a major engineering operation whose technical feasibility needs exploring.

#### F. Women in Development

3.56 Improvements in social service delivery have had a major effect on the well-being of women. A lower incidence of infant mortality, a decline in the incidence of contagious diseases, ready provision of potable water, improved provision of maternal and child care services and widespread provision of elementary education services have considerably reduced demands on women in the household, particularly in the Atolls. Over the next decade, with improvements in child spacing, there will be reduced demand for child-rearing services in the household and greater opportunities for women to participate in income generating activities. At the same time, a widening of secondary and post-secondary educational services will provide an increasing number of women with the skills needed to penetrate the skilled segment of the work force.

3.57 Atoll-based Employment. Employment opportunities for women in the Atolls have been reduced as a result of the adoption of canning and freezing

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<sup>10/</sup> Commercial concerns have metered connections and are charged 50 Rf per cubic meter of water. The cost of de-salination plant water is 30 Rf per cubic meter.

<sup>11/</sup> Household charges based on the number of toilet seats are made: 15 Rf/month for 1 seat; 25 Rf/month for two seats; and 40 Rf/month for three seats. The rate of non-payment is 18 percent, a source of concern for the authorities.

technologies in the fish processing industry. The partial elimination of the fish drying/salting industry has resulted in a loss of employment opportunities for approximately 10,000 Atoll-based women. Simultaneously, employment opportunities for women in agriculture have increased, as marketing channels between Male and the other Atolls improve.

3.58 While high-value, home-garden agriculture will continue to be the chief source of Atoll-based employment for women, alternative sources of employment need to be encouraged for women resident in traditional fishing villages. Promotion of handicraft production, for sale to tourists and for export, is one possible means of stimulating employment for women in the Atolls. However, for handicrafts to become a dynamic sub-sector, improvements are required in quality control and marketing, including design, credit and procurement.<sup>12/</sup>

3.59 Tourism. By international standards, participation of women in the tourism industry is extremely low. This can be traced to the prevailing policy of providing tourists access to otherwise uninhabited islands. As the tourist industry embarks on a new phase of investment in the South, it may be worthwhile to support provision of accommodations suitable for both men and women on the tourist islands and to establish residential communities for Maldivians within close commuting distance from tourist islands.

3.60 Public Service. The public service can play an important role in changing attitudes by demonstrating the capability of women to hold important positions of public responsibility. Women are generally well-educated and are well represented (30 percent of total staff) at the lower levels of the civil service. There are, however, very few women in the senior ranks of the Government. Improving the share of women in senior level Government posts would help to change traditional attitudes regarding women's role in society. This would require both the political commitment to change as well as a special effort to provide female secondary school graduates with tertiary training opportunities.

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<sup>12/</sup> The Maldives does have a long-established tradition of handicraft production in the Atolls based on the use of local hardwoods and products of the sea. Historically, men have been the main producers of local crafts although in recent times, with buoyant employment opportunities elsewhere, women have begun to become more involved in handicraft production.

## Chapter IV: PROSPECTS FOR SUSTAINED GROWTH

### A. Introduction

4.1 This Chapter presents the medium-term outlook for the Maldives economy, on the basis of firm implementation of the policy agenda laid out in the first chapters of this report. The Chapter begins with a brief review of the outlook for the international environment, which is found to be quite conducive to continued strong growth in the Maldives. Against this backdrop, macroeconomic projections are presented through the end of the coming decade together with a discussion that focusses initially on near-term prospects, followed by the medium-term outlook for growth, inflation and the fiscal and external accounts. The concluding Section of this Chapter reviews the Maldives' external financing needs through the 1990s, and provides a brief discussion of a strategy for mobilizing greater official assistance.

### B. The External Environment for Growth in the 1990s

4.2 The Maldives' strategy of export-oriented growth has yielded impressive results during the past decade. At the same time, however, such a strategy has increased the dependence of the nation on international economic developments. Consequently, economic prospects abroad have now become among the key determinants of future opportunities for growth in the Maldives; while world economic conditions are rarely amenable to accurate forecasts, an appraisal of international market prospects is an essential element in developing a macroeconomic strategy for future growth.

4.3 The short-term outlook is dominated by the prospects for recovery from the 1990-91 recession in the industrial countries, which comprise the Maldives' major external market. Although there remains considerable uncertainty about the likely robustness of the recovery, especially in the United States, there now seems to be little doubt that a recovery is underway. For 1991 taken as a whole, growth will be low for the group of largest industrial countries (the G-5); the latest forecast estimates growth of 1.5 percent in 1991, compared with 2.8 percent in 1990 and 3 percent per annum during the preceding decade (see Table 4.1). By 1992, faster growth would have taken hold in virtually all the G-5 countries with a relatively strong performance in those countries where the recession was deepest, that is, the United States and the United Kingdom. By contrast, growth in Japan, which was fairly well sustained during the 1991 slowdown, would pick-up only a little in the coming year.

4.4 From a medium-term perspective, there is good reason to be fairly optimistic about growth in the Maldives' industrial-country markets. Real output in the G-5 countries would accelerate a little further over the medium-term, to an average a little over 3 percent per annum between 1992 and 1996, before slowing slightly in the remainder of the decade, a performance that would be virtually identical to the average of growth in the 1980s. Growth (especially during the middle years of the decade) would be particularly strong by historical standards in the European countries, stimulated by German

Table 4.1: MALDIVES: INTERNATIONAL ECONOMIC INDICATORS  
(Average annual percentage change)

	1980-90	1990	1991	1992	1992-96	1996-2000
Industrial countries GDP /a	3.0	2.7	1.5	2.8	3.1	3.0
Of which: Japan	4.2	5.6	3.7	3.9	3.5	3.9
East Asian developing countries /b	7.2	..	..	..	6.7	6.7
Inflation in industrial countries /c	5.0	9.6	8.8	1.0	2.8	4.3
Price of manufactures /c	3.6	5.9	5.0	1.8	3.7	4.3
Petroleum prices /d	30.3/e	21.2	17.8	17.3	20.3	27.4
Food commodity prices	-3.4	-7.6	-1.9	5.4	4.2	6.3
LIBOR (6-months US\$, in %)	10.0	8.4	7.0	7.9	7.1	7.7

/a Weighted average for G-5 countries.

/b 1965-89 and 1990-2000.

/c In US dollars.

/d In US dollars per barrel.

/e 1980.

Source: Global Economic Prospects and the Developing Countries, May 1991; World Bank.

unification and the creation of a single market in the European Community. In the case of Japan, real output would accelerate more slowly, returning to rates of growth comparable to those of the 1980s only towards the end of the decade.

4.5 The Maldives has developed sizable markets among the developing countries of East Asia, which has been the world's strongest growth area during the past twenty-five years. Although a mild slowdown appears to be in store, growth prospects for East Asia continue to be auspicious, with average annual growth of 6.7 percent foreseen for the 1990s, versus 7.2 percent since the mid-1960s.

4.6 On the side of inflation, price increases (measured in US dollars) are expected to be very moderate during the coming few years, mainly on the basis of the substantial real appreciation of the US dollar in 1990-91, particularly vis-a-vis European currencies (see preceding tabulation). After rising by 5-6 percent in 1990-91, the unit price of manufactures (which serves as a proxy for the price of most of the Maldives' imports in the medium-term projections) would increase by about 2 percent in 1992 before accelerating slowly over the medium-term to an average of a little more than 4 percent annually. After declining in 1991 and 1992, petroleum prices, which directly affect about one-sixth of the Maldives' total imports, would increase relative to the unit price for manufactures by around 2 percent per annum over the medium-term.

4.7 In contrast with many primary commodities, the price of the Maldives' major export, fish, has been reasonably well sustained in recent years. After a healthy rise in excess of 7 percent in 1990, fish prices are expected to decline a little in 1991 before increasing in line with other world food commodity prices through the remainder of the decade. Over the medium term, fish prices would rise relative to the price of manufactures,



implying an improvement in the main components of the Maldives' external terms of trade.

4.8 External Aid Prospects. Globally, the outlook for external assistance to developing economies appears less favorable in the 1990s than was the case for the past two decades. A slowdown in growth in the developed market economies, increased resource requirements in Eastern Europe and persistent fiscal imbalances in some of the major industrial nations foreshadow a slowdown in the growth of official development assistance. In the 1990s, private sources of finance will assume a greater role in meeting the external financing requirements of developing nations. Unlike the 1970s, external financing is less likely to be in the form of debt finance, and more likely to be in the form of equity investment. There are three important implications of the progressive switch in resource availability from concessionary to private sources, and within private sources, from loan to equity finance: (i) given tight aid budgets, aid-granting countries are likely to stress effectiveness of aid and the importance of sound domestic policies; (ii) private external finance will flow principally to the private sector; and (iii) the greatest potential for mobilizing private external finance is through direct foreign investment.

4.9 Taken as a whole, these external indicators give reason to be optimistic regarding the medium-term outlook for the Maldives' economy. However, the special circumstances of the Maldives also carries a substantial element of risk over the medium-term. As amply demonstrated by the economic experience of the Maldives since Independence, robust growth in the industrial world does not guarantee a favorable economic climate in the Maldives. The country is highly vulnerable to regional economic and political shocks as well as natural disasters that are inherently unforecastable; nevertheless, it is known--with a high degree of probability--that such events will occur, generating domestic economic volatility and disrupting the best economic planning. A strategy for financial management in such circumstances was sketched out in Chapter II, above.

### C. Near-Term Prospects

4.10 Economic Recovery. By the middle of 1991, the short-term outlook for the Maldives' economy was dominated by a tourism-led recovery and by retrenchment in government expenditures, which taken together appeared to have set the stage for a return to the robust growth of earlier years. After rising by 5 percent in 1991, real GDP would rebound by a healthy 8 percent in 1992 before slowing a little to 7 percent in 1993.

