Ministry of Tourism
Government of Maldives

Review and Recommendations

Maldives Tourism Master plan

1996 – 2005

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ABBREVIATIONS AND ACRONYMS

EIA	Environmental Impact Assessment.
ELASC	Economic and Legal Advisory Service Committee
ESCAP	Economic and Social Council for Asia and the Pacific.
FHTS	Faculty of Hospitality and Tourism Studies.
FTMP	First Tourism Master Plan.
FMC	Faculty of Management and Computing.
FET	Faculty of Engineering and Technology.
GOM	Government of Maldives.
GDP	Gross Domestic Product.
GPS	Global Positioning System.
IHCS	Institute of Hotel and Catering Services.
IPO	Initial Public Offering.
IMA	Institute of Management and Administration.
MICE	Meetings, Incentives, Conferences and Excursions.
MITE	Maldives Institute of Technical Education.
MOT	Ministry of Tourism.
MTPB	Maldives Tourist Promotion Board.
MPND	Ministry of Planning and National Development.
MNC	Multinational Corporations.
SEV	Surface Effective Vessels.
SEEIS	Social, Economic and Environmental Impact Study.
STMP	Second Tourism Master Plan.
SHCS	School of Hotel and Catering Services.
UNDP	United Nations Development Program.

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EXECUTIVE SUMMARY

Introduction

The Maldivian tourism industry, primarily based on leisure tourism commenced in the early 1970s. The industry is developed by capitalizing on the environmental features of the islands and their environments, hence Maldives, is well know for its isolation, pristine environment and exceptionally spectacular under water world. To preserve this, unlike most tourism destinations in the world, the industry is well-regulated and bed capacity is controlled. Accommodation for tourists can be only offered in resorts, guesthouses in Male' and in purposefully built vessels to accommodate tourists. Industry wide, resort bed capacity is managed by controlling density in the existing resorts and restricting new resort development.

As there are controls on capacity increase, profitability of tourist establishments very progressively escalated creating enormous economic pressure for expansion. As all islands are state owned, new resorts cannot develop, unless they are leased for such development. Therefore, capacity in existing resorts continues to expand as long as the regulations permit, and as the density control measures are sometimes difficult enforce, many resorts have lost their traditional qualities of 'Robinsons Crusoe' island environments, because of relative congestion and replacement of temporarily structures, which depicted 'local color', by more permanent structure with modern facilities. These developments branched into facility intensive, pleasurable beach resorts, and specialized, service oriented, relaxation resorts, offering varying levels of services. Although, there are some negative aspects, because of the diminished Maldivian identity, the positive contribution of these developments is that it re-launched the industry, before it reached maturity and decline stages. Although, the industry has progressed very successfully, there are many constraints that

require overcoming. Some of them include issues like high factor costs; problems in human resources; transportation and poor economic linkages and strong leakages from tourism.

To ease those problems and ensure sustainable development of the industry, tourism planning commenced. Two ten year Master Plan have been formulated, and the second one has completed its first phase of implementation. Each of these plans assessed the existing situation of the industry, including the capacity of the off-site infrastructure; opportunities and constraints, to formulate policies and strategies. This document is the evaluation of the implementation of the first phase of the Second Tourism Master Plan (STMP) and in the light of the evaluation and in consultation with the key stakeholders of the industry polices, strategic objectives and implementation guidelines are recommended.

Issues, Policies and Strategic Objectives

The issues identified by the STMP, include human resources; environment; facilitating and enabling environment for private sector led investment; spreading the benefits of tourism within the regions; marketing and institutional re organizing, however overcoming all constraints in these areas indeed is an enormous task, which cannot be achieved in the planned period only. Further, over the years new problems have surfaced. Hence, the issues in the industry now include;

- lack of hospitality and managerial skills;
- spatial polarization of resorts and concentration of ownership;
- the rapid growth of the expatriate labor force;
- high factor costs, especially capital;
- inadequate international connectivity;
- high economic leakages and poor linkages;
- homogeneity within products;
- dependence on a single geographical market segment;
- issues related to direct foreign investments and Multinational Corporations.
- requirement to adhere to international ethical standards in production;
- deteriorating identity of the Maldivian tourism products and the diminishing visual quality of seascapes; and

- inadequate participation of the stakeholders of the industry in the planning and decision making processes;

The key policies that guided tourism over the years included polices aimed at environmental protection, containing negative social impacts, and attaining equity and distributional objectives. All of these polices have been very successful and the evaluation of the plan suggests continuation of the policies. Therefore, taking those policies and the contemporary situation into consideration, the following polices and strategic objectives are recommended.

- Tourism should be private sector led, where the roles of the public sector are regulating and providing supportive environments, while the private sector under takes commercial operations.
- Tourism activities should produce not only short term financial returns but adequate long term financial and economic benefits to firms and the population at large.
- Beneficiaries of tourism should be all Maldivians disregard of their location, as such, they should be in the center of all planning processes.
- Tourism should be developed with dignity. Religion, culture and traditions should not be compromised for economic benefits.
- Maldivian culture, traditions and way of life, is an asset, not an impediment for tourism, therefore, revival, rejuvenation and sustenance of the authenticity of folklore, cultural dances, art and crafts and traditional ceremonies should be made a priority in all tourism projects.
- Environmental resources should be used sustainably and ecological systems: the resource base of the industry should be kept intact.
- Capacity should be planned and expansions controlled, so as to maximize economic, environmental, and social benefits.
- Efforts should be made to ensure that the islands are used for the purpose for which they are most appropriate, and activities undertaken in one should not jeopardize the productive capacities of others.

Within this broad policy framework, a number of strategic objectives are recommended.

These strategic objectives include;

- Implementation of programs and projects that facilitate transition of the industry into utilizing professional management; that support institutional development and acquisition of technology.
- Develop institutions, adopt strategies, and implement projects geared at harnessing the creative and innovative potential of the Maldivians, to meet the goals of the industry.
- Continuously improve the tourism support infrastructures and expand tourism, taking into consideration, the strength, and capabilities of those facilities.
- Enhance the legal framework for conduct of tourism businesses.
- Undertake spatial planning or 'zoning' within and between atolls of the existing and potential tourism zones, so that islands are not only identified for development of resorts, but for all other tourism related activities.
- Extend the benefits of tourism to a greater number of communities, disburse tourism: resorts and other tourism related facilities, to a wider area in the archipelago, taking into consideration infrastructure availability, environmental issues and other economic potentials of such areas.
- Encourage and facilitate entry of new entrepreneurs to the industry, devise mechanism to fragment ownership of resorts and other tourism assets, and develop means to exchange or trade such ownership, without influencing the management.
- Assess the existing labor importation policy, in view to further control the use of expatriate labor by setting limits in areas where skills and workers are available locally; and establish a plan to phase out expatriate employment in resorts.
- Revise the existing regulations governing employment in resorts, in view to incorporate internationally acceptable standards and conditions at work.
- Assess the existing tax regime, in view to develop a more direct and equitable tax regime, and establish mechanisms to ensure entry and retention of the tourism

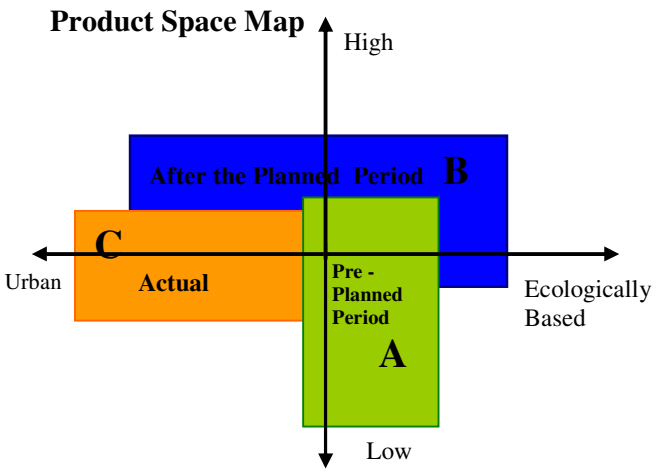
income within the local economy, for at least a period of time.

