



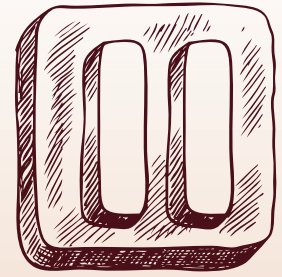
MALDIVES ECONOMIC REVIEW

**IT'S TIME TO TAKE A PAUSE
AND REFLECT ABOUT LEASING
ADDITIONAL TOURIST RESORTS
TO BRIDGE THE FISCAL DEFICIT**

ALSO

- **OP-ED BY FAYYAZ ISMAIL, MINISTER FOR ECONOMIC DEVELOPMENT:
BUILDING AN INCLUSIVE ECOSYSTEM FOR SMEs**
- **CATALYSING DEVELOPMENT:
THE EARLY YEARS OF MALDIVES PARTNERSHIP WITH THE UN SYSTEM**
- **EVOLUTION OF TOURISM INDUSTRY IN THE MALDIVES**
- **COMPETITION IN HIGHER EDUCATION:
IS LIMITED PROSPECTIVE STUDENTS AFFECTING QUALITY?**

IT'S TIME TO TAKE A PAUSE AND REFLECT ABOUT LEASING ADDITIONAL TOURIST RESORTS TO BRIDGE THE FISCAL DEFICIT

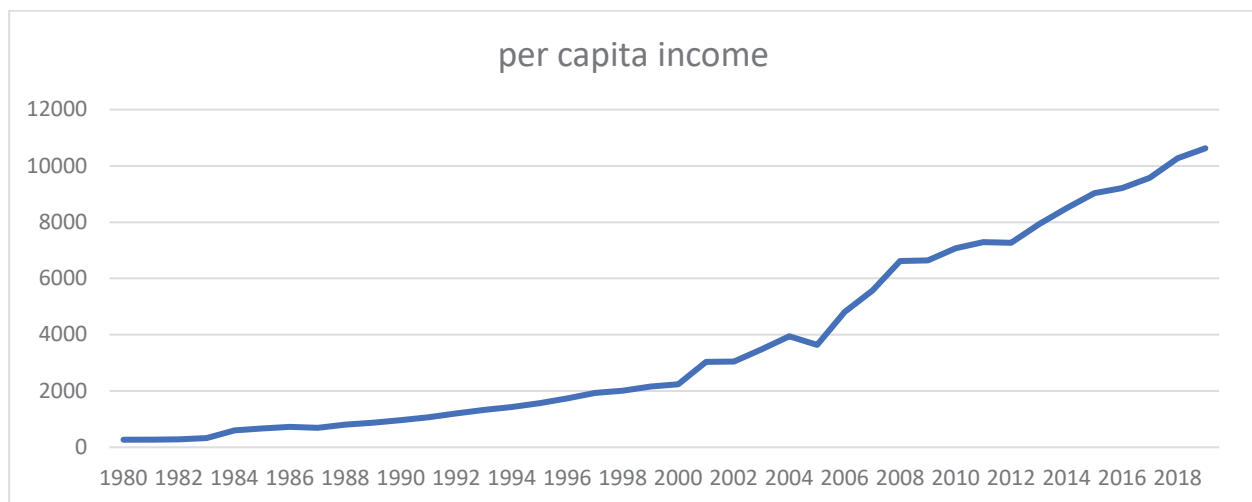


Ibrahim Athif Shakoor

Background

A half century of tourism development has brought prosperity to the nation, accelerating the country to the rank of 'developing nations' with impressive development statistics. World Bank estimates that our per capita income had risen from 268.29 US \$ in 1980 to 10,6626.51 US \$ in 2019, an increase of over 3,800%.