4.11 Concerning the short-term outlook for inflation, consumer prices seem likely to decelerate appreciably in the up-coming years, from a peak of approximately 11 percent in 1991 to 8 percent in 1992 before slowing further the following year. This outcome is largely predicated upon price movements abroad as well as markedly lower domestic financing of the fiscal deficit in the coming two years.

**Table 4.2: SHORT-TERM ECONOMIC OUTLOOK, 1991-93:  
SELECTED INDICATORS**

	Estimate	Projected	
	1991	1992	1993
<u>National Income</u> (% change, real terms)			
Gross domestic product	4.7	8.2	7.5
Primary sector	2.7	5.1	4.9
Secondary sector	7.4	8.4	8.2
Tertiary sector	5.0	9.4	8.5
<u>Prices</u> (% change)			
Consumer price index	11.5	8.5	7.5
Terms of trade	-0.6	2.7	1.6
<u>Public Finance</u> /a (Rf. million)			
Total revenue	724	887	961
Domestic revenue	533	675	787
Total expenditure	849	1,013	1,068
Capital	401	503	491
Current	448	510	577
Overall balance	-124	-127	-107
(% of GDP)	-8.6	-7.5	-5.4
<u>Balance of payments/reserves</u> (US\$ million)			
Exports, f.o.b.	61	68	74
Imports, c.i.f.	148	164	184
Current account surplus	8.2	7.5	0.8
(% of GDP)	5.9	4.8	0.1
Change in reserves	0.5	4.0	5.0
Gross reserves	25.2	29.2	34.2
(in months of imports)	2.4	2.5	2.6
External debt service ratio /b	4.7	4.2	4.0

/a Central Government fiscal operations.

/b Percent of exports of goods and services.

Source: Data provided by Maldivian authorities and staff estimates.

4.12 Re-asserting Fiscal Discipline. During the coming two years, developments in the area of fiscal policy will be dominated by the need for the Government to follow-up on the expenditure restraint initiated in early 1991. Policy actions are anticipated on the sides of both revenue and expenditures, with a view to holding the overall fiscal balance to a level that can be financed by foreign assistance (grants plus disbursements on concessional loans) with an additional allowance for net domestic financing in

an amount that does not pose an inflationary threat to the economy. More specifically, the near-term outlook for the fiscal accounts is for a significant reduction in the overall deficit from 14 percent of GDP in 1990, to 8 percent in 1991 followed by a further narrowing to about 5 percent by 1993. In the face of sharply lower grants and accompanying declines in capital expenditures, the narrowing of the deficit would be achieved mainly on the basis of greater tax effort in 1992 and a cyclical recovery in non-tax revenues; current expenditures would rise only moderately in real terms, resulting in a drop measured in relation to GDP, from a peak of 32 percent in 1990 to just over 29 percent in 1993.

4.13 On the side of financing of the deficit, substantially lower credit from the Monetary Authority would account for the most significant part of the reduced levels of financing. Net domestic financing would fall from some Rf.70 million (6 percent of GDP) in 1990 to Rf.10 million (0.5 percent of GDP) in both 1992 and 1993. External financing--being restricted to amounts likely to be available as grants or on concessional terms--is projected to be equivalent to 5 percent of GDP in 1993, compared with an exceptionally high peak of nearly 7 percent in 1990.

4.14 Preserving External Balance. After weakening noticeably in 1990 and early 1991, some improvement--albeit small--seems to be in store for the Maldives' external accounts for 1991 as a whole. The improving trend would continue through the end of 1993, by which time gross reserves would represent the equivalent of just over 2.5 months of imports, a little above the level recorded at end-1990.

4.15 After improving appreciably in 1991, the current account of the balance of payments would deteriorate a little in 1992 before narrowing markedly in 1993 (see Table 4.2). Merchandise imports, which were depressed in 1991 as a result of the restrictive stance of financial policies, would mainly account for this deteriorating pattern in the current account; imports of goods would surge in 1992-93 owing to large IDA loan disbursements for the Male airport upgrading and the general upturn in overall activity that, taken together, more than offset declines in petroleum prices in 1992 and continued restrictive financial policies. The impact of this surge in imports on the current account would be partly offset by an expansion of merchandise exports and by a continued widening of the surplus on services, the latter deriving principally from the rebound of tourism. The terms of trade would improve a little in both 1992 and 1993, marking the first such improvements since the early 1980s.

#### D. Medium-Term Outlook and Policies

4.16 Based upon the external environment described above and provided the Maldivian authorities are successful in firmly implementing the policy agenda outlined in this report, there are excellent medium-term prospects for continuing the Maldives' track record of external financial stability combined with strong, sustained real growth.

4.17 Growth Prospects. During the coming decade, real GDP would pass through two distinctly different phases: the coming half of the decade (roughly 1992-1995), which is characterized by recovery in tourism and fisheries; and, the remainder of the 1990s, which features a slowdown in those same sectors (see Table 4.3). The first phase is a reflection of increased use of existing capacity, in tourism, fisheries and ancillary services, as well as implementation of investment projects for which plans are already well advanced. The slowdown in the latter part of the 1990s does not represent a long-term structural break in the output potential of the economy; rather, it is an indication of a period of transition while the next generation of major investments is put in place to carry the Maldives through to another plateau of high growth. It is also intended to strike a balance between downside risks and the Maldives' potential for achieving another extended period of exceptionally strong growth.

Table 4.3: SUMMARY OF OUTPUT AND INFLATION, 1992-2000  
(In % per annum)

	1992-1995	1995-2000
Real GDP	7.6	6.8
Primary	4.8	4.3
Of which: Fisheries	5.8	4.5
Secondary	8.8	8.2
Tertiary	8.5	7.3
Of which: Tourism	9.7	7.7
CPI	6.6	4.3

Source: Staff estimates.

4.18 During the first of these two phases, real growth would average more than 7 percent per annum, which would be an appreciable decline from the 10 percent averaged in the preceding half-decade. Tourism would lead the economy, recording an average of almost 10 percent annually, mainly reflecting recovery from the slump of 1991 and successful development of the Ari atoll. Fisheries would contribute to the recovery in 1992, but would average just under 6 percent for the period as a whole. Construction would accelerate during most of this period as weakness in government capital spending would be more than fully offset by private sector activity. More generally, government spending would be a drag on economic activity due to fiscal retrenchment, as would agriculture, which would recover only slowly from the storm of May 30. Other sectors of the economy would tend to follow the general pattern of growth that continues to be strong, but somewhat below the rapid pace of the second half of the 1980s.

4.19 In the second phase (which approximately covers the second half of the decade), real growth would come down to about 7 percent annually. Tourism and fisheries would both slow a little, to 8 and 5 percent per year, respectively; lower growth in tourism would stem from the higher costs of developing the more isolated atolls, while the slowdown in fisheries would reflect the decreasing returns available to mechanizing the Maldives' fishing fleet. The agriculture and government sectors would both accelerate somewhat; following a slow recovery from the May 30 storm, the agricultural sector would settle down to real growth a little in excess of population growth, reflecting successful penetration into the resort community, especially as a local supplier of fresh fruits. The government sector would accelerate through the mid-1990s as the period of fiscal retrenchment ends, settling down to real growth a little below the rest of real GDP.

4.20 Fiscal Management. Looking beyond the current period of fiscal retrenchment, the Maldivian authorities are expected to come under heavy pressure to increase both current and capital expenditures. As described in Chapter III, current expenditures will be pushed upwards by the changing demographic structure of the population of the Maldives, especially in the areas of education and delivery of health services. In addition, as evidenced by the Public Investment Plan for 1991-93, improved delivery of certain high priority public services--namely, education, health, and physical infrastructure is needed to underpin growth.<sup>1/</sup>

4.21 To close this gap that will be opened-up, on the one hand, by declining official assistance and, on the other hand, by strong pressures to increase current and capital expenditures, the Maldivian authorities are expected to hold down current expenditure while significantly increasing the domestic tax effort. In addition, this report adopts a relatively sanguine approach to the availability of external financing (see the discussion in Section E below). On this basis, the overall fiscal balance is set on a declining path that is determined by a relatively small amount of domestic financing (roughly 0.5 percent of GDP) and likely amounts of concessional external financing, buttressed by a significantly stronger tax effort.

4.22 Following the period of fiscal consolidation in 1991-92, the overall balance would decline from 8 percent of GDP in 1992 to 5 percent in 1994 before rising to 7 percent by the year 2000. To achieve this result in the face of declining grants (measured in relation to GDP), significant actions will be needed on both the revenue and expenditure side of the fiscal accounts. Total revenues (tax and nontax) need to rise at an early stage in these projections to consolidate the stabilization effort; a rise of nearly 3 percentage points of GDP is assumed for 1992, followed by an on-going effort on the side of tax revenues over the medium-term that raises such revenues by a further half percentage point of GDP. Non-tax revenues would be roughly unchanged over the medium-term, reflecting measures to increase revenue

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<sup>1/</sup> It should also be noted that many of these high priority public services, which involve large capital expenditures initially, will also entail substantial current expenditures over the longer term, for example, the maintenance of hospitals and other types of health care services.

collection that are roughly offset by the withdrawal of the public sector from the provision of those services that can be better provided by the private sector. On the side of expenditure, the growth in current expenditure would need to be restrained relative to GDP;<sup>2/</sup> these projections assume that current expenditures will decline by 3 percentage points of GDP, to less than 27 percent of GDP by the year 2000. By way of comparison, before the 1989-91 burst in government spending, current expenditures amounted to approximately 22 percent of GDP. Capital expenditures would fall relative to GDP in 1993 (when there is a sharp decline in foreign grants), but rise perceptibly through the remainder of the decade, mainly owing to greater domestic financing of capital projects.