- Develop institution, laws, and regulations where necessary, to govern the operations of MNC and other direct foreign investments, in view to enhance the benefits from their operations in the Maldives.
- Enable better organization of the private sector, so that special interest groups within the tourism sector can be organized and all stakeholders of the industry are involved more directly and actively in the decision making processes.
- Diversify the source and target market, and be selective in choosing the target market segment, so that catering for those clients do not jeopardize or undermine progress towards environmental and social goals, but support them.
- Foster mechanisms to ensure that product development and diversification are compatible with the new traveler needs and demands; and ensure that the industry have facilities to cater for travelers in the entire range from allocentric to psychocentrics, originating from diverse geographic and ethnic backgrounds.
- Make an assessment of the functions of the Ministry of Tourism (MOT), eliminate redundant functions, devolve specialized functions to other agencies, and undertake new responsibilities to manage new challenges.
- Strengthen the research capability of the MOT so that timely and objective information are available for decision-making.
- Strengthen the regulatory capacity of the MOT and formulate regulations that address human resources and management aspects, in addition to physical facility standards.

Implementation Guidelines

To attain the strategic objectives implementation guidelines are recommended. This guideline focuses on two major aspects, which include product development management and growth management. Product development addresses the issue of diversification of the product, source, and target market and enhancing the tourism inputs. Growth management primarily focuses on spatial and temporal

expansion plans. And both of these aspects address macro issues like equity objectives, environment, and attaining economic as well as social objectives.



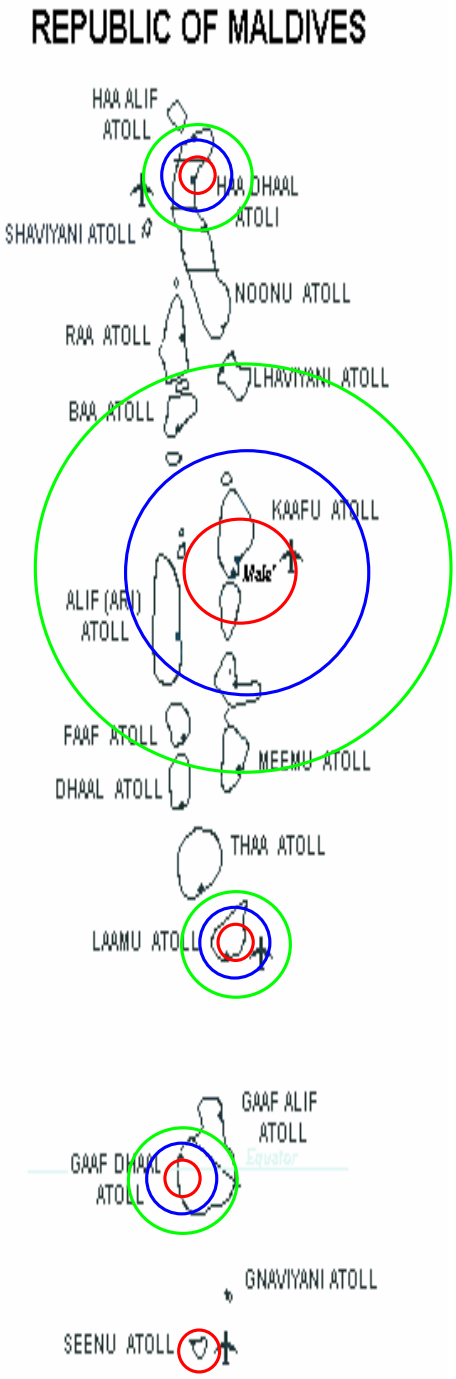
Product development management aims at sustaining the industry, by devising mechanism that ensure continued development of tourism. To do so, it is recommended to adopt a 'whole of destination' framework, attract innovation and creativity to the industry, undertake pilot demonstration projects and create an enabling environment for the private sector led development. The major recommendations in this area include, amending the project selection process for resort development, reformulation of the existing regulations and in addition, a number of projects are recommended for implementation. They include development of marine parks; coral gardens; herbariums and botanical gardens; colorful market places and cultural centers; whale and dolphin watching programs; and establishment of resort schools and project on institutional strengthening. The primary goal is re-orienting tourism industry into a high yielding one. In the product space map, the resorts are recommended to be located within the rectangle B, where there is a good mix of facility intensive, 'Urban Style and ecologically based resorts all yielding higher economic returns.

According to the STMP, an addition 4,218 beds spaces have to be developed by 2005, but it is also recommended to expand gradually, taking into consideration the availability of production inputs and access to markets. To attain the planned targets the industry will have to grow at about 12.5 percent in 2004 and 2005. This is not an exceptionally high growth rate. Therefore, considering the past trends, even if the industry

expanded at 12.5 percent per annum, production inputs will not be constrained and it will not create excess supply. However, it is suggested to extend the development up to 2007, because new issues and problems could surface when resorts are developed in new areas. This means about 5 – 6 resorts, with the capacity of 200 beds will have to be opened each year, from 2004 to 2007. Instead of developing and opening 10-11 resorts of equal capacity, in two years: 2004 and 2005.

Future resorts developments have been recommended near the existing regional airports and in close proximity with future population centers. However, such closeness to inhabited islands should not tarnish the quality of the Maldives tourism product, because of congestion and poor spatial planning. Therefore, similar to capacity control, a density control plan is also recommended.

Considering the historical pattern of resort development in Male' area and elsewhere in the world, duplication of the same development pattern can be expected in the new areas too. This is because, to expand tourism to islands away from airports, more accommodation



Not to Scale

and facilities will be required close to the airports. As a result, there would be enormous pressure for densification of resorts, hence instead of resisting such pressures, this density control plan is recommended. In this approach, it is recommended to cluster resorts and tourist facilities into groups or develop zones in atolls and adopt standards and density control measures in varying levels to each of these zones. These clusters include 'centers', 'periphery', 'satellite', and conserved areas. This is diagrammatically shown on the map and on it, the centers are the areas within the red circles, periphery, within the red and blue lines, satellite areas are between the blue and green circles and the conserved zone, beyond the green circles. In addition, pockets of conserved areas will be located within each of these clusters.

The density of developments, closeness and number of resorts, environmental conservation measures, would very from center to the periphery. In addition, safari operations, development of islands for tourism related activities will be also controlled and such developments and operation made less intense in areas other than the centers. While in the centers more facility intensive resorts will be allowed, in other groups, environmentally based relaxation resorts will be encouraged for development.

However, in the second phase of the STMP, all islands should be developed with the characteristic of satellite resorts, and over the years as the industry expands, they could transit to other statuses. Further, as the tourism policy is extending the benefits of tourism to all areas of Maldives, the conservation zones, declared as reserves in this period, could be utilized in the future, if the need arise, nonetheless, the conservation pockets, located in all clusters, should always remain conserved. The purpose of such a density control plan is to add greater variety, diversify the industry and help to re-launch the industry, without compromising the identity of the Maldivian tourism.

PREAMBLE

The Second Tourism Master Plan (STMP), was prepared with financial assistance from the European Union. The total commitment of the EU was about half a million US dollars and the project was implemented by NETHCONSULT / TRANSTEC in association with the BORD FAILTE. The work of preparing the STMP, which commenced in 1994 was completed in end 1995. Three key consultants, assisted by six specialists, under took the project in accordance with the terms of reference and implementation plan approved by the donor and Government of Maldives. The terms of reference of the project team included:

- Assessment of the present situation of the tourism in the Maldives and evaluate its economic significance, its costs and benefits.
- Examined the exiting and planned tourism policies and strategies, covering the political, economic, social, cultural, environmental, institutional and administrative aspects.
- Formulate a long – term tourism master plan covering

the period 1995 – 2004 and provide the guidelines for its implementation, for the mutual benefit of private economic operators in the tourism sector and the European Community.

The project activities were carried out in close consultation with the Government and the private sector. A steering committee, consisting of a cross sectional representation of the government and representatives from the private sector, monitored and guided the planning process. Prior to finalization of the Plan, it was discussed in many national forums. The STMP consists of a Situation Analysis, the Master Plan and Implementation Guidelines submitted in three separate volumes. The STMP

identified key issues in the development of tourism, and taking those factors into consideration it recommended policies in the area of marketing, product development and diversification, and spatial expansion. The Implementation Guidelines, suggested activities that can be undertaken to meet goals of the STMP.

This document is a review of the implementation of the STMP, during the period from 1996 – 2000. And as industry and its operating environment have changed significantly since the launch of the plan, to suit the contemporary situation, policies, strategic objectives and implementation guidelines are recommended.