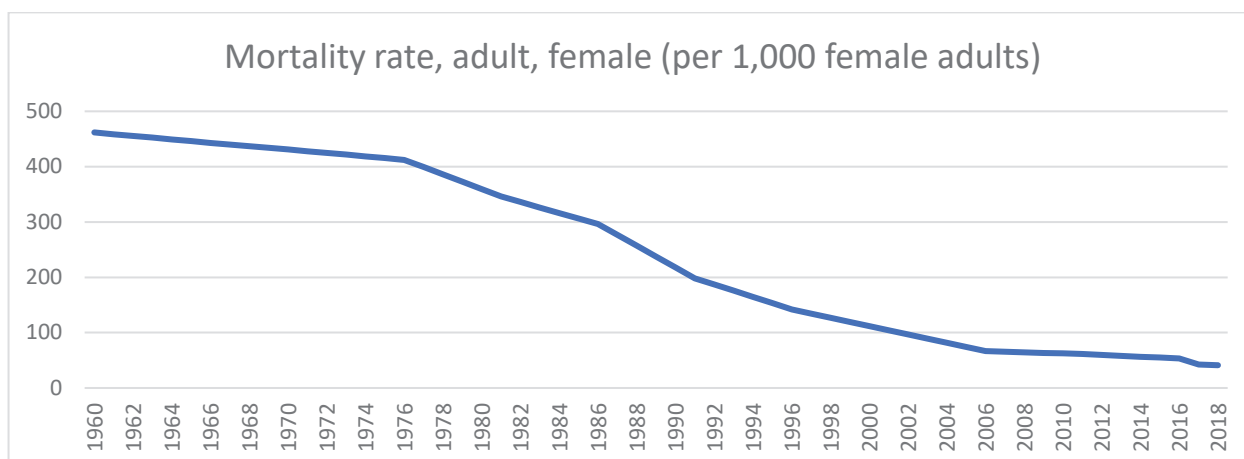
Chart 1. Improvement in per-capita income 1980-2018



Data: World Bank,

Infant mortality for females have fallen from 461/thousand in 1960 to 41/thousand in 2018 and life expectancy at birth for females have risen to 80 years from a low 37 years during the period. Educational achievements including literacy rates, improvements in transport and communication indicators, pervasiveness of essential vaccines- even including the Covid 19 vaccine, we have exceeded regional targets on all such fronts.

Chart 2. Decline in adult female mortality rate 1960-2018



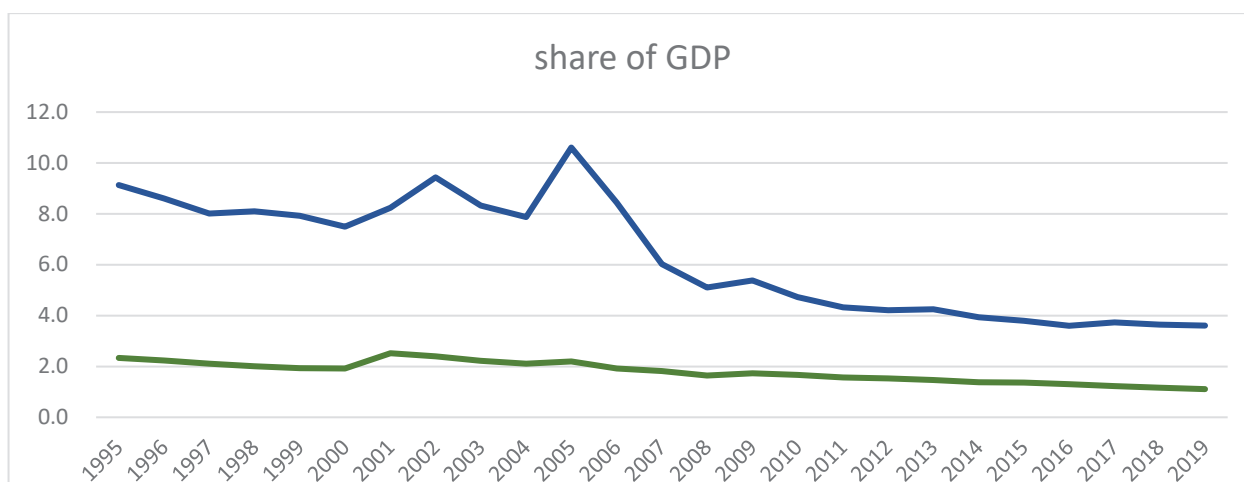
Data: World Bank,

However, it is also evident that the prosperity and accomplishments of the past 50 years have by-passed a majority of the population. Despite a steep, almost straight line upward sloping curve of the per capita income graph (chart1), the latest income distribution estimates by the World Bank (2016) show that the highest 10% income earners account for 25.2% of national income and the highest 20% account for 39.8% of national income. Meanwhile the lowest 10% of the population account for only 3.4% of national income.

“ Despite a steep, almost straight line upward sloping curve of the per capita income graph the latest income distribution estimates by the World Bank (2016) show that the highest 10% income earners account for 25.2% national income and the highest 20% account for 39.8 of national income. Meanwhile lowest 10% of the population account for only 3.4% of national income. ”

The nation has also shied away from diversifying the economy and single sector dependency has continued to grow with steep decline in the contribution of the primary sector. The fisheries sector alone, used to account for 11.80% share in GDP numbers in 1984, but have decreased to 4.7% in 2019, when the primary industries of fisheries and agriculture are combined. Chart 3