4.23 Savings and Investment. Continued high rates of savings and investment will lay the foundation for growth in the 1990s. While the aggregate levels of savings and investment will remain very much the same throughout the decade, three very important changes in composition will occur. The first is that private direct investment, reflecting an improved policy environment, is expected to increase significantly in relation to total investment. Of this, roughly US\$10 million per year would come from foreign sources, principally in the tourism sector. Second, public sector investment is projected to slow in the mid-1990s, after the bunching of projects in the early 1990s and then pick up in the latter half of the 1990s as major new investments are required. Third, domestic sources of financing will become increasingly important, as growth in external concessionary finance tapers off. This implies that the public sector must make a major effort to mobilize domestic revenues in order to finance continued high rates of public investment. This effort (discussed in Chapter II) will be aimed primarily at changing the composition of public savings, from heavy reliance on customs duties and public enterprise dividends, to a more broadly based system of direct and indirect taxes on income and wealth.

4.24 Balance of Payments. The medium-term outlook for the balance of payments is for a sustained period of sizable overall surpluses (see Table 4.4). The improvement will be based upon strong external demand for Maldivian exports and tourist services as well as firm implementation of the policy agenda outlined elsewhere in this report. Underlying this improvement is a widening merchandise trade deficit that is partly offset by growing surpluses on services and transfers; the capital account would return to a sizable surplus early in the 1990s, mainly in reflection of substantially larger private capital inflows.

4.25 After slumping in 1991, merchandise exports are forecast to recover in 1992 before settling down to steady growth of around 5 percent per annum in real terms over the medium-term, a pace that implies a rising market share for all the Maldives' major exports (Table 4.5). In the case of fish, which will continue to account for the bulk of exports, exports measured in constant prices would expand by a little less than 7 percent annually during the next

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<sup>2/</sup> It should be noted that such restraint still allows significant room for real expansion of current expenditures, owing to the rapid growth (around 7 percent per annum) in real GDP.

**Table 4.4: SUMMARY BALANCE OF PAYMENTS**  
(In millions of U.S. dollars)

	1991	1992	1993	1995	1997	2000
Trade balance	-64.6	-71.7	-82.3	-111.5	-144.2	-206.0
Exports, f.o.b.	61.1	67.5	74.1	89.6	110.2	150.4
Imports, f.o.b.	125.7	139.2	156.3	201.1	254.4	356.4
Services (net)	57.1	65.6	71.9	90.6	113.8	171.0
Unrequited transfers, net	15.7	13.6	10.4	12.2	13.1	14.8
Current account balance	8.2	7.5	0.1	-8.7	-16.3	-20.2
Nonmonetary capital, net	-4.9	-1.5	6.9	17.7	25.3	33.2
Overall balance	3.3	6.0	7.0	9.0	9.0	13.0
Memorandum items:						
Current account balance/ GDP (percent)	5.9	4.8	0.1	-3.9	-6.0	-5.6
Gross off reserves	25.2	29.2	34.2	45.2	57.2	84.2
(in months of imports)	2.4	2.5	2.6	2.7	2.7	2.8

Source: Staff estimates.

five years before slowing to 5 percent by the end of the decade. While these rates of growth are significantly slower than those recorded in the second half of the 1980s, they would still represent significant continued penetration into world tuna markets, occasioned by the competitive price and quality of the Maldivian catch. It would also reflect eased constraints on freezing and refrigeration capacity, which begin to come on-stream by the mid-1990s. Garment exports would grow much slower during the 1990s than the 1980s (roughly 4 percent versus some 20 percent annually), reflecting the early stage of development of industry last decade, producing for the North American and Western European markets and exploiting the Maldives' not having a MFA quota in these markets. Also, no further expansion in capacity is currently planned for this sector. "Other" exports, which are mainly exotic marine products destined for the Asian market, would increase at a healthy pace during the 1990s, but much more slowly than during the previous decade owing mainly to concerns about the sustainability of current levels of harvesting of sea cucumbers (which represented almost three-quarters of the total value of other exports in 1990). In sharp contrast to the declines of the 1980s, the Maldives' terms of trade would improve slowly during the coming decade, as export prices for fish are expected to rise a little faster than the unit value for manufactures.

4.26 After a year of slow growth in 1991, merchandise imports would rebound in 1992 and continue to increase at a robust--albeit decelerating--pace through the end of the decade (see preceding tabulation). Total imports would rise by 8 percent per year during the first half of the 1990s before slowing to 7 percent by the end of the decade. By way of comparison, imports rose by around 12 percent annually during the last half of the 1980s, which includes a two-year period at the end of the decade when import quotas were gradually eliminated. The pace of import growth reflects the narrow industrial base of the Maldives economy, which results in a high import content of economic growth; as overall output growth comes down a little over the medium term, the growth rate of imports falls, in step.

Table 4.5: PROJECTED GROWTH IN MERCHANDISE TRADE AND THE TERMS OF TRADE, 1991-2000

	<u>Estimate</u>		<u>Projected</u>		<u>Estimate</u>	<u>Projected</u>	
	1990	1991	1994	2000	1985-90	1991-93	1994-2000
	(In millions of US dollars)				(Real Growth Rates, in % p.a.)		
<u>Exports, f.o.b. /a</u>	52	54	72	138	15.6	5.0	5.1
Fish	33	34	47	95	11.1	5.5	5.7
Garments	14	16	19	31	18.7	4.2	4.3
Other	5	5	6	12	58.2	5.1	4.8
<u>Imports, c.i.f.</u>	138	148	208	419	11.8	7.9	7.8
Consumer Goods	74	78	110	213	16.0	6.8	7.3
Petroleum Products	22	20	28	63	21.3	8.7	7.7
Intermediate Goods	8	9	13	27	6.9	9.8	8.3
Capital Goods	34	39	57	116	16.2	10.1	8.3
<u>Terms of Trade (1985=100)</u>							
Export Unit Value	110	112	124	173	1.8	3.3	3.3
Import Unit Value	134	137	148	192	6.0	2.1	4.4
Terms of Trade	82	81	84	90	-3.9	1.2	0.9

/a Excludes re-exports.

Source: Data provided by Maldivian authorities and staff estimates.

4.27 The surplus on services would progressively widen during the coming decade, owing mainly to continued solid expansion of tourist receipts, which would rise in nominal terms by an average of some 12 percent per year during the 1990s (Table 4.6). Underlying this expansion of nominal tourism receipts, is foreign (G-5) inflation of about 4 percent per year and real growth, which as noted above in the discussion of output growth, decelerates noticeably during the second half of the decade, from around 10 percent per year in 1992-94 to 7 percent in the final years of the decade. On the payments side of the services accounts, there is rapid expansion in freight and insurance--in line with growth of merchandise imports--as well as in travel payments, indicative of rapid income growth in the Maldives.

4.28 On the transfers account, official transfers are expected to rise gradually in nominal terms during this decade, following a sharp drop in 1993 that will mark completion of the new India-financed hospital in Male. Bilateral grants would pick-up after 1993, reflecting success in the strategy, outlined in the following Section, to mobilize greater assistance. Multilateral grants, which currently account for less than one-sixth of official transfers, would rise in real terms through most of the decade, representing a substantial effort on the part of those donors to raise their level of assistance. Net outflows of bilateral transfers would narrow slowly during the coming decade, indicative of the Government's success in their training program aimed at increasing the supply of well-qualified local staff, especially for work in tourist resorts.

4.29 The capital account of the balance of payments would shift from small net outflows around the beginning of the 1990s, to net inflows early in



Table 4.6: MALDIVES: BALANCE OF PAYMENTS SERVICES ACCOUNT  
(In millions of US dollars)

	1991	1992	1993	1995	1997	2000
Total services (net)	57.1	65.6	72.0	90.6	114.8	171.0
Receipts	130.9	147.4	162.6	202.4	249.7	349.8
Transportation	36.0	39.3	42.2	50.9	61.0	82.5
Travel	90.5	102.4	113.3	143.2	178.4	253.1
Investment income	2.3	2.7	3.0	3.6	4.9	7.4
Government, n.i.e.	0.3	1.3	2.4	2.7	3.1	3.9
Other	1.7	1.7	1.8	2.0	2.3	2.9
Payments	73.8	81.8	90.6	111.7	134.9	178.7
Freight and insurance	21.8	24.6	27.5	35.5	44.9	62.9
Other transportation	11.4	11.5	11.5	12.4	13.2	15.1
Travel	26.4	29.7	33.6	42.1	51.0	67.5
Investment income	13.3	14.9	16.7	20.2	23.8	30.6
Government, n.i.e.	1.0	1.1	1.2	1.6	1.9	2.5
Travel, net	64.1	72.7	79.7	101.0	127.4	185.6

Source: Data provided by the Maldivian Authorities.

the decade which widen substantially over the course of the remainder of the 1990s (see Table 4.4). Net disbursements from official creditors which had been negative during the second half of the 1980s, would widen markedly from about US\$5 million in 1991 to around US\$20 million by the year 2000, mainly in reflection of greater borrowings from the World Bank (IDA) and the Asian Development Bank. Private capital (including errors and omissions) would swing to a net inflow before the middle of the decade, and widen to some US\$10 million per year, implying substantial inflows of foreign direct investment. Gross official international reserves would rise steadily throughout the decade, by about US\$6 million per year. This would be sufficient to raise import cover from less than 2.5 months in 1991 to just under 3 months before the middle of the decade, and stay roughly unchanged through the year 2000.