INTRODUCTION

Industry Profile

In Maldives, since the early 1980s, the most important economic activity is tourism. It started in 1972 , with the development of 60 tourist beds in two islands. As there was no international airport when it started, tourists arrived from Sri-Lanka on small aircrafts, and stayed in Maldives as an extension of the Sri Lankan holiday package. However, later, some adventure tourists, sailed from ports around the region to the Maldives. As there were little or nor restriction to sail within Maldives, these foreign vessels cruised around the islands in the archipelago, and many tourists stayed with local communities. In the 1970's tourist accommodation consisted of boarding with local families: rooms in inhabited islands, where meals were provided by the host families; guest houses, resort islands and vessels which provided full board accommodation. Resorts were most popular, although they were more expensive. At that time, in the resorts, there were very basic facilities like naturally ventilated rooms with common toilets, set menu meals, and power and water were provided only at certain times. The investments were also very small because of the limited facilities and temporary nature of construction: the total investment of a resort was as low as 30 thousand US dollars in many cases.

With the development of an International Airport in 1982, the Maldivian tourist product was detached from the Sri Lankan holiday package. With diving, lagoons, sandy beaches and the tropical climate as the major attractions, it became a new product: a new tourist destination was born.

As a result of this improved access to the Maldives, tourism started to rapidly expand. The number of resorts started to increase dramatically, and eventually resorts were built on almost all islands within close proximity to Male, and the Airport. The capacity of the industry which was 280 beds in 1972, expanded to 1034 beds by 1977: a growth of 269 percent

over a five year period. And from 1977 to 1982, it expanded to 3,964 beds, which was another 283 percent increase over the previous five-year period. The rate of increase in beds then declined to 56 percent in the period 1982 to 1987, however the absolute number of beds still progressively increased. Similar to the capacity increase in resorts, the number of guesthouse in Male' and floating beds also increased but their expansion was much less compared to resort beds.

Even though there were some negative ecological impacts, economic benefits from the industry progressively increased. In 1981, tourism contributed 10 percent to the GDP, progressively increasing to 18 percent in 1990 and in 2000, its contribution was 33.3 percent. Recognising the importance of the industry, the government initially formulated regulations to curb negative social impacts, by prohibiting tourists from staying in inhabited islands, except Male'; issued time limited construction permits to resorts in the process of development; imposed a moratorium on constructions of new resorts; and commenced tourism planning. In the early 1980s, the First Tourism Master Plan (FTMP) was formulated and more regulations governing construction and operation of resorts were enacted. Later, in 1996, a Second Tourism Master Plan (STMP) was formulated and it has now completed its first phase of implementation.

Scope and Objectives

The purpose of this report is to objectively evaluate the relevance, effectiveness and the achievements of the objectives set out in the STMP at completion of the first phase of its implementation and recommending future direction. And the specific tasks include:

- Making an assessment of the situation of the industry.
- Examining the relevance of the proposed objectives.
- Assessing the effectiveness of those objectives to meet the long-term goals.
- Evaluating the extent of the achievement of the objectives, during the period under review.
- Identification of contemporary issues in tourism.
- Recommending policies, strategic objectives and implementation guidelines.

Tourism by nature encompasses a wide range of economic and social aspects and it is influenced by a myriad of internal and external factors. Hence, an all-encompassing coverage of the issues is not within the scope of this project hence, key issues identified in the STMP are appraised. In addition, new issues that emerge since the launch of the plan have been identified and keeping in close vision the historical and other factors that influenced and re-shaped the industry, polices and strategic objectives are recommended. To meet these strategic objectives, implementation guidelines are also drawn and presented.

The report is in four major parts: assessment of the existing condition of the tourism sector; an evaluation of the achievement of the goals and objectives of the STMP; contemporary issues and proposed polices and strategic objectives; and the implementation guidelines.

Methodology

Qualitative as well as quantitative analysis were employed in the preparation of this document. Although, quantifiable indicators are available for many aspects, in some areas, such indicators or data were unavailable hence, in such aspects a qualitative approach has been used.

In the preparation of this report, both primary and secondary data were used. The sources of secondary data are mainly statistical publications of the Ministries of Tourism; Planning and Development, and Education; the Maldives Monetary Authority and other papers published by different government and international agencies. As many entrepreneurs and most key stakeholders of the industry are easily accessible, personal interviews were conducted from August to December 2000. Financial information in the proposals submitted for the development of new resorts, and interviews with some developers and accountants of the sector, are the sources of the variables used in the economic analysis.

In order to identify future polices and strategic objectives a consultative workshop was conducted in Male, between 27 – 28 February 2001. The participants of the workshop included officials of the government agencies involved in the sector and industry personnel,

consisting of resort owners, managers and employees; owners and operators of travel agencies and safari boat. Initially, papers covering key aspects of the industry were presented to the workshop. After the presentations, discussions were held on key issues related to tourism. Most discussions were held in small groups but group findings were submitted to the plenary for further discussions. After the discussions recommendations were drawn. The basis of the future policies and strategic objectives outline in this report are those recommendations and suggestions.

CHAPTER ONE
ASSESSMENT OF THE SITUATION OF THE TOURISM SECTOR

Introduction

This part on the assessment of the existing situation of the tourism sector explains the condition and status of the key components of the tourism industry. Although, all-encompassing coverage is not within the scope of this work, key factors like issues related to the product; international and domestic air transportation system; problems in the area of human resources and investment finance are addressed. And frame conditions like the market situation and environmental conditions are also covered in this part but institutional and legal issues are discussed in the part on the evaluation of the plan implementation.

Tourism Products

Tourism in Maldives started as leisure destination, because of its pristine environment. Its investments have been therefore all geared towards harnessing the environment to provide a travel experience that is appealing to the European tourists. Consequently, marketing campaigns also emphasized environmental features of coral island environments: therefore, Maldives has always been known as a destination, which is exceptionally beautiful, natural and untouched.

Initially, tourists were permitted to stay with local families in inhabited islands, but later as negative social impacts of tourism surfaced, government intervened and enacted laws to prohibit tourists to stay in inhabited islands other than Male'; and restricted safari operations for tourists to certain areas of the country. With this policy change, tourists started to get confined to the resorts, guesthouses, hotels and safari boats. With no comparable alternative accommodation to inhabited islands, tourists were compelled to stay in resorts. Consequently, the demand for resort accommodation increased.

Tourist Resorts

The small coral islands of Maldives are ideal for development of resorts, and because of the smallness of these islands, only a single resort can be hosted by an island, as a result clients have the privacy and solitude which modern travelers demand. They also have access to safe private beaches and in the early years of tourism, in most resort islands beaches were so remote, clients can choose to be isolated, from rest of the people in the island, for even an entire day, but such resorts are now seldom found.

Therefore, in the early years, these coral island environments provided the perfect hide out to travelers, who came to the Indian Ocean to experience the rich cultural heritage and diverse terrestrial environment of Sri-Lanka and India. Consequently, at that time Maldives was a part of the tourism product of Sri-Lanka. However, with the arrival of devoted divers to Maldives, the rich marine environment became an attraction in itself and many divers started to journey to Maldives, via Sri – Lanka, to experience diving. Consequently, more and more dive-based resorts were developed making Maldivian Resorts more diver-oriented, but for the none divers it was also a 'Robinson Crusoe' experience.

A Resort Reception of the 1970s

At that time resorts were very basic with minimal facilities, in temporary structures. Although, some facilities were made entirely of coconut rafters and thatch, as shown in the photograph above, most

structures of the resort were made of coral stone, coconut timber and roofs were thatched with coconut palm leaves. Limited quantities of imported cement were used but most masonry work consisted of irregularly cut corals, plastered together with lime that were produced by burning corals. Floors were often covered with sand, but toilets were tiled and with appropriate toilet fittings. Each room consisted of a bed, a wardrobe, a luggage rack and a dressing table all made of local material. All resorts had a diving school and a wind surf school. During this period, rainwater and underground water of islands were used. Sewage was discharged into the aquifer using soak pits and solid waste was dumped to the sea, buried or burnt using open fires. Electricity was generated using diesel power and in many cases, electricity and water were available at certain fixed times.

Restaurant in the 1970s

Resort management was very simple and unstructured, creating a very relaxed environment at the resort islands, which was different from the conventional resorts and hotels. The atmosphere in these islands which was relax, money-less, free life style, gives quite a contrast to the busy urban life of the Europeans.