Chart 3. Decline of primary industries 1995-2018



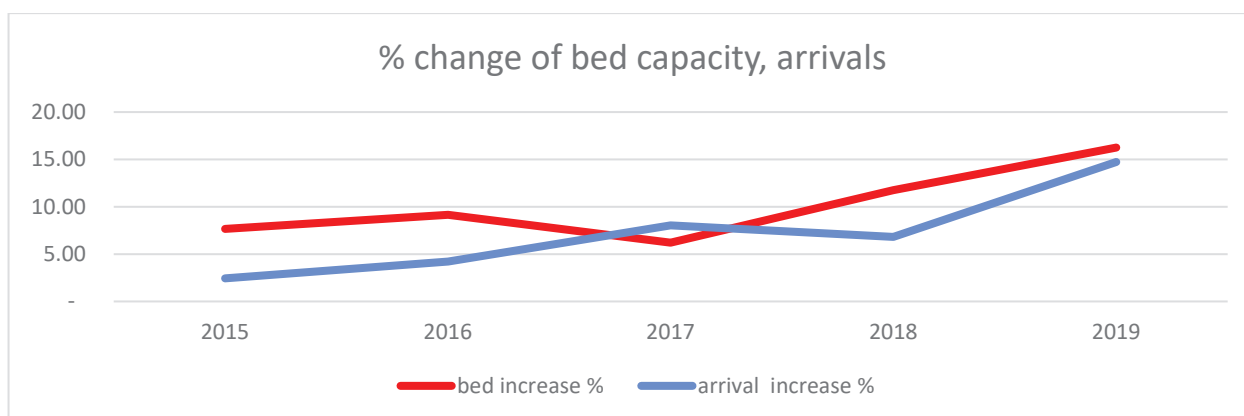
Data: National Bureau of Statistics.

Meanwhile, the dominance of the tourism industry has slowly increased and the strength of the industry in the larger political sphere, are increasingly felt with evoking shades of state capture by the industry.

Have we been expanding the industry too fast?

Even before the pandemic there was growing evidence that the increase in bed capacity was outperforming the increase in arrivals, and that resort occupancy was suffering. Chart 4

Chart 4. % change in bed capacity vs % change in arrivals 2015-2019



Data: Ministry of Tourism

Haleem (2021) in an article published in Issue 2 Vol. 2 of MER titled 'Tourism Occupancy Trends and Impact' analysed the occupancy rate of resorts and concluded that

'...the data also points to the fact that low occupancy incidences are becoming more frequent...., the model ... also highlights a very pronounced declining occupancy trend in Maldives. This declining overall occupancy coupled with the fact that 4/12 months the actual occupancy is expected to be below the trend as shown in the seasonality index are important signals to consider in formulating tourism policy as well as firm-level decision making'. Haleem 2021.

Post-pandemic investment potential

The pandemic, while it resulted in heart-breaking consequences especially to the poor, has been a boon to specific kinds of businesses like Amazon and the share market have broken records during this period. However, it is important to note that it is some very selected industries and companies that have benefited from the pandemic and that the overall economic recovery remains muted with employment numbers remaining low across the world

While 98 parties expressed interest, and 65 parties participated in the information session, 7 parties bought the bid documents, and only 1 party submitted a bid for the 23 new tourism properties that were opened for bidding in December 2019

An article published by Zurab Pololikashvili, the Secretary General of the World Tourism Organization (WTO), on 05 Feb 2021 (and updated 29 Mar 2021) stated that global foreign direct investment fell by 42% and cited UNCTAD estimates that 'global FDI will remain weak in 2021, experiencing a further decline of 5–10%.'

WTO's Secretary General's article titled 'The top five trends that will drive tourism's recovery' went on to conclude that

Considering the 73.2% decline in tourism greenfield investments experienced in the first half of 2020, and the potential drops expected for 2021, any new global FDI opportunities will be related to the increase coming from cross-border mergers and acquisitions rather than traditional greenfield investments.'

Despite the low interest from investors, and the advice to pend attempts for greenfield investments, government had offered another 16 properties for resort development on 14th April 2021 with a minimum LAC (Least Acquisition Cost) and went further to reduce the LAC by 30% on 20th May, stating that 'The Lease Acquisition Cost (LAC) ... of the proposed islands are revised to boost investor interest and confidence, considering the current investment climate.'

The reduced LAC of 20th May, effectively mean that tourist properties could be leased at an average of 130,000 \$ per hectare/year (3,180 dollars per bed / year) for 50 years.

It is interesting here to make the comparison to the effective lease rates achieved through the wholesale auction during the MMPRC scandal. The report published by the Anti-Corruption Commission in 2016 show that the average MMPRC rate for more than 45 islands, is also 130,000 \$/hectare. However, it is important to note that the calculations of per hectare earnings of the report only consider the payments made to the state and evident in official documents. As also repeatedly emphasised in the report, this figure does not take into account the many bribes and commissions that were part and parcel of the MMPRC scandal and paid into to private accounts or made in cash in person.