4.30 External Debt Management. External debt obligations are unlikely to become a source of pressure on either the balance of payments or the fiscal accounts. Such a situation is to the great advantage of the Maldives and should be carefully guarded. More specifically, the Government should maintain its twin objectives of minimizing commercial borrowing and mobilizing larger amounts of financing from official sources. Indeed, as discussed in the following Section, the operative constraint in this regard is likely to be the lending constraints of the official sources, rather than the repayment capacity of the country itself. If the strategy outlined below is followed, the Maldives' external debt situation would continue to improve over the medium-term, with total debt rising slowly, to around 75 percent of GDP (compared with 62 percent in 1990) and with debt service continuing to drop-off in relation to export of goods and services; by the end of the decade, the debt service ratio would be down to 3 percent, compared with 5 percent in 1990 (see Table 4.7).

Table 4.7: MALDIVES: EXTERNAL DEBT

	1991	1992	1993	1995	1997	2000
DOD (US\$ million)	89.9	104.0	117.0	148.4	186.3	263.3
DOD/GDP (%)	64.2	65.9	65.6	66.4	68.8	73.5
Public (MLT)	52.8	54.5	54.4	54.8	57.0	62.0
Short-term Debt	11.4	11.4	11.2	11.6	11.8	11.4
Debt Service (US\$ million)	9.1	9.0	9.5	10.4	11.8	14.5
Amortization	5.5	5.0	5.0	4.8	5.0	5.4
Interest	3.6	4.0	4.5	5.6	6.8	9.1
Debt Service/Exports (%)	4.7	4.2	4.0	3.6	3.3	2.9
Amortization	2.9	2.3	2.1	1.6	1.4	1.1
Interest	1.9	1.9	1.9	1.9	1.9	1.8

Source: Staff estimates.

#### E. External Financing Requirement

4.31 A summary of the Maldives' external financing requirements from 1991-2000 is provided in the following tabulation. The gross external financing requirement would rise only a little from just under US\$21 million per year in the past five years to US\$22 million in the first half of the 1990s, reflecting the strong recovery in tourism in 1991-93 and the success of the stabilization program, which restrains expansion imports during the early years of the 1990s. However, as the decade progresses, these effects wear off, causing the external financing requirement to widen significantly, to almost US\$45 million per year in the second half of the decade.

4.32 No difficulty is envisaged in meeting these wider financing requirements, if the developmental strategy outlined in this report is followed. During the first half of the decade, official sources of financing would provide the bulk of financing needs; there would be a sizable rise in official grants (concentrated in 1991-92) and increased disbursements of official medium- and long-term loans that compare very favorably with disbursements in the second half of the 1980s. By the middle of the coming decade, policies to encourage private sector development are expected to have taken hold, leading to a shift away from public to private financing. Private capital flows would shift from an average net outflow of some US\$5 million per year in the first half of the 1990s, to an average net inflow of US\$8 million in the second half, accounting for almost two-thirds of the wider financing requirement. Official grants would remain virtually unchanged during the second half of the 1990s while increased disbursements of official public loans would account for the remainder of the increased financing requirement.

4.33 A broad strategy needs to be developed in order to achieve the doubling of disbursements of official assistance that is envisaged between the second half of the 1980s and the second half of the 1990s. On the side of implementation capacity, the Maldives has already demonstrated its ability to

**Table 4.8: MALDIVES: EXTERNAL FINANCING REQUIREMENTS AND SOURCES, 1991-2000**  
(In millions of US dollars, per annum)

	1986-1990	Projections	
		1991-1995	1996-2000
<b>Requirements</b>	20.7	21.5	43.6
Merchandise imports	88.0	159.8	288.4
Merchandise exports	-43.2	-74.5	-123.7
Principal repayments	7.2	5.1	5.2
Interest payments	3.3	4.5	7.5
Other service payments	50.2	87.2	142.0
Service receipts	-89.3	-164.8	-283.6
Reserve increase	4.4	4.1	7.8
<b>Sources</b>	20.7	21.5	43.6
Private remittances	-0.8	-2.5	-1.9
Official grants	11.9	15.2	15.6
Public loan disbursements	7.3	14.1	21.9
Other capital (net) <u>1/</u>	2.2	-5.2	8.0

1/ Includes foreign direct investment, short-term capital and errors and omissions.

Source: Data supplied by the Maldivian authorities and World Bank staff estimates.

absorb substantially larger amounts of official financing--official disbursements (grants and loans)--which are expected to average almost US\$30 million per year from 1990-93. However, these amounts were used mainly to finance large, one-off projects (such as the new hospital in Male, the breakwater project and the Centre for Social Education), and in some quarters donor interest in establishing an on-going pipeline of projects is fading (See the discussion in Section B of this Chapter). In these circumstances, the challenge for the Maldives is to mobilize adequate quantities of donor financing in a way that focusses resources on priority projects.

4.34 Several measures would improve the Maldives' capacity to attract and absorb needed quantities of foreign assistance. First, careful prioritization of the public investment program will be required, particularly in light of administrative limitations and the need for near-term fiscal restraint. Second, project preparation and management capacities require improvement. To the extent that large projects are well identified, designed and managed, this will serve to attract donor financing. The recent examples of the Male Airport project and the second Fisheries project are clear examples of cases in which the ready availability of large, economically viable projects, with clear-cut institutional arrangements for implementation, has served to encourage involvement of new external donors for cofinancing. Third, it is

essential that the Maldives exploit all possible avenues for mobilizing donor support through regular consultation processes (such as Round Tables) and through the convening of meetings to discuss financing strategies for particular large projects. In this regard, the need to prepare high-quality documentation cannot be underestimated.<sup>3/</sup>

4.35 As part of its strategy in this area, the Government should take adequate recognition of one of the inevitable consequences of strong, sustained growth--the Maldives must prepare itself for graduation from concessional assistance. At the rate of growth forecast in this report's medium-term projections, real incomes in the Maldives would approximately double within the next decade, making it increasingly difficult for the Government to obtain grant financing from donors. As preparation in this regard, the Government should ensure the fiscal and balance of payments capacity for taking on increasing amounts of debt at near-commercial rates. Along similar lines, an increasing proportion of capital spending will need to be financed from domestic resource mobilization.

4.36 On the basis of these few strategic adjustments to the Maldives' aid mobilization strategy, gross disbursements of official assistance approaching US\$40 million would appear to be within reach. The Maldives has a proven track record of sound macroeconomic management; a robust policy agenda underlies the nation's auspicious medium-term prospects; and, this amount of aid is small by international standards. In these circumstances, concerted support of this magnitude from the donor community is fully warranted.

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<sup>3/</sup> Attempts to develop program lending relationships, as articulated in the Round Table document, would be better served by developing a small number of large projects, which would themselves encompass most of the investment needs of particular sectors, rather than canvas donor financing for general-purpose sector financing.

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Table I.1: GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN, 1985-91 1/

	1985	1986	1987	1988	1989	1990	1991 Est.
At Constant 1985 Prices (Rf. million)							
Primary Sector	188.1	196.6	207.6	218.0	229.9	252.6	259.8
Agriculture	69.5	76.0	77.9	79.9	82.8	87.1	88.8
Fisheries	106.9	108.1	116.5	124.1	132.7	147.6	152.0
Coral & Sand Mining	11.7	12.4	13.2	14.0	14.9	17.9	18.4
Secondary Sector	82.4	88.8	87.8	107.5	118.7	139.5	149.8
Construction	49.0	52.8	48.1	63.9	70.5	83.9	89.8
Manufacturing	33.5	36.1	39.7	43.6	48.2	55.6	60.0
Tertiary Sector	329.8	366.5	404.3	446.1	494.7	578.2	607.1
Distribution	97.2	103.6	115.5	128.8	144.1	166.8	178.5
Transportation	13.9	33.7	37.1	40.8	45.0	57.0	60.4
Tourism	108.9	111.9	122.4	133.9	147.3	177.8	184.9
Real Estate	26.0	28.3	30.9	33.7	36.9	40.6	42.6
Other Services	38.0	33.4	37.9	42.9	49.2	55.6	57.8
Government Administration	45.9	55.5	60.5	66.0	72.2	80.4	82.8
Gross Domestic Product	600.3	651.9	699.7	771.6	843.3	970.3	1016.2
Annual Percentage Change							
Primary Sector	11.8	4.5	5.6	5.0	5.5	9.9	2.7
Secondary Sector	12.9	7.8	-1.1	22.4	10.4	17.5	7.4
Tertiary Sector	15.6	11.1	10.3	10.3	10.9	16.9	5.0
Gross Domestic Product	13.8	8.6	7.3	10.3	9.3	15.1	4.7
Percent of GDP							
Primary Sector	31.3	30.2	29.7	28.3	27.3	26.0	25.5
Secondary Sector	13.7	13.6	12.5	13.9	14.1	14.4	14.7
Tertiary Sector	54.9	56.2	57.8	57.8	58.7	59.6	59.7
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memo Items:							
Nominal GDP (Rf. million) 1/	600.3	668.1	780.3	934.3	1046.5	1231.4	1436.9
Growth Rate (%)	19.5	11.3	16.8	19.7	12.0	17.7	16.7
GDP Deflator (growth rate %)	5.0	2.5	8.8	8.6	2.5	2.3	11.4

Source: Ministry of Planning and Environment, and staff estimates.

1/ Real GDP for 1987-91 and nominal GDP for 1986-91 are staff estimates.