As the investments were low and the industry was unregulated, the number of resorts started to increase drastically. Recognising the importance of the industry, sustainability objectives became important, hence the industry was regulated and the capacity controlled. A moratorium on development of new resorts was imposed from 1982, and when it was imposed, there were about 3,900 beds in the industry with 88 percent of them in Male' Atoll, 7 percent in Ari Atoll and 5 percent in Baa Atoll and Vaavu Atoll. However, using the permits issued prior to the declaration of the moratorium, investors continued to increase the number of resorts, and also the number of beds in the existing resorts. Hence, by the

end of the decade 1980, total bed capacity of the industry increased to 7,000 beds with Male' Atoll contributing 73 percent, Ari Atoll 20 percent and the Vaavu and Baa Atoll hosting the rest.

With the restriction on capacity expansion, the profitability of the resorts escalated, enabling operators to invest on improving facilities. Consequently the structures and designs of resorts started to change, with physical facilities becoming more permanent. However, the attractions and types of facilities remained more or less the same, although the quality improved. Imported materials had to be used for construction to make structures more permanent and durable. The simple cottages of the early years changed into modern rooms with tiled roofs and floors, air conditioning, television, telephones and mini bars. The accommodation facilities in resorts became similar to urban hotel rooms, although the exterior maintained the cottage look. When the aquifer started to deplete and rainwater storage became more difficult with increased demand for water, desalinated water became the source of water supply. The supply of electricity and water were made available at all times.

As resorts continued to upgrade, soon many resorts transformed to urban style, facility intensive resorts with standardised services. There were coffee shops, bars and speciality restaurants and 24 hour front office services. The service staff wore formal uniforms and the general operations of the resorts was structured and standardised, with formal management systems.

The density in resorts also increased rapidly. At the time of imposition of regulations to control, capacity the average built – up area of the resorts were about 9 – 10 percent and the regulation permits expansion, if the built – up area is less than 20 percent. As built up area is ill defined and construction on land, which is accreted or artificially reclaimed, was not restricted, the capacity in existing resorts expanded in response to the demand. This densification of islands further deteriorated the quality of environment in the resorts.

With the increased density and development of new resorts, the total bed capacity of resorts increased progressively. While in 1990 there were 7600 bed it increased to over 10500 bed in

1995 and 60 percent of them were in resorts of Male' Atoll and 33 percent in Ari Atoll. In year 2000, with the development of the new resorts tendered in 1997, the bed capacity increased to 16000, and resorts in Male' Atoll hosted 49 percent, Ari Atoll 29 percent and the rest of the beds in resorts in Laviayani, Baa, Raa Dhaalu, Faafu, Meemu, Vaavu Atolls.

A notable development of the Maldives tourism product was the introduction of water villas or bungalows. These rooms built on stilts on the reef flat, were introduced in mid 1980's, and they became very popular among tourists. As a result, many resorts started building these villas and soon most resorts had rooms on the reef flats. The facilities in these rooms were similar to the ones on land; accept that access to them is by a jetty. As these structures are located on the lagoon, they tarnished the aesthetic quality of the islands.

The standardised services, formal management, increased density, and erosion of the aesthetic integrity of virgin islands all contributed to the loss of the features of the traditional Maldivian tourism product: the 'pre fordist' resorts transited to 'fordist' style. Nonetheless, few islands while maintaining the traditional qualities improved the quality of services, which was a leap from pre fordist to post fordist products, which are more profitable.

In summary, the traditional resorts of Maldives had very relaxed environments and to be compatible with this, the management was also very informal. However, as the industry progressed, they became more standardised, and managements more formal and structured. In consequence, most of the resorts lost its traditional qualities, which were highly valued by many tourists. Nonetheless, from one perspective such developments were advantageous, as it caused

to re-launch the Maldives tourism product before it reached decline and also gave greater variety and diversification to the industry. On the other hand, the loss of traditional qualities of the resorts is a disadvantage because those products have a very distinctive identity and re creating them is difficult because of the relative congestion in resorts and in the atolls where tourism is permitted.

Hotels and Guest Houses

In Maldives, prior to the development of the tourism, guesthouses were state owned establishments, operated by the government to host state guests. With the emergence of tourism as an industry, the government constructed a Hotel in Male' and leased it to a private party for operation. Subsequently, a private entrepreneur also developed a hotel and operated until the late 1980's. These were the two major hotels in Male', which mostly catered for business travellers and for tourists who transit in Male' to join a safari or travelling to and from resorts further away from Male'. Since early 1980, the government had plans to build a major hotel in Male', because of lack of such a facility in Male' but the project has not commenced.

The guesthouses and hotels are built on land allocated for housing under a special permit from Male' Municipality or a part of the house is converted into a guesthouse. Initially, there were rooms that were registered in the Ministry of Tourism and rented out to tourists, and the houses where such rooms are available were also considered guesthouses. However, such practices have been now ceased. The number of guesthouse and hotels rapidly increased in the late 1990s. This is largely because as domestic air transfers are inoperative after dark, hotels and guest houses are used by tourists who arrive by night flights, hence, an increasing number of beds in islands further away from Male', results in an increase in demand for beds in these establishments. Similarly, as hotels and guesthouses offer accommodation for tourists departing or joining safari boats, an increase in the number of floating beds also boosts the demand for beds in them. In the late 1990s the floating beds and resorts in distant islands increased, hence, during this period the demand for beds in Male' was extremely high resulting a rapid increase in the

number of guesthouses and hotels.

In addition, the escalating prices of beds in resorts also compelled some tourists to board in Male', where accommodation is cheaper and visit resorts during the day, which further boosted the demand for beds in Male'. The price of resort beds increased, because of a supply shortage caused when capacity in the existing resorts, to support additional beds spaces, started reaching their limits and no new resorts were being developed. Further, as large foreign tour operators funded most of the resorts, the beds were sold in advance, hence they were unavailable to some travellers although, the absolute number of beds in the industry increased. And, the additional marketing and promotion campaigns of many new resorts and travel agencies also escalated the demand for Maldives, contributing to price rises. These were the major reason for a rapid increase in the number of hotels and guesthouses.

Parallel to the capacity increase, quality of the physical facilities of these establishments also improved but the overall 'Urban Hotel Holiday' package did not improve. This could have been due to Government restrictions on hotel operations in Male'; reluctance on the part of the existing resorts operators to provide the missing components of the urban hotels in Male' to clients and because of unavailability of the uninhabited islands, for tourists staying in Male' to visit on excursions.

In summary, initially tourists were permitted to stay in inhabited islands, but as new laws restricted tourists to board in inhabited islands, tourist accommodation were limited to resorts, guesthouses and hotels in Male'. In Male, there were two hotels initially, but a few more were added in the late 1990s, and the number of guesthouses increased rapidly. Capacity expansion in Male' is positively related to the capacity expansion in distant islands and safari boats. This is because Male' is a transit point for tourist proceeding to distant atolls who arrive at night and guests who board on safari boats. In the late 1990s, the capacity in distant islands and safari boats increased, while there was a supply shortage of resort beds close to Male', hence at that time hotels and guesthouses increased rapidly in response to the demand. However, even though beds in guesthouses and hotels increased

in numbers and physical qualities improved, the travel package in general has not been enriched.

Cruise Product: Floating Beds

Cruising in Maldives started in the early or mid 1970's. Initially, it was very basic: fishing boats were converted into covered boats with bunk beds and toilets, to cruise around Maldives. The first cruises were mostly dive expeditions, which enabled divers to travel to more locations, in a shorter period of time. Electricity on board was provided for a limited time in the evenings and was used for lighting only. Fresh water was provided mostly for drinking only, but buckets of fresh water were provided to clients, to wash the salt water. As there were no refrigeration facilities on board, meals were very basic. They generally consisted of fish based dishes, with local vegetables, rice and fruits. Communication in these vessels was mainly by CB radio; navigated using compass and landmarks and cruised in atolls close to Male'. Almost all these vessels were made of wood and hence, their maintenance costs were high, consequently, the average occupancy of these ranged from 30 – 45 percent through out the year.

