

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

Anil Adam

Maldives, like many other nations, is drawing towards predatory capitalism. This is a peril to our democracy and the fate of our future generations. Although democracy is considered as a precursor for economic prosperity, it is the latter that is proving to be a prerequisite for any hope for a strong democracy in the Maldives. A reformed economic system is not reserved just only to triumph democracy but also to enhance social cohesion, guarantee civic rights and restore public confidence for the prevailing political

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system in the Maldives. Sooner rather than later, we need to reform our economic system. Such a reform can be correctly flavoured essentially by enhancing the efficiency of capital creation and developing human capital to world class standard to which the latter even

can be accomplished with the former.

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

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

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

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

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The Maldives capital market has inherent challenges to make it accessible and work for general populace. Still today, for many, it remains enigmatic whilst others are sceptical and view it is a mechanism that is reserved for the affluent that flourish them with an avalanche of earnings that make the rich more affluent, politically stronger, and eventually that can

help them to exploit the common man. More often, in the Maldives, it is still a market that is heard of when new Initial Public Offerings (IPOs) are on offer. There are many possible theories we can postulate on why the capital market is not taking-off in the Maldives. However, the truth is that there are structural, functional and perceptual impediments that need to be untangled.

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

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

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

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

for foreign investor confidence and more importantly keep the capital market at the heart of economic planning at the most senior policy level.

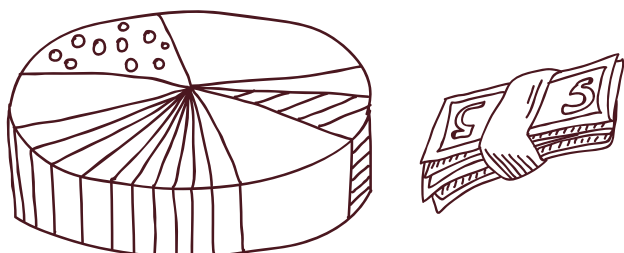
Capital market planning

Capital market planning must be done cautiously and smartly to bring out its real fruition. We should give priority to enhance the accessibility and affordability of the capital market. We should ensure that the capital market is unlike the Wall Street that works for oligarchs. Rather we should enact policies and

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practices that can make the society more equitable through greater economic empowerment for every Maldivian.

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



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

Rules and Future prospects

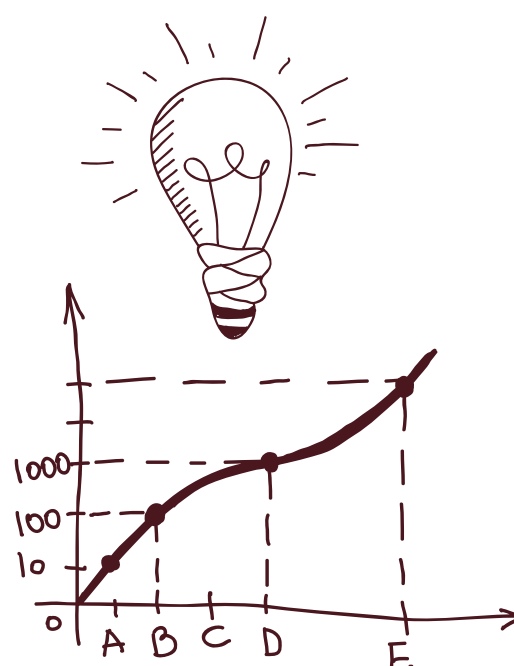
The future of Maldives capital market lies on how well the multitude of stakeholders responds to the activities and efforts delineated in the capital market strategic plan to be implemented in the coming years. For certain, the government should remain inextricable to the Maldives capital market as the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

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Similarly, investor education would remain central to diversify the investor base. For a robust capital market, it is essential that we create knowledgeable investors who are aware of their entitled rights, the type of capital market products with their inherent risks and

benefits. Investor education should adopt a creative approach to convey the technical information for laymen and implement diverse educational activities that can tap disparate investor segments.

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



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



ABOUT THE WRITER

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