Table I.2: OTHER INDICATORS OF ECONOMIC ACTIVITY, 1985-91

	1985	1986	1987	1988	1989	1990	1991 Est.
	Tourism						
Total Arrivals	114,654	113,953	131,399	155,757	158,488	195,158	202,000
Distribution of total arrivals (%)							
Europe	69.5	72.6	75.2	76.7	77.8	77.9	n.a.
Of which:							
Germany 1/	25.4	27.0	28.1	26.2	22.7	21.4	n.a.
Italy	15.3	16.7	17.9	18.2	19.5	20.4	n.a.
United Kingdom	4.2	4.5	5.5	6.7	10.0	11.6	n.a.
Asia	22.9	21.2	20.2	20.1	19.0	19.0	n.a.
Of which: Japan	12.3	8.3	8.2	7.1	7.5	7.1	n.a.
Other	7.6	6.2	4.6	3.2	3.1	1.7	n.a.
Average Stay (days)	9.2	9.1	9.6	9.7	9.3	8.6	n.a.
Total Tourist Expenditure (US\$m)	38	41	44	50	66	n.a.	n.a.
Tourist Expenditure per Night (US\$m)	36	39	35	33	45	55	n.a.
Resort Bed Capacity (end-year)	5,375	5,559	6,208	7,073	7,720	7,621	n.a.
Government-owned	1,782	2,480	2,826	2,166	n.a.	3,232	n.a.
Private	3,593	3,079	3,377	4,907	n.a.	4,389	n.a.
Capacity Utilization	55.0	50.9	59.6	61.1	54.3	60.8	n.a.
	Fisheries ('000 metric tons)						
Fish Catch	61.9	59.3	58.9	71.5	71.2	76.4	82.0
Of which: Skipjack	42.6	45.5	42.1	56.6	58.1	59.9	64.3
Exports of Fresh/Frozen Fish	17.1	17.8	13.7	19.7	19.7	17.1	n.a.
Exports of Other Fish 2/	17.7	17.2	25.8	17.3	32.1	41.5	n.a.
Total Fish Exports (US\$ million)	34.8 n.a.	35.0 15.2	39.5 17.3	37.0 24.2	51.8 30.9	58.6 36.1	n.a. n.a.

Source: Ministries of Tourism, and Fisheries and Agriculture.

1/ Former Federal Republic of Germany.

2/ Fresh fish equivalents.

n.a. = not available.

Table I.3: POPULATION, LABOR FORCE AND EMPLOYMENT, 1985-90

	1985	1990
Total Population	180,008	213,215
Male	93,482	109,336
Of which: 15-64	49,034	54,292
Female	86,606	103,879
Of which: 15-64	45,211	52,515
Total Labor Force	62,268	68,485
Employment by Sector		
Fisheries	12,434	11,498
Construction	2,563	3,151
Other Activities	38,432	41,800

Source: Ministry of Planning and Environment.



Table I.4: EXPATRIATE LABOR FORCE, 1986-91

	1986	1987	1988	1989	1990	1991 Est.
<b>Total</b>	<b>2,112</b>	<b>4,229</b>	<b>5,905</b>	<b>5,141</b>	<b>8,689</b>	<b>10,755</b>
<b>Distribution by nationality (%)</b>						
-----						
Asia	75.0	86.6	85.5	85.6	86.7	86.2
Of which:						
India	6.9	7.9	11.5	10.0	10.9	13.6
Sri Lanka	57.5	68.1	61.7	45.9	49.4	52.5
Bangladesh	1.2	4.1	6.2	21.5	18.7	15.9
Europe	21.1	11.5	12.8	12.6	11.9	12.2
Of which:						
Germany 1/	6.3	2.4	3.2	2.9	2.9	2.0
Italy	4.8	3.2	3.3	3.0	3.6	2.7
Africa	1.5	1.2	0.8	0.5	0.4	0.6
America	1.4	0.4	0.4	0.7	0.5	0.4
Oceania	1.1	0.4	0.4	0.6	0.5	0.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Distribution by sector</b>						
-----						
Public Sector	35.6	49.8	47.0	31.6	31.7	31.5
Government	22.9	16.4	17.1	15.5	15.3	15.1
Public Enterprises	12.7	22.3	19.5	12.6	12.5	8.9
Development Projects	--	11.1	10.5	3.5	3.9	7.5
Private Sector	64.4	50.2	53.0	68.4	68.3	68.5
Tourism	39.1	22.0	23.7	37.6	34.2	30.1
Other	25.3	28.2	29.3	30.7	34.1	38.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Ministry of Public Works and Labor.

1/ Former Federal Republic of Germany.

Table I.R: WAGES AND PRICES, 1986-91

	Weights	1986	1987	1988	1989	1990	1991 Est.
<b>Consumer Prices (% change)</b>							
-----							
Total	100.0	9.1	11.7	10.4	4.6	7.4	11.5
Food	57.4	11.1	11.8	4.8	2.5	9.8	n.a.
Clothing	8.0	12.5	11.2	12.9	2.7	-11.2	n.a.
Rent	1.6	22.8	10.9	60.4	15.7	24.3	n.a.
Housing Equipment	17.0	2.7	14.0	12.9	9.4	8.0	n.a.
Transportation	2.6	0.8	2.6	2.6	8.4	0.8	n.a.
Tobacco & Beverages	4.4	2.7	5.7	7.5	0.7	6.0	n.a.
Health & Personal Care	2.5	0.9	85.2	11.9	-1.2	9.8	n.a.
Recreation & Education	6.5	0.0	5.7	10.0	4.4	-0.8	n.a.
<b>Average Wages by Industry (Rf/month)</b>							
-----							
Garment Factories		405	539	585	642	n.a.	n.a.
Fisheries Industry		638	851	877	877	n.a.	n.a.
Tourist Resorts		1000	1438	1571	2030	n.a.	n.a.

Source: Ministry of Planning & Environment, ST0 & Department of Tourism.

n.a. = not available.

Table II.1: CENTRAL GOVERNMENT REVENUE AND GRANTS, 1985-91  
(Rufiyas million at current prices)

	1985	1986	1987	1988	1989	1990 Budget	1990 Est.	1991 Budget	1991 Est.
<b>Total Revenue &amp; Grants</b>	174.2	263.6	380.7	438.7	596.3	621.4	606.3	723.6	724.4
<b>Tax Revenue</b>									
Import Duties	90.7	104.4	161.7	205.0	266.2	301.8	294.2	302.5	313.3
Export Duties	52.2	64.1	108.8	137.3	153.8	160.0	162.4	160.0	174.5
Tourism Tax	0.2	0.3	0.1	---	2.5	---	---	---	---
Airport Tax	23.4	23.5	32.4	40.6	78.3	100.5	95.1	100.0	98.9
Bank Profit Tax	6.0	6.0	9.0	10.2	10.9	14.0	14.3	17.0	14.9
Other /1	4.1	4.6	3.6	5.7	5.3	6.0	6.9	6.0	5.5
	4.8	5.8	7.8	11.2	15.4	21.3	15.5	19.5	19.5
<b>Nontax Revenue</b>									
STB	75.2	93.1	129.5	132.4	164.4	202.5	204.8	228.9	219.3
Air Maldives	15.2	16.0	20.2	25.2	30.3	30.0	35.0	35.0	30.0
Maldives Monetary Authority	1.0	4.0	4.4	7.1	7.9	8.0	9.6	10.0	9.0
Government Property	1.0	2.5	4.6	9.0	10.1	20.0	26.0	25.0	25.0
Transport Services	20.3	27.8	32.0	33.8	43.7	50.3	54.3	66.1	65.0
Other 2/	10.6	15.7	22.0	17.9	42.5	53.0	43.5	52.2	50.0
	27.1	27.1	46.3	39.4	29.9	41.2	36.4	40.6	40.3
<b>Grants /3</b>	8.3	66.1	69.5	101.3	165.7	117.1	107.3	192.2	191.9

Source: Ministry of Finance.

- 1/ Includes license fees, company registration fees, stamp duties & royalties.
- 2/ Includes fines, confiscated properties, penalties, administrative charges, MTC, Electricity Board, Posts & Telecommunications, Maldives Ports Authority, MMA, Bank of Maldives, Rentals Division, Printing Section, Government Hotels and capital revenue.
- 3/ Excludes grants for direct expenditure by donors.

Table II.2: CENTRAL GOVERNMENT EXPENDITURE AND NET LENDING, 1985-91  
(Rupees million at current prices)

	1985	1986	1987	1988	1988	1990	1990	1991	1991
						Budget	Est.	Budget	Est.
Total Expenditure & Net Lending	201.5	311.0	356.3	405.8	634.2	766.1	783.1	931.0	848.6
Current Expenditure	120.9	198.9	176.8	211.0	279.6	352.0	399.2	465.2	447.6
Expenditure on Goods & Services	109.8	126.5	153.2	192.2	262.3	335.2	382.6	435.3	415.6
Wages & Salaries	36.7	41.7	44.9	62.6	75.8	104.8	106.9	145.6	135.0
Other Allowances	8.4	9.0	16.3	12.1	19.5	27.0	36.7	57.3	56.0
Other Benefits/Gratuities	0.1	0.1	0.1	1.5	1.9	2.1	2.7	4.4	4.0
Travel Expenses	6.8	8.3	10.0	11.2	15.2	15.9	17.6	22.6	20.9
Supplies & Requisites	18.8	21.0	24.6	33.1	57.4	60.4	71.3	64.2	63.0
Repairs & Maintenance	7.6	10.4	11.5	13.6	19.4	35.0	35.8	31.6	30.0
Transportation, communication, utilities & other services	20.4	25.8	30.8	36.4	48.1	66.9	80.7	67.7	55.0
Subscriptions, membership fees, etc to intl. organizations	1.9	1.9	4.1	3.6	4.0	5.4	5.7	5.6	5.8
Social Welfare Contributions	9.1	8.3	11.9	18.1	21.0	17.7	25.2	36.3	38.0
Interest Payments	8.8	9.9	16.9	16.2	8.6	12.3	10.7	24.1	26.0
Subsidies & Transfers	2.3	2.5	7.7	3.6	8.7	4.5	5.9	5.8	6.0
Food & Medical Subsidies	--	--	4.7	--	4.2	--	1.0	--	--
Pensions	2.3	2.5	3.0	3.6	4.5	4.5	4.9	5.8	6.0
Capital Expenditure & Net Lending	80.6	172.1	179.5	194.8	354.6	414.1	383.9	465.8	401.0

Source: Ministry of Finance.