With the ban on tourists staying in inhabited islands, cruising was also restricted to some atolls close to the Airport. However, this limitation did not deter the growth and development of the product. In late 1980's, special vessels were built for cruising, which were larger with more powerful engines. Most of these vessels had cabins and common toilets; limited supply of fresh water; electricity at certain fixed times but better meals were served, as refrigeration facilities were on board. In the early 1990s, vessels started to improve further, desalination plants and generators were installed on board. In many vessels, the

A Second Generation Safari Boat

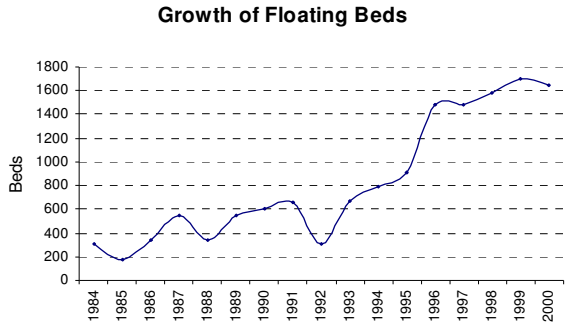
rooms were air-conditioned, electricity, fresh hot and cold running water were available at most times of the day. Some of these vessels were large enough to accommodate as many as 14 guests, and most of them have cabins with a double bed and an attached toilet. The engines were more powerful and through better design and engineering, noise and vibration were reduced, which were extremely bad in the first generation safari boats. The vessels navigated mostly using compass and landmarks, although global positioning systems (GPS) are on board many vessels. Communication, also improved. Initially telephone links were made through the coastal radio, but in the late 1990's, by using mobile telephones in regions where services are available, international telecommunication services are also provided.

From the mid 1990's, the vessels were permitted to operate bars and sell alcohol. The dive cruises became more luxury cruises, hence the itineraries also changed. However, this resulted in loss of the adventure component of the product. Although, the safari operations were not exclusively diving expeditions, the diving facilities became more developed. Instead of having equipment on board, a fully equipped and manned dive school boat, accompanies most safari vessels. Hence, even clients with no experience in diving are able to learn diving on the cruise. The programs of early cruises consisted of mostly diving trips, and visits to inhabited islands. The entertainments of the evenings were limited to beach BBQ in an uninhabited island and sometimes a visit to a local village to see the traditional performances like Bodu Beru. The programs of the cruises still remain the same and are often flexible and at the discretion of guests on board.

In the mid 1990's, a few large vessels, that can accommodate as many as over 40 clients started operation, nonetheless, the number of these vessels did not increase, indicating a poor demand for larger vessels, because they have fixed itineraries and programs. In the late 1990s, few Turkish built safari boats have been imported and are now in operation. Except for these boats, most safari vessels are locally built.

In 1993, the total number of floating beds was 665, which was about 6.5 percent of the beds in resorts. Presently there are 1646 floating beds, which is about 10

percent of the resort beds. The number of floating beds started to rapidly increase since early 1990 (see graph 1) and followed a similar trend to that of the guesthouses and hotels in Male'.



Graph1: Growth of Floating Beds

The occupancy of these vessels was also high until the late 1990s', but it started to decline after 1998. Consequently, the rate of growth of the number of vessels also started to decline after 1999. Presently, the rate of growth of the number of beds in safari vessel is negative. This decline in the rate of growth commenced from 1997 and it is associated with the development of new resort beds. This is because increase in supply of resort beds pulled their prices down making accommodation in resorts affordable to the market, which were previously using the floating beds. Therefore, floating beds is a substitute to the resort beds, except for diving safaris, which are used by devoted.

The major drawback for cruising in the Maldives is because of the relative homogeneity of the landscapes, communities, and built environments. In Maldives, almost all islands have similar natural feature; the island communities are very homogeneous and the attractions: historical and cultural, are all very similar. Further, resort islands stopped entertaining visitors from these vessels, when they also started operating near full occupancy. As a consequence, developing interesting cruise programs became difficult and greater creativity is now essential to bring variety to these tours. However, with better designing of boats, and with interpretative services on board, safari operations can be developed in the Maldives.

In addition, while the smaller vessels are easier to operate and are popular because of the flexible itineraries, they are less stable at anchor. As Maldives does not have marinas with calm water to berth, vessels often stay

in the shelter of islands and reefs. The protection they offer is sometimes not calm enough for smaller vessels; hence with the slightest movement of the sea boats start to rock, making it uncomfortable for some clients. However, at the earlier stage of tourism, when converted fishing vessels were used, this was not an issue, because the boats were small enough to enter and berth in the inner lagoon of islands. Another, major problem is that with the increase in number of boats, more than one vessel may have to share the same uninhabited islands, for picnicking. Hence, the isolation and remoteness, which the clients want to experience have been lost, deteriorating the quality of the safari operations. Further, in designing vessels little attention were given to the visual quality, and emphasis has been on increasing the number of beds and improving facilities. Hence, most vessels, except for a very few, are visually very unattractive from outside and many of them are similar to boat houses. The exterior appearance of vessels is very important because people keep photographic records of holidays, but if the vessel is visually unpleasant the clients will disassociate themselves from the boat. Hence, elegant designs are equally important to the interior facilities. Similar, to resort operations, improving all aspects of the product: tangible and intangible has not been the priority of operators. Hence, special cruises, with distinctive names, offering a package of service, for a specific group of clients, has never developed in the Maldives.

In short, cruising started in the 1970s, and initially the boats were modified fishing vessels with very basic services. The number of floating beds progressively increased and the general trend is similar to the capacity increase in resort beds. However, the rate of increase in the growth of floating beds started to decline from the late 1990s, when the onshore capacity started to increase. Like the resorts, they also went through stages of development. The safari boats developed from modified fishing vessels, which offered very basic services on board, to higher quality services provided on purposefully built cruising vessels. And they continuously improved and added facilities on board, as a result the new vessels started to get larger. Consequently, problems in berthing arose when vessels were unable to anchor at the inner lagoons of islands, because of

their size, while they were too small to berth in the shelter of reefs and islands. Further, the adventure component was also removed, with modernisation of the boats, although the vessels became more comfortable. These boats also had design problems, because although they are stable at sea, interior comfortable, exteriors of vessels are not visually appealing. The major challenge for cruising product development is the homogeneity of the local environments, which makes cruises very uninteresting, without interpretative services on board. However, like the resorts, all aspects of the product: tangible and intangible were not developed, hence more could be done in the area of cruising.

Attractions

Diving and Water Sports

Diving and water sports are the major recreational activities in the Maldives. In fact in the early years of tourism, clients came to Maldives mainly for diving but the importance of it is less now, because of the increasing number of tourists with other interest like honeymooners. However, the absolute number of divers has increased because more tourists now arrive Maldives. Most dive centres are in the resorts, with the safari vessels and a few centres are in Male'. Diving standards set by the international professional associations, incorporated in the tourism regulations since 1982, are used in the diving sector. In the resorts, often twice daily, a dhoni equipped with diving gear and instructors, take clients to dive spots around the islands. Often most of these sites are within a maximum of 20 – 40 minutes boat ride, however some especial dive expeditions may take longer travel time. This has been the practice since the beginning of the industry and the developments in the area include improved boats and better diving gear offered for guests. It was in the mid 1990's**,** nitrox, which facilitates extend diving time was introduced to Maldives, however only a few resorts have such facilities.

Since the early years of tourism, mostly foreigners operated dive schools under an agreement between the management of resorts and the operators, and such arrangements are still most common. Under these arrangements, often dive school operators contribute the equipment; the resort

management provides the buildings and profits are shared. Resort management receives about 40 – 50 percent of the net profit, while in instances, where the management provides the equipment their share is increased. This practice started in Maldives, because of lack of diving instructors and also because of the investment cost, which was considered to be high in the early years of tourism. Now investments of dive schools, in relation to the cost of resorts or vessels, are small hence, many resorts own dive schools, but they are still operated by independent dive school operators, who are mostly foreigners. According to some resort operators, the complexity of the dive operations and lack of suitable diving instructors are the reasons that compel them to contract out diving facilities.

In 1995, about 300,000 dives were performed in the Maldives, and it was estimated to increase. In year 2000, it is estimated that about 580 thousand dives were performed. This means approximately 2600 people are under the water each morning and afternoon, around the islands of Maldives. In addition, another 5000 people snorkel around the reefs of the Maldives. Considering the number of people in the sea at a given time in the day, accidents are few in the Maldives. Diving (hyperberic) accidents are the most common accidents. Hyperberic treatment is available in Male' atoll and Vaavu Atoll. Attacks from ferocious sea creatures are very rare in the Maldives and the safety in diving is one of the key factors, which make Maldives popular for diving.