Development Model

As the tourism industry blossomed and its success became evident; from the 1990's onwards, the default model for development, for all governments, have been to leverage budgetary outlay on income derived from the tourism industry- tax revenue from operating properties and payments from the sale of ever more islands for tourism development. This default mode has gained strength since the advent of multi-party democracy, with politicians offering ever

more grander and expansive visions to the populace, pausing to figure out how many more islands need to be leased off to finance the pledges, only when they are elected.

“ As the tourism industry blossomed ... the default model for development, for all governments, have been to leverage budgetary outlay on income from tax the tourism industry- tax revenue and payments from the sale of ever more islands for tourism development. This default mode has gained strength since the advent of multi-party democracy ... ”

However, the heyday of tourism development and investment in the Maldives have been in decline for some 15 years now. ROI's have increased from around 3 years to 10 years plus on borrowed capital. There are a total of 118 sites listed as 'under development' as at 1st September including some properties without a stable investor for 10 years- and therefore earning no revenue to the state, to the lease holder or any benefit to the country.

Meanwhile, the default development model is cast in stone, with the SAP of this government stating to '... introduce at least 35,000 new tourist beds' during its term. Despite the evident low investor interest, in September 2021, Finance Ministry has announced

that the government plan to raise 100m in 2021, 350m in 2022 and 550m in 2023 through fresh developments in the tourism industry.

Changing local dynamics

Once upon a time, the people of the country saw the tourism industry, as a boon to the nation and as the salve of the problems of the many. However, after 50 years of tourism development, the people of the country are slowly beginning to realise that the tourism industry, as it is structured today, have not offered the solutions that the many were hoping for.

“ Once upon a time, the people of the country saw ... the tourism industry, as a boon to the nation and as the salve of the problems of the many. However, after 50 years of tourism development, ... are slowly beginning to realise that the tourism industry, as it is structured today, have not offered the solutions that the many were hoping for. ”

With 160 resorts in operation presently, 118 properties that are under development, together with the new ones being presently offered to the market, more than 300 resorts may start to operate in a nation where the population resides on 198 islands.

The unhappiness of local communities as even more

islands in their atolls are being sold off for resort development- with their overarching denial of access to the fisherfolk and other entrepreneurs to the natural riches of the islands, the reefs and the surrounding marine wealth- continue to manifest themselves in a myriad of ways in the society.

There is also growing resentment arising out of loss of space for family and social life in the atolls, as space for life and livelihoods for families, are ever so gradually disappearing.

The % of local employment at the resorts continue to decline, especially post-covid, and the degree of impunity with which resort management dealt with local employees have fuelled additional discontent and despair. Meanwhile, the in-country retention of the earnings of the industry remain meagre and the state have failed so far in announcing measures to ensure greater circulation of the foreign currency earnings from the industry into the economy.

Conclusion

Our politicians, for more than 3 decades now, have built visions of grandeur and the public has consistently, ignored the obvious and elected those who promised the largest and the grandest of would-be visions. When in government, all governments, have defaulted to figure out how many new resort properties need to be sold out to generate the necessary revenue.

However, today, Fitch and Moody's outlook of our economy remain bleak and the investment climate is unsettled at best.

Yet, it is also important to note that bleak economic forecasts in these pandemic days, is not a novel feature for the Maldivian economy alone. Almost all economies, especially one that is single sector dependent on one industry, especially when it is tourism, are facing headwinds.

“ The limited natural resources with which we are blessed should not be viewed as ‘money in the bank’ for this generation alone. They are the assets our children would need to leverage their future... Maybe, its time now to take a pause and reflect on the default model of selling out any more of our natural wealth and take time to ponder the default development model. ”

This is a very special moment in history. The results of offering ever more islands and lagoons for tourism development need to be questioned today. Bed capacity increase outpaces arrival statistics, occupancy rates have started to fall pre-pandemic, investor confidence in muted and the public's unhappiness of the model of tourism development in felt everyday especially by front-line politicians.

We are a country with very limited economic resources. Investor confidence in the economy can only be re-generated over-time with mature, courageous fiscal and monetary measures.

The limited natural resources with which we are blessed should not be viewed as ‘money in the bank’ for this generation alone. They are the assets our children would need to leverage their future. It is imperative that they remain available to them instead of being mortgaged today to satisfy the unquenching thirst of successive governments.

It's time now, to take a pause and reflect on the default model of selling out any more of our natural wealth and take time to ponder the default development model.