-- denotes no contribution.

Table II.3: CENTRAL GOVERNMENT FISCAL OPERATIONS, 1/ 1985-91  
(Rufiyaa million at current prices)

	1985	1986	1987	1988	1989	1990 Budget	1990 Est.	1991 Budget
Total Revenue and Grants	174.2	268.6	380.7	438.7	596.3	621.4	606.8	723.6
Total Revenue	165.9	197.5	291.2	337.4	430.6	504.3	499.0	531.4
Grants 2/	8.8	66.1	89.5	101.3	165.7	117.1	107.8	192.2
Expenditure and Net Lending	201.5	311.0	356.3	405.8	634.2	766.1	783.1	931.0
Current Expenditure	120.9	138.9	176.8	211.0	279.6	352.0	399.2	465.2
Capital Expenditure and Net Lending 3/	80.6	172.1	179.5	194.8	354.6	414.1	383.9	465.8
Overall Balance	-27.3	-47.4	24.4	32.9	-37.9	-144.7	-176.8	-207.4
Financing	27.3	47.4	-24.4	-32.9	37.9	144.7	176.8	207.4
Foreign (net)	-2.7	31.0	1.8	-4.0	43.5	80.2	81.7	112.6
Disbursements	21.5	52.8	33.7	40.4	72.9	117.5	117.5	172.6
Repayments	24.2	21.8	32.4	44.4	29.4	37.3	35.8	60.0
Domestic (net) 4/	30.0	16.4	-25.7	-28.9	-6.6	64.5	95.1	94.8

Source: Ministry of Finance.

1/ Includes extrabudgetary operations.

2/ Excludes grants for direct expenditure by donors.

3/ Includes net lending and capital contributions to public enterprises and foreign institutions.

4/ Primarily reflects net borrowing from the banking system; the remainder is statistical discrepancies.

Table II.4: EXPENDITURE ON MAJOR PROJECTS FINANCED BY FOREIGN LOANS, 1986-91  
(Rufiyas million at current prices)

	1986	1988	1987	1988	1989	1990	1991 Budget
Total Disbursements	21.5	52.3	33.7	40.4	72.9	117.5	172.3
Projects	21.8	52.3	33.7	40.4	69.1	104.6	152.0
Airport	5.2	21.3	0.5	1.8	28.2	49.5	41.5
Fisheries	10.4	19.6	19.8	21.8	18.5	7.9	4.5
Interisland Transport	0.7	--	--	--	--	--	--
Maldives Water and Sanitary Authority	5.0	2.1	4.1	8.9	5.3	7.7	--
Electricity	--	2.1	6.7	0.6	1.3	28.5	36.0
Meteorology	--	0.8	--	--	--	--	--
Island Harbor	--	1.1	3.1	7.3	4.5	12.6	44.0
Commercial Harbor	--	5.4	--	--	--	--	--
Telecommunications	--	--	--	--	16.8	3.4	26.0
Other	0.2	--	--	--	3.8	12.9	20.6

Source: Ministry of Finance.

-- denotes no contribution.

Table III.1: MONETARY SURVEY, 1985-91

End of Period	1985			1986			1987			1988			1989			1990			1991		
	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June			
(Rufiyaa million at current prices)																					
Foreign Assets (net)	-166.5	482.3	427.0	397.0	317.7	424.0	450.9	482.7	496.6	492.8	476.0	492.1	482.7	496.6	492.8	476.0	492.1	482.7	496.6	492.8	
Monetary Authorities (net)	6.4	460.9	445.1	408.0	345.5	445.1	494.6	520.9	546.6	553.7	575.2	538.1	494.6	546.6	553.7	575.2	538.1	494.6	546.6	553.7	
Foreign Assets	33.0	266.9	263.6	227.4	170.2	249.6	299.8	281.0	267.0	298.4	329.3	288.6	299.8	267.0	298.4	329.3	288.6	299.8	267.0	298.4	
Foreign Liabilities	26.6	163.2	161.3	98.3	61.2	11.2	39.7	25.3	38.8	77.9	112.6	107.7	39.7	25.3	38.8	77.9	112.6	107.7	38.8	77.9	
Commercial Banks (net)	-172.9	103.7	102.3	129.1	109.0	238.4	260.1	255.7	228.2	220.5	216.7	180.9	260.1	255.7	228.2	220.5	216.7	180.9	255.7	228.2	
Net Domestic Assets	184.0	181.5	181.5	180.6	175.3	195.5	194.8	239.9	279.6	255.3	245.9	249.5	194.8	239.9	279.6	255.3	245.9	249.5	255.3	279.6	
Domestic Credit	-18.6	-18.1	-18.1	-11.0	-27.8	-21.1	-43.7	-38.2	-51.0	-70.9	-99.2	-46.0	-43.7	-38.2	-51.0	-70.9	-99.2	-46.0	-51.0	-70.9	
Public Sector																					
Central Government (net)																					
Public Enterprises																					
Private Enterprises																					
Other Items																					
Broad Money	265.8	327.6	327.6	366.2	424.1	501.3	591.0	565.6	585.4	583.7	685.4	671.7	591.0	565.6	585.4	583.7	685.4	671.7	585.4	583.7	
Money	171.7	193.0	193.0	203.9	231.5	270.1	325.3	311.0	328.7	317.6	371.7	365.1	325.3	311.0	328.7	317.6	371.7	365.1	328.7	317.6	
Currency in Circulation	68.5	92.0	92.0	116.5	140.1	158.3	173.4	177.2	189.5	206.7	227.3	228.5	173.4	177.2	189.5	206.7	227.3	228.5	189.5	206.7	
Demand Deposits	103.2	101.0	101.0	87.4	91.4	111.8	151.9	133.8	139.2	110.9	144.4	136.6	151.9	133.8	139.2	110.9	144.4	136.6	139.2	110.9	
Quasi-money	94.1	134.6	134.6	162.3	192.6	231.2	265.7	254.6	256.7	266.1	313.7	306.6	265.7	254.6	256.7	266.1	313.7	306.6	256.7	266.1	
Of which: Foreign																					
Currency Deposits	41.0	63.2	63.2	88.7	99.0	113.3	155.0	138.7	135.7	132.5	172.4	159.5	155.0	138.7	135.7	132.5	172.4	159.5	135.7	132.5	
Domestic Credit																					
Of which: Public Enterprises	-1.3	23.3	23.3	11.8	15.8	16.2	29.7	21.2	23.9	16.4	16.0	18.8	29.7	21.2	23.9	16.4	16.0	18.8	23.9	16.4	
Private Sector	-1.4	12.4	12.4	5.6	13.5	16.7	28.9	23.9	30.7	17.6	14.3	17.4	28.9	23.9	30.7	17.6	14.3	17.4	30.7	17.6	
Broad Money																					
Money																					
Quasi-money																					
(Twelve-month percentage change)																					
Domestic Credit	-1.3	28.8	28.8	37.8	37.5	28.2	24.4	16.3	3.3	24.4	16.3	3.3	28.8	28.8	37.8	37.5	28.2	24.4	16.3	3.3	
Of which: Public Enterprises	-1.4	26.2	26.2	18.7	52.0	39.4	5.9	-7.5	-29.3	-18.7	52.0	39.4	5.9	-7.5	-29.3	-18.7	52.0	39.4	5.9	-7.5	
Private Sector	-1.4	-0.5	-0.5	-2.9	46.0	42.2	30.6	26.2	4.0	-2.9	46.0	42.2	30.6	26.2	4.0	-2.9	46.0	42.2	30.6	26.2	
Broad Money																					
Money																					
Quasi-money																					

Source: Maldives Monetary Authority.

Table III.2: INTEREST RATE STRUCTURE OF  
COMMERCIAL BANKS, 1985-91  
(Percent per Annum)

End of Period	1985	1986	1987	1988	1989	1990			1991
						March	June	Sept.	
<b>Deposit Rates</b>									
Special notice deposits 1/	6	6	3.5-4.5	3.5-4.5	2.0-4.5	2.0-4.5	2.0-4.5	2.0-4.5	2.0-4.5
Savings deposits	6	6	3.5-4.5	3.5-4.5	3.5-6	3.5-6	3.5-6	3-6	3-6
Time deposits 2/									
Up to 6 months	8	8	3.5-6	3.5-6	4.5-6	3.5-6	3.5-6	3-6	3.0-5.5
Over 6 months to 1 year	9	9-11	5.5-7	5.5-7	5.0-7.5	3-7	3-7	3-7	3.0-6.5
Over 1 year to 3 years	9-11	9-11	6.5-8	6.5-8	5.5-9	5-9	5-9	3-8	3.0-7.5
Over 3 years to 5 years	11-12	11	6.5-8	6.5-8	6.5-10	8-10	6.5-10	4.5-10	4.5-10
Over 5 years	12-14	12-14	6.5-10	6.5-10	6.5-10	7-10	7-10	4.5-10	5.5-10
<b>Lending Rates</b>									
Private sector									
Domestic currency	15-20	15-21	7-15	7-15	3/	3/	3/	3/	3/
Foreign currency	16-20	15-21	7-15	7-15					
Public sector	10.5	8.5-20	7-20	7-20	4/	4/	4/	4/	4/

Source: Maldives Monetary Authority.

1/ Withdrawable at a minimum notice of 30 days.

2/ The same interest rates apply to both domestic and foreign currency deposits.

3/ A ceiling of 3.5% above N.Y. prime rate.

4/ A ceiling of 1.0% above N.Y. prime rate.