The other major recreational activity in the resorts is water sports. Traditionally, it was limited to windsurfing and water skiing. However, this activity has been improved and more varieties of sailing vessels like catamarans are now commonly used. In the recent years, motorised sea sports have gained greater popularity in some resorts. Presently, water sports provided in the resorts include para sailing, sausage ride, paddling, canoeing, surfing and windsurfing, in addition to the conventional motorised sports like water ski and jet ski.

Although, surfing is a major sport: a key attracting feature of many destinations around the world, it is still not an important attracting feature of the Maldives tourism product. Hence, very few

surfers visit Maldives exclusively for surfing. However, there are a couple of resorts, which target surfer markets and Maldives is well known among the surfing community, especially of the Oceania. Surfing was more popular in the early years of tourism, when tourists were allowed to travel freely around Maldives and find budget accommodation with the local communities. However, with restrictions on travel within Maldives, and when provision of accommodation for tourists in inhabited islands was banned, most surfers stopped coming to Maldives because the holiday was more expensive and access to surf spots was difficult. Nonetheless, from the late 1990s, surfing has again gained popularity and now many safaris are organised every year for surfers only. A major problem that needs to be addressed is the conflicts that arise when clients from different resorts share surf spots.

In short the major sports activities are diving and water sports. Diving was a key-attracting feature of the Maldives tourism product, in the early years of tourism, however, the importance of it is now less, although absolute number of divers have increased with increased arrivals to Maldives. All resorts and safari boats have diving facilities but mostly foreigners on a profit sharing basis mostly operate them. Water sports, which was limited to wind surfing and water skiing, in the early years have incorporated, more motorised and non-motorised sports. The other important activity is surfing, but even though, it was an attracting feature in the early years tourism, its importance has declined. Nonetheless, it has been observed that surfing is reviving in the recent years.

Recreational Fishing

The numerous reefs in the Maldives are extremely good habitats, feeding and breeding grounds for many pelagic as well as reef fishes. Recreational fishing has been one of the most important sport for tourists. Since the early days of tourism, recreational fishing is mostly carried out at dusk. In the evenings interested guests travel out to the reef edge in a boat and to catch fish guests, drop hooks with bait to the reef slope, using lead as weight. This is still the most dominant method of recreational fishing, however in the recent years, in some resorts,

trawler fishing is being offered to guests.

In a few resorts, big game fishing is also offered for guests, nonetheless, it has not yet developed sufficiently, because of the poor quality of vessels and gear. Further, most resorts do not have mechanisms to weigh fishes and even in resorts where they weigh the catch, such records are neither kept nor communicated to clients like in most fishing clubs.

There are many environmental implications and conflicts related to fishing, between different interest groups within the tourist community. While the divers prefer to view fishes and marine creatures, for the recreational fisher folks their capture is important. Another environmental problem is the increasing amount of lead and fishing line that is accidentally disposed into the reefs. As many tourists are first time fisher persons or amateur fisher folks, the chances of them entangling lines on the reef are high. From the resorts, where questions related to night fishing were asked, it have been found out that in years 2000, about 35 percent of guest went fishing at least once during their stay. In these fishing trips, at least 10 percent of the their lines get entangled, which means approximately 2.4 metric tonnes of lead and about 180 kilometres meters of fishing line, are released onto the reef. This would have serious environmental implications in the long run. Hence, alternative methods of fishing, which are environmentally friendly like game fishing, traditional pole and line fishing and trawling, should be promoted.

In short, in the area of recreational fishing there has not been much development. The conventional method of fishing is offered in most resort, although very few more exclusive ones, provide better services on board the fishing vessel. In the recent years, resorts have introduced trawler and big game fishing, but there are no specialised fishing resorts. Therefore, major issues related to fishing are conflicting interest between the diving and fishing community and the environmental detriments, which results when amateur fisher folks, entangle fishing lines on the corals. Hence, in the area of fishing more needs to be done to avoid adverse environmental impacts and conflicts between interest groups.

Excursions

Excursions are made to both inhabited and uninhabited islands. While the a visit to uninhabited islands is an escape from civilization, excursion to inhabited ones are to experience civilization. The determinants of the demand to travel to inhabited islands are the attractions the islands offer and the proximity to the resort. Man – made attractions: historical or cultural in the Maldives are very few. Historical attractions are monuments like mosques, minaret, tomb stones and other historical artefacts in the museum. Cultural attractions are the fish market and the local vegetable market in Male'. Other cultural attractions include, the way of life of the people in inhabited islands. The natural attractions are the tropical climate, the landscapes of the coral islands and marine life beneath the sea. Most of the natural attractions can be experienced in the resorts but many tourists, in search of a more in depth and a pure experience of the tropical environments, participate in excursions to other virgin islands. Similarly, some clients attempt to experience society, which cannot be seen in the resorts, by visiting inhabited islands.

As Male' is the most accessible inhabited island, which hosts most of the historical and cultural attractions, it is the most important excursion destination. Therefore for tourists in resorts in Male' atoll, there are more man – made cultural and historical artefacts to see than for tourists in other atolls. However, for tourists in other atolls this loss is compensated by the relatively unspoilt community life in the more remote islands of those atolls, which serves as a meaningful cultural experience. Resorts in Male' atoll also organise excursions to other inhabited islands in the atoll. Many of the communities in these destination islands of Male' atoll, have arrangements to sell souvenirs and other handicrafts. They have small shops near the jetty where handicrafts are displayed. But as there are limited local handicrafts, most items are imported from regional countries. However, in recent years, manufacture of handicrafts, by duplicating the imported items has commenced.

Few inhabited islands in Ari Atoll also have shops, but the communities in islands of atolls other than Male' and Ari Atoll, do not have such arrangements. This is because when fewer tourists visit these islands, there is not enough demand to create such commercial operations.

Other excursion destinations are uninhabited islands in close proximity with the resorts, where tourists get the chance to get a more in depth experience of nature than in the resorts. These excursions are organised with a BBQ lunch and a snorkelling program, and are promoted as a full day excursion to virgin islands. In addition, some of the resorts organise moonlight parties in such islands or sand banks close to the resorts. More recently, some up-market resorts have been organising private dinners for couples, on sandbanks and on small-uninhabited islands. The other trend that emerged in the last few years is overnight stay by honeymoon couples in uninhabited islands.

The importance of uninhabited islands for the tourism industry is increasing rapidly because resorts are now more congested. Further, because the structures of the resorts are more permanent, the resort environment gives a feeling of a 'hardened' environment, which is incompatible with the Maldivian tourism experience expected by some clients. The holidaymakers are now unable to experience the ideal "Robinson Crusoe" dream in the Maldives unless, they visit and stay in an uninhabited island. Further, development of the safari and sailing operations have escalated the value of virgin islands, because these vessels require harbours to berth and use of uninhabited islands for their guests for swimming in the lagoon, and often for dining on shore. Hence, in addition, to the traditional uses like for picnicking by groups of tourists, other aspects, like the solitude and isolation of these islands now have added value to them.

In summary, excursions are very important to tourist because, when tourists stay confined to resorts many prefer to have a change of environment after a few days of stay in the resort. Further, most experienced travellers are curious and would want know more about the destination: the culture, history and the way of life of the people. For tourists who want to experience society, the options are a visit to Male' or other inhabited islands, and for guest who want to escape from society,

the place is an uninhabited island. Tourists visit inhabited and uninhabited islands of which the most visited inhabited island is Male'. This is because of the location; being the national capital and commercial centre, and because there is a concentration of the historical and man-made cultural attractions. Equally, important are the uninhabited islands for excursions, this is because with the increased density of the resorts, they are unable to provide the 'Robinson Crusoe' experience expected by most clients. Hence, to get an in depth experience of nature, a visit to a virgin island is essential.

Health Clubs

Health related activities in tourism commenced in the late 1980's, with the opening of gymnasiums and development of sauna and steam baths. In mid 1990's, Jacuzzis and chilled pools were introduced together with massage parlors. Maldivians traditionally practiced therapeutic massage, but not relaxation massages. This traditional practice, like all other cultural practices have never been commodified, hence it is not sold to tourists, by converting it to relaxation massages. From the late 1990s, health related facilities have become very popular, hence additional infrastructures were built in the existing resorts, while many new ones developed on health related themes. The massages offered in most of these health clubs are East Asian, which involved aromatherapy and relaxation massage given in the same manner as it is done in the East Asian counties. Essential oils and masseurs are all imported, but in some resorts the utensils used in the centers have been modified to give the Maldivian look. Some resorts offer Swedish massages and to a lesser extent Turkish massages in addition to the oriental ones. However, the remote islands of Maldives are excellent environments to provide relaxation massages, hence, it can be made an attraction in itself. In the early 1990s, few resorts have started to adapt and add local color to the East Asian practices. The developments in this area are noteworthy considering the fact that health themes were introduced to Maldives only in the late 1990s.

Operation Issues

Human Resources

Introduction

Maldives was predominantly a fishing community, dependent on marine resources. The economies of islands were subsistence and the country was relatively isolated from the modern world. As a result of this and resource scarcity, access to modern education, skills and technology was limited to a few elite of the society. Further, because of the subsistence nature of the economy there was no demand for skilled manpower. However, with the introduction of tourism, the economy prospered, aspirations of the people have escalated, resulting a boom in the demand for formally educated people both in the public and public sector. As the government was the main provider of educational services, and because these services are subsidised, the graduates of schools are bonded to work for the government if their services are required. Therefore, almost all people who had education were absorbed into the public sector. Consequently, the private sector did not have access to even people with basic formal education, thus tourism developed with the assistances of a few, formally educated personnel.

In the Maldives, because the predominant tourism products are resorts and floating beds, jobs, which are considered as indirect employment, in tourism industries elsewhere in the world, are included in as direct employment. This is because, resorts and safari boats are autonomous units, which generate their own power, water supply and have arrangements for waste disposal. Therefore, people who work in these operations are also included as staff, directly employed in the sector and in this analysis, they are referred to as technical staff.

In the early years of tourism, except tour guides and diving instructors, all staff were Maldivians. The designing and construction of the resorts were also entirely carried out by the local staff. The period of commencement of the industry, coincided with the evacuation of the British Naval Base in Gan. As a result, a large labour force, estimated to be about 3000 people, was available for the industry. The labour force was skilled to take jobs in all trades of

the industry, which included food and beverage, and housekeeping skills, to masonry, carpentry, engineering, refrigeration and electrical works. In addition, as Maldivians were seafaring people who worked on ocean going vessels for years, the ex sailors also contributed to the labour requirement of the industry.

At the early years of tourism, the average wage for a labourer ranged from USD 9.00 – 12.00, per month excluding food and accommodation. Chefs and engineers were the highest paid staff, whose salary ranged from USD 100 – 140, and resort managers, on an average, received USD 80.00 – 100.00 per month. Staff in closer contact with the guests, supplement their wage by gratuities received from tourists. There were no formal training programs and staff learnt skills by doing the job. However, in the late 1970's, employees of 15 resorts were sent to Sri-Lanka, under a UNDP hotel traineeship program, for hospitality training.

Facilities for staff were very minimal. In some resorts, staff quarters were temporary structures made of thatch, which were used as dormitories for sleeping. Dining facilities were also provided in such temporary structure. In some other resorts only junior staff use dormitories, and others were given folding beds and were expected to find a sheltered place to sleep. Hence often, most staff slept in the public areas, when the services are closed for the night. Meals provided for staff were also very basic.

However, as the industry progressed, better facilities were provided for the staff. Since 1982, regulations were formulated to ensure that staff are provided with adequate facilities in the resorts. The requirements, under these regulations, include provision of adequate sleeping space, lockable space, toilet and shower facilities, beds and mattresses. Consequently, resorts were compelled to adhere to these requirements, and by mid 1980, all resorts had adequate facilities for staff. In some isolated cases, the facilities were better than the standards specified under the regulations. However, in spite of the improved facilities, many Maldivians found living conditions in the resorts difficult for many reasons.

Labor Supply and Demand

Tourism sector requires people with a wide variety and different

level of skills, which can be broadly grouped into service, administrative and managerial and technical staff, where in each group there are unskilled, semi-skilled and skilled staff. The unskilled jobs include labourers, boat crew, kitchen helpers and island cleaners. In the semi-skilled category there are hospitality related jobs like room – boys/maids, waiters/waitresses, barmen/maids; technical jobs like engineers and low level administrative or clerical workers. The technical posts are clearly non-tourism jobs or indirect employment of the industry but they are included because of the nature of tourism in Maldives. The skilled workers category consists of managerial posts like general managers, accountants, and service staff like food and beverage managers and chefs. Because most of the technical staff, in the resorts like engineers and electricians, are people with very basic training, they are included in the semi-skilled category. However, considering the level of operations of the resorts, highly educated engineers will be required, if not full-time, for part time.

The supply of labour is estimated using data of people formally trained from institutions, which provide relevant training and education. Primary and secondary school leavers are assumed to be potential candidates for such training, however, it is noted that all such graduates will be neither willing to undertake such training nor willing to work in the tourism industry, due to many social, cultural and economic factor. The demand for labour is assumed as the people employed in the resort. The actual employment figures of resorts are used as effective demand because it is assumed that there are no unmet demand because the average ratio of guests to staff, in the industry is not very different to such ratios in other tourism destinations.

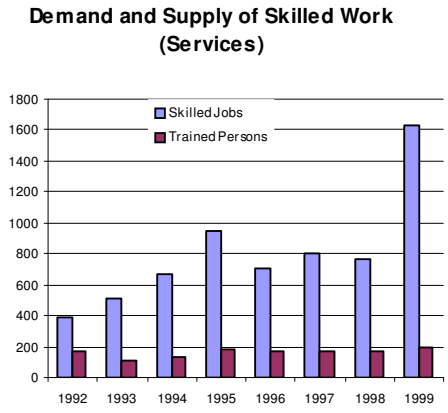
This analysis assumes that only trained persons, from formal institutions, are qualified to provide tourism services, however, in the real world, many skills of the industry can be learnt from sources other than formal institutions, hence even people with no training can provide services. In exceptional circumstances, even untrained persons could provide high quality services, but generally the work of such people will be inferior in quality and would cause to deteriorate the quality of the tourism product.

Services Staff

In the early years of tourism, most of the skilled hospitality jobs were occupied by ex – staff of the British Naval Base in Gan, while people with industry exposure occupied jobs that require limited skills in the area of hospitality.

Formal specialised-training in hospitality related fields commenced, in the Maldives, in 1987, with the opening of the School of Hotel and Catering Services (SHCS) later changed to Institute of Hotel and Catering Services (IHCS) to Faculty of Hospitality and Tourism Studies (FHTS) of the College of Higher Education. This school, initially manned by expatriates, was a UNDP and European Union funded project. The entry requirement for the two-year training program, of this school, was secondary school education. First batch of students, which was less than 50 persons, was available to the industry in 1989, and they were bonded, to serve the industry, for a period of 2 years. From 1987, IHCS trained (including short courses) between 130-170 persons per year while the demand for these jobs is much higher**,** hence the industry was short of service staff even from the very beginning.

In graph 2, trained persons are graduates of the FHTS, assuming

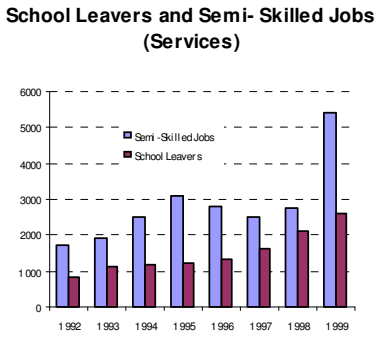


Graph 2: Demand and Supply of Skilled Work (Services)

that such training is sufficient to fill skilled jobs of the services area, and that the graduates are available to the industry. However, this is not the case, as some of the short courses will not provide enough skills to fulfil the requirements of some of these jobs. Even with this assumption, trained persons in the labour market is far too short of the demand for skilled service staff; hence the industry is unable to meet its demand from personnel trained from FHTS.

In the area of semi- skilled service staff, the situation is worse. Although, few graduates of FHTS are employed in skilled services jobs, it is once again assumed that all graduates of the FHTS are available for semi skilled services jobs. Even with this assumption, the supply is short of demand.

Even if an assumption is made that semi-skilled services jobs can be undertaken by school leavers, with in house training, and that they are all willing to work in the industry, the situation is not better either. As shown on graph 3, the number of school leavers is a small percentage of the demand for jobs, in semi-skilled jobs in the services sector of the resorts.