**Table III.3: ASSETS AND LIABILITIES OF MALDIVES MONETARY AUTHORITY, 1985-91**  
(Rufiyee million at current prices)

End of period	1985			1986			1987			1988			1989			1990			1991		
	March	June	Sept.	March	June	Sept.	March	June	Sept.	March	June	Sept.	March	June	Sept.	March	June	Sept.	March	June	
<b>Foreign Assets</b>	33.0	50.4	77.4	185.6	228.8	263.8	263.8	263.5	255.8	237.2	276.9	238.7									
Claims on Government	193.1	222.1	208.1	152.1	152.1	152.1	152.1	162.1	152.1	157.1	203.1	256.1									
Claims on Public Enterprises	19.1	13.8	27.5	18.2	46.9	52.8	52.8	56.8	63.0	65.4	69.4	70.0									
Claims on Commercial Banks	0.2	0.2	1.0	0.5	0.4	0.4	0.4	0.4	0.9	0.9	0.9	1.0									
<b>Other Assets</b>	36.9	50.8	70.4	69.6	116.1	116.8	116.8	121.8	133.0	122.1	113.0	148.5									
Reserve Money	210.0	239.9	246.6	302.9	358.6	423.7	423.7	411.6	430.3	445.7	506.2	506.6									
Currency	71.1	95.7	119.8	144.2	161.8	179.2	179.2	181.3	196.4	210.9	231.2	241.3									
Bank Deposits	69.8	86.7	95.4	132.0	158.3	186.4	186.4	179.7	184.5	196.3	246.6	222.0									
Private Sector Deposits	69.0	57.4	30.7	26.0	37.9	57.8	57.8	50.0	48.9	37.9	27.3	42.3									
Foreign Currency Deposits	0.1	0.1	0.7	0.8	0.6	0.3	0.3	0.6	0.5	0.6	1.1	1.0									
<b>Foreign Liabilities</b>	26.6	18.1	8.8	6.9	11.5	8.1	8.1	11.5	11.5	15.3	15.3	15.4									
<b>Government Deposits</b>	33.0	62.1	111.0	89.8	134.0	104.8	104.8	127.2	106.1	71.8	82.7	136.5									
<b>Other Liabilities</b>	12.8	17.5	18.0	26.5	40.1	49.3	49.3	54.4	56.8	49.8	59.2	55.6									

Source: Maldives Monetary Authority.

Table III.4: ASSETS AND LIABILITIES OF COMMERCIAL BANKS, 1985-91  
(Rupees million at current prices)

End of period	1985			1986			1987			1988			1989			1990			1991		
	March	June	Dec.	March	June	Dec.	March	June	Dec.	March	June	Dec.	March	June	Dec.	March	June	Dec.	March	June	
Reserves 1/	72.4	91.1	100.6	136.0	161.8	190.1	182.3	191.9	199.3	238.1	233.0										
Foreign Assets	16.0	16.7	37.8	47.8	79.3	101.4	94.3	80.8	102.5	90.5	121.2										
Claims on Public Sector	39.5	90.7	104.6	92.4	193.9	210.6	202.3	170.4	160.7	154.3	117.8										
Government	4.8	2.3	3.0	1.6	2.4	3.3	3.5	5.2	5.6	7.0	6.9										
Public Enterprises	94.7	88.4	101.6	90.8	191.5	207.3	198.8	165.2	155.1	147.3	110.9										
Claims on Private Sector	184.0	181.5	180.6	175.3	195.5	194.8	239.9	279.6	255.3	245.9	249.5										
Other Assets	20.7	39.2	75.6	68.3	445.3	494.9	484.0	518.3	574.5	339.5	240.2										
Demand Deposits	34.3	43.6	56.7	65.5	73.9	94.1	83.8	90.4	72.9	117.1	94.3										
Time and Savings Deposits	94.0	134.5	161.6	191.8	230.6	285.4	254.0	258.2	265.4	312.6	305.6										
Government Deposits	1.7	1.0	1.8	2.7	9.3	10.9	13.2	12.4	13.0	14.8	18.8										
Foreign Liabilities	188.9	149.3	167.1	120.1	219.3	217.1	263.4	235.2	223.6	142.7	164.8										
Other Liabilities	63.6	91.6	141.9	139.6	542.7	604.3	588.5	646.8	717.4	481.1	378.3										
Memo Items:																					
Foreign Currency Deposits	40.9	63.1	88.0	98.3	112.7	154.7	138.1	135.2	131.9	172.4	158.4										
Required Reserve Ratios (2)	15 2/	15	35 3/	35	25 4/	25	25	30 5/	30	30	n.a.										
Domestic Currency Deposits	15 2/	15	35 3/	35	25 4/	25	25	30 5/	30	30	n.a.										
Foreign Currency Deposits	49	51	53	42	43	44	46	51	55	58	n.a.										
Distribution of Credit (3)	32	30	30	33	36	33	30	32	29	30	n.a.										
Tourism	19	19	17	25	21	23	24	17	16	14	n.a.										
Commerce 6/																					
Other																					

Source: Maldives Monetary Authority.

1/ Includes cash deposits held under the reserve requirements with the MMA.

2/ Effective October 19, 1985.

3/ Effective March 20, 1987.

4/ Effective August 9, 1989.

5/ Effective September 15, 1990.

6/ Includes wholesale and retail trade, import and export trade.  
n.a. = not available.

Table IV.1: BALANCE OF PAYMENTS, 1985-91  
(US\$ million at current prices)

	1985	1986	1987	1988	1989	1990	1991 Est.
Exports, f.o.b.	25.5	26.9	34.9	44.6	51.3	58.1	61.1
Domestic	23.0	24.5	30.8	40.2	44.7	52.1	54.3
Re-exports	2.5	2.4	4.1	4.4	6.6	6.0	6.8
Imports, f.o.b.	55.7	63.6	74.1	83.0	102.2	117.0	125.7
Trade Balance	-30.2	-36.6	-39.3	-38.4	-50.9	-58.9	-64.6
Services(net)	26.4	26.1	29.9	33.2	40.0	49.4	57.1
Receipts	66.9	66.8	75.7	85.9	99.3	118.6	130.9
Of which Travel	37.7	40.7	44.4	50.4	66.2	81.5	90.5
Payments	40.5	40.7	45.8	52.7	59.3	69.2	73.8
Of which Investment Income	13.5	13.4	11.3	10.7	11.0	12.8	13.2
Official Transfers (net)	1.2	9.3	9.7	11.5	17.9	11.3	16.7
Private Transfers (net)	-2.0	0.8	-1.2	-0.6	-1.5	-1.4	-3.0
Current Account Balance	-4.6	-0.7	-0.9	5.7	5.5	0.4	8.2
Public & Publicly Guaranteed Loans (net)	-1.7	-3.4	-0.3	-2.4	-1.9	8.9	5.2
Disbursements a/	4.5	7.9	4.1	4.6	5.2	14.9	10.7
Amortization a/	6.2	11.3	4.4	7.0	7.1	6.0	5.5
Private Capital(net) b/	7.0	7.2	11.7	12.5	-7.8	-7.8	-10.1
Capital Account	5.3	3.8	11.4	10.1	-9.7	1.1	-4.9
Overall Balance	0.7	3.1	10.5	15.8	-4.2	1.5	3.3
Memorandum Items:							
-----							
Current Account/GDP (%)	-5.5	-0.7	-1.0	5.4	4.8	0.3	5.9
Gross Reserves (US\$m)	4.6	6.9	8.2	21.8	24.4	24.7	25.2
Months of imports	1.0	1.3	1.3	3.2	2.9	2.5	2.4

Source: Data provided by Maldivian authorities and staff estimates.

a/ Excludes the conversion of short- and medium-term debt to long-term debt in 1986 amounting to US\$6.5 million.

b/ Includes errors and omissions.

Table IV.2: MERCHANDISE TRADE AND TRADE INDICES, 1985-91

	1985	1986	1987	1988	1989	1990	1991 Est.
<b>Exports (US\$ million)</b>							
-----							
Total (f.o.b.)	25.5	28.9	34.9	44.6	51.3	58.1	61.1
Domestic	23.0	24.5	30.8	40.2	44.7	52.1	54.3
Fish	14.8	15.2	17.3	24.2	30.9	33.3	33.5
Garments	7.5	8.6	12.1	10.0	10.0	14.3	16.1
Other	0.8	0.7	1.4	6.0	3.8	4.5	4.7
Re-exports	2.5	2.4	4.1	4.4	6.6	6.0	6.8
<b>Imports (US\$ million)</b>							
-----							
Total (c.i.f.) a/	59.1	65.7	78.2	97.3	120.5	137.7	147.5
Consumer Goods	26.7	28.5	42.7	52.4	63.6	73.6	78.1
Petroleum Products	7.5	6.8	10.1	12.8	16.2	21.7	19.6
Intermediate Goods	4.0	3.7	6.6	7.1	7.8	8.1	9.1
Capital Goods	10.7	8.9	18.8	25.0	32.9	34.3	38.7
<b>Trade Indices (1985=100)</b>							
-----							
<b>Exports (Domestic)</b>							
Value	100.0	106.6	133.6	174.5	194.2	226.3	237.8
Volume	100.0	108.3	131.3	161.3	179.7	206.7	213.4
Unit Value	100.0	98.4	101.7	108.2	108.1	109.5	111.5
<b>Imports</b>							
Value	100.0	111.2	132.3	164.6	203.8	232.9	249.5
Volume	100.0	105.8	118.5	135.3	163.5	174.3	182.2
Unit Value	100.0	105.1	111.7	121.6	124.6	133.6	136.9
Terms of Trade	100.0	98.6	91.1	88.9	88.7	81.9	81.4
<b>Trade Indices (% change)</b>							
-----							
<b>Exports</b>							
Volume	22.5	8.3	21.2	22.8	11.4	15.1	3.2
Unit Value	-9.5	-1.6	3.4	6.3	-0.1	1.3	1.8
<b>Imports</b>							
Volume	..	5.8	12.0	14.2	20.9	6.6	4.5
Unit Value	-3.8	5.1	6.2	8.9	2.5	7.2	2.5
Terms of Trade	-5.7	-6.4	-2.7	-2.4	-2.5	-5.6	-0.6

Source: Data provided by Maldivian authorities and staff estimates.

a/ Includes adjustments for unrecorded imports.

Table IV.3: SERVICES ACCOUNT, 1985-91  
(US\$ million at current prices)

	1985	1986	1987	1988	1989	1990	1991 Est.
<b>Receipts</b>	<b>66.9</b>	<b>66.8</b>	<b>75.7</b>	<b>85.9</b>	<b>99.3</b>	<b>118.6</b>	<b>130.9</b>
Other Transportation	25.9	21.1	25.9	28.9	29.5	32.3	36.0
MSL/MNSML	16.0	13.1	16.3	14.7	13.8	11.5	12.5
Tourist related	7.9	8.0	9.6	14.2	15.7	20.8	23.5
Jet Fuel Sales	5.7	5.0	6.4	10.7	12.1	17.5	n.a.
Airport Landing Fee	0.8	1.2	1.0	1.1	0.7	0.7	n.a.
Aircraft Handling Charge	1.4	1.8	2.2	2.4	2.9	2.6	n.a.
Travel	37.7	40.7	44.4	50.4	66.2	81.5	90.5
Investment Income	0.3	0.4	0.3	0.8	2.4	3.0	2.3
MMA	0.3	0.4	0.3	0.8	2.2	2.2	1.7
Commercial Banks	--	--	--	--	0.2	0.8	0.6
Government, n.i.e.	5.0	4.6	5.1	3.2	0.3	0.3	0.3
Other	--	--	--	2.6	0.9	1.5	1.7
<b>Payments</b>	<b>40.5</b>	<b>40.7</b>	<b>45.8</b>	<b>52.7</b>	<b>59.3</b>	<b>69.2</b>	<b>73.8</b>
Freight & Insurance	3.4	2.1	4.1	14.3	18.3	20.7	21.8
Other Transportation	14.3	13.6	15.3	13.8	9.7	10.4	11.4
MSL/MNSML	13.9	13.3	14.8	13.5	8.9	9.6	n.a.
Aircraft Charters	0.4	0.3	0.5	0.3	0.8	0.8	n.a.
Travel	5.3	8.0	9.8	11.7	19.4	24.4	26.4
Investment Income	13.5	13.4	11.3	10.7	11.0	12.8	13.3
Interest Payments	5.4	3.3	3.6	3.0	3.3	3.3	3.6
Official Medium & Long-term Debt	1.7	1.7	2.4	1.7	1.3	1.3	1.4
Short-term Debt /1	3.7	1.6	1.2	1.3	2.0	2.0	2.2
Profit Remittances	8.1	10.1	7.7	7.7	7.7	9.5	9.7
Tourism Sector	2.6	2.2	2.8	3.3	3.2	4.0	4.5
Commercial Banks	2.0	3.4	1.3	3.5	2.7	3.5	3.0
Other	3.5	4.5	3.6	0.9	1.8	2.0	2.2
Government, nie	3.3	3.2	3.4	1.2	0.9	0.9	1.0
Other	0.7	0.4	1.9	1.0	--	--	--

Source: Data provided by Maldivian authorities and staff estimates.

1/ Interest income from investment of MMA foreign reserves.

n.a. = not available.

-- denotes no contribution.

Table IV.4: CAPITAL ACCOUNT, 1985-91  
(US\$ million at current prices)

	1985	1986	1987	1988	1989	1990	1991 Est.
Nonmonetary Capital	5.3	3.8	11.4	10.1	-9.7	1.1	-4.9
Official (net)	-1.7	-3.4	-0.8	-2.4	-1.9	8.9	5.2
Disbursements by Creditor	4.5	7.9	4.1	4.6	5.2	14.9	10.7
Asian Development Bank	0.1	0.5	1.1	0.9	0.6	4.0	4.0
IDA	0.7	1.1	1.4	0.6	1.0	1.2	2.7
IFAD	--	--	0.7	1.3	0.2	0.1	0.7
KFW	--	--	--	--	--	7.2	--
Islamic Development Bank	0.4	0.2	--	--	--	0.1	0.5
OPEC Fund	0.1	0.8	--	0.3	0.5	0.8	0.7
Abu Dhabi	0.1	--	--	--	--	--	--
China	--	--	--	--	0.2	0.4	0.2
Kuwait	0.7	0.4	--	0.3	0.3	0.1	1.3
Saudi Arabia	0.9	1.7	0.4	1.2	0.6	0.8	0.6
United States	1.5	0.7	0.5	--	--	--	--
Other	--	2.5	--	--	1.8	0.7	--
Total Amortization due	6.2	11.3	4.4	7.0	7.1	6.0	5.5
Cash Payments	6.2	4.8	4.4	7.0	7.1	6.0	5.5
Multilateral Institutions	1.1	1.0	1.0	1.2	1.4	1.5	1.4
Foreign Governments	2.6	2.5	2.4	2.6	2.5	1.8	2.3
Suppliers Credits	0.5	0.5	0.5	0.6	0.6	1.5	1.8
Financial Markets	2.0	0.8	0.5	2.6	2.8	1.4	--
Rescheduled 1/ Multilateral Institutions	--	6.5	--	--	--	--	--
Deferred Payments	--	--	--	--	--	0.8	-0.8
Foreign Governments	--	--	--	--	--	0.8	-0.8
Private Capital 2/	7.0	7.2	11.7	12.5	-7.8	-7.8	-10.1

Source: Data provided by Maldivian authorities and staff estimates.

1/ In 1986, lease payments due were converted into a medium-term loan and rescheduled.

2/ Includes errors and omissions.

-- denotes no contribution.

Table IV.5: FOREIGN GRANTS 1/ BY PRINCIPAL DONOR, 1985-91  
(Rf. million at current prices)

	1985	1986	1987	1988	1989	1990	1991 Budget
<b>Total Grants</b>	<b>8.8</b>	<b>66.8</b>	<b>89.5</b>	<b>101.8</b>	<b>161.4</b>	<b>107.4</b>	<b>192.8</b>
<b>Bilateral</b>	<b>4.2</b>	<b>61.9</b>	<b>82.2</b>	<b>88.6</b>	<b>157.4</b>	<b>97.4</b>	<b>161.7</b>
Brunei	--	--	0.9	--	--	--	--
Denmark	--	--	--	5.7	6.3	25.7	23.2
Germany 2/	--	1.1	9.8	16.9	3.3	--	--
Japan	--	21.7	39.5	61.8	124.9	5.0	66.1
Kuwait	0.1	--	4.5	--	--	--	--
Norway	--	29.6	18.9	--	--	--	--
Saudi Arabia	--	3.6	--	--	0.7	0.8	0.3
United Kingdom	1.4	2.2	3.2	0.1	1.7	--	--
India	--	--	--	--	--	51.2	48.9
France	--	--	--	--	--	8.7	9.7
Oman	--	--	--	--	9.1	--	--
Australia	--	--	--	--	4.7	5.0	5.0
China	--	--	--	--	5.5	--	5.2
Other	2.7	3.7	5.4	4.6	1.2	1.0	3.2
<b>Multilateral</b>	<b>4.1</b>	<b>4.4</b>	<b>7.3</b>	<b>12.7</b>	<b>4.0</b>	<b>10.0</b>	<b>30.6</b>
EC	--	0.9	2.2	3.0	0.4	--	--
WHO	0.5	0.4	0.8	0.8	0.8	1.5	2.0
UNDP	0.5	0.8	1.4	1.5	1.0	1.5	1.5
UNESCO	0.2	0.2	0.5	0.8	0.1	0.1	0.1
UNICEF	0.9	0.9	0.5	1.2	1.6	0.5	1.5
UNCDF	--	--	--	--	--	--	20.5
Other	2.0	1.2	1.9	5.9	0.6	6.4	5.0

Source: Ministry of Finance

1/ Includes grants-in-kind but excludes direct expenditure by donors.

2/ Former Federal Republic of Germany.

-- denotes no contribution.

Table IV.6: EXTERNAL DEBT AND DEBT SERVICE, 1985-91

	1985	1986	1987	1988	1989	1990	1991 Est.
DOD (US\$ million) a/	84.6	68.7	72.9	71.3	66.7	80.3	89.9
Public b/	50.6	58.7	61.9	59.3	54.3	66.3	73.9
Official Creditors	43.7	50.0	53.9	53.5	52.0	62.0	69.0
Multilateral	15.9	22.3	27.1	27.9	28.4	34.1	41.3
Bilateral	27.8	27.7	26.8	25.6	23.6	27.9	27.7
Private Creditors	6.9	8.7	8.0	5.8	2.3	4.3	4.9
Short-term Debt	34.0	10.0	11.0	12.0	12.4	14.0	16.0
DOD/GDP (%)	100.0	73.5	88.2	67.0	57.6	62.3	64.2
Public	59.8	62.8	73.2	55.8	46.9	51.4	52.8
Short-term	40.2	10.7	13.0	11.3	10.7	10.9	11.4
Debt Service (US\$ million)	9.5	13.1	7.3	9.7	9.8	8.6	9.1
Amortization	6.1	10.7	4.8	6.9	7.4	5.9	5.5
Interest c/	3.4	2.4	2.5	2.8	2.4	2.7	3.6
Debt Service/Exports (%) d/	10.3	14.0	6.6	7.4	6.5	4.9	4.7
Amortization	6.6	11.4	4.3	5.3	4.9	3.3	2.9
Interest	3.7	2.6	2.3	2.1	1.6	1.5	1.9

Source: Data provided by Maldivian authorities and staff estimates.

a/ Disbursed and outstanding debt.

b/ Public and publicly guaranteed long-term debt.

c/ Includes interest on short-term debt.

d/ Exports of goods and services.