Graph 3: School Leavers and Semi- Skilled Jobs

Therefore, in the area of services both at skilled and semi-skilled level, there is an acute shortage of personnel. Shortage of qualified workers, in the services area, has been always a problem, but formal in – house training were undertaken only in few resorts prior to the 1990's.

Managerial and Administrative Staff

People with secondary level education mainly occupy managerial posts in the resorts, because management and it sub disciplines like personnel management, inventory management are not considered as required skills even today in the industry. As a result, even with the expansion of the industry, demand for formally trained managers did it not emerge, but a demand for people with exposure to resort management increased. Consequently, staff in clerical posts of older resorts were soon absorbed into the senior management of the new resorts.

However, with expansion of the businesses, financial

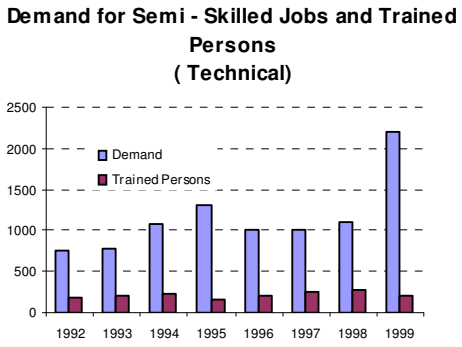
management became crucial, creating a strong demand for accountants. But, there are very few formally trained accountants in Maldives, hence the demand was met mostly by imported labour. The only local source of supply of people with such skills, is the Institute of Management and Administration (IMA), now the Faculty of Management and Computing (FMC), which became operational only in the 1990s. As a result, in 1999, 89 percent of the accountants in the tourism industry were expatriates.

Administrative staff include people in clerical jobs like reservation clerks, and other office workers who do not require specialised skills. People with secondary education, easily learn skills required for office work like literacy in computing, filling tax sheets, filing and even handling reservations. In the early years of tourism, local staff with secondary or higher primary education filled most of these office jobs. However, as the industry started to expand, the demand for this category also increased. The rapid economic development of the economy boosted by tourism, escalated demand for secondary school graduates in Male'. As, all school leavers were bonded to serve the government; they were absorbed by the fast expanding public sector. Only people with no commitment to serve the government were available to the private sector, but as only a few people with higher secondary level education preferred to work in the resorts most of them were employed in Male'. There was a major a supply shortage for school graduates in the 1980's and early 1990s. However, as new cohorts graduated from the many schools opened, in the 1980s, in the atolls and in Male', the supply of school leavers increased, nonetheless, it is also still insufficient to meet the demands of the industry.

Technical Staff

Some of the technical jobs like engineers require education and higher skills, but most of the resident engineers, in the resorts, are people with very basic training. In the early years of tourism, technical posts of the skilled and semi-skilled category were also filled by ex-staff of the British Naval Base and by ex-sailors. However, in 1975, a Vocational Training Centre, later changed to Maldives Institute of Technical Education (MITE) and to Faculty of Engineering Technology (FET) of the College

of Higher Education, was established with the assistance from UNDP and ILO, which provide 2 year training programs on technical fields. With the graduation of these students, the industry started receiving the services of trained technical personnel, which were much needed by the industry. However, the number of people trained from this institute are also far below the industry's requirements for technical skills.



Graph 4: Demand for Semi – Skilled Jobs and Trained Persons (Technical)

The graph 4 shows the demand for semi –skilled technical people and the supply is assumed as persons trained from the FET, previously the Vocational Training Centre. As shown on the graph, although, the faculty has improved its facilities and manpower, the number of people trained from this institute is insufficient to meet the technical staff demands of the industry. Further, FET caters for the technical skills training requirements of the entire nation, hence all graduates will not be available for the tourism sector. This shortfall in the supply is met by employing people who learn work from their colleagues and by hiring expatriates. Some of the graduates of FET started business in Male and their services are also received, by the industry, on contract basis for more complicated tasks of the resorts.

Unskilled Workers

The unskilled workers group consists of labourers, island cleaners, kitchen helpers and other jobs, which does not require education or training except literacy. As this category does not require skills, the unskilled population of Male' and migrants from other islands, seeking employment, in resorts, are the available supply. Female population is excluded because due to cultural factors women rarely work in the resorts. Even in this category there is a shortage of labour, which is met by importing from neighbouring countries.

There is an acute shortage of labour in the Maldives. This supply shortage does not raise the wages but attracts foreign labour because of a relatively liberal policy of the government for labour importation. Maldives is located in a region where there is a large docile labour force; hence importation of labour is relatively cheap and easy. As a result, the average wages remain low, reflecting the wage levels of the regional countries that supply labour. Although, the existing levels of wages are attractive for workers from neighbouring countries, because their cost of living is low, it is not attractive enough for Maldivians, who have relatively higher living costs.

In all areas, at all level of skills, there is shortage of people, and even the available persons, avoid work in the resorts, because of many economical cultural and institutional factors. Further, as training is not adequately recognised and rewarded, by the industry, the demand for formal training in hospitality is not strong enough to make training institutions commercially viable. Hence, only the Government operates such institutions and they are on subsidy. The outputs from those institutions are insufficient to meet the demands of the industry.

Development of the Expatriate Labor Force

Although, foreign workers were used in the construction of resorts, owned by foreign companies, of the first generation resorts, the influx of foreign labour started with the commencement of the construction of the islands, selected under the First Tourism Master Plan (FTMP). This was largely because the government, when leasing these resorts gave fixed construction periods, which were rent-free. As a result of this, coupled with the strong demand for resort beds, increased the opportunity costs of delaying construction, which economically justified hiring of, then, more expansive foreign labour.

On completion of the resorts, leased under the FTMP, many construction workers remained in the resort and occupied many jobs in the area of resort operations, because at that time it was not mandatory to repatriate expatriates, after completion of the construction. Parallel to this, the first generation resorts also commenced hiring expatriates, both for construction work of the upgrading projects and to the services sector of the resorts. According to an ESCAP study, in mid 1980, there were 9 percent

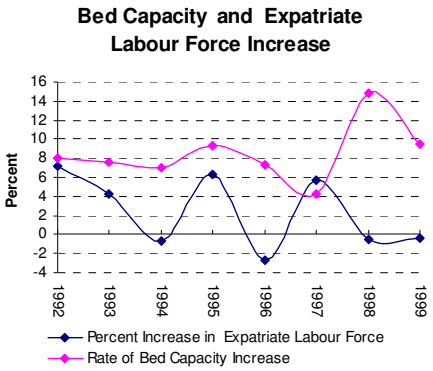
expatriates working in the resorts, who were all employed in first generation resorts, as at that time, construction of the resorts awarded under the FTMP did not commence.

Graph 5: Growth of the Expatriate Labor Force

As shown in graph 5, in 1991, 26 percent of the tourism labour force consisted of expatriates, which was an increase of 17 percent in an 11-year period. This is approximately an increase of 1.54 percent per annum. The bed capacity, during the same period, increased at an average rate of 4.3 percent per annum, indicating that expatriate filled only a missing gap in the demand labour.

However, in 1992, expatriate employment increased to 33.8 percent of the total labour force, which is about a 7.2 percent increase from the previous year. During this period bed capacity increase was 7.42 percent, which is almost equal to the rate of increase of expatriate employment. Hence, from the early 1990s, the labour requirements of the industry were, to a large extent, being met by expatriate employment.

In 1995, the percentage of foreign labour in the labour force increased, because of the many up grading projects, and continued construction of some islands allocated under the FTMP. With the completion of most of these projects, the expatriate employment declined in 1996, but in 1997, it started to rise with the commencement of the construction of new resorts, however, it has now been stabilised, because of the completion of most resorts. These trends are directly related with the rate of increase of bed capacity.



Graph 6: Bed Capacity and Expatriate Labor Force Increase

As shown in the graph 6, the rate of increase of the expatriate labour force, declined when the rate of increase of beds reduced from 1992 to 1994. When the rate of bed capacity increase started to go up, in 1994, the rate of increase of the expatriate labour force also escalated. In 1995, with the slowing down of the rate of bed increase, the expatriate labour started to decline. In 1997, the rate of expatriate employment did not increase although there was a rapid capacity expansion. This is perhaps because construction employment was separated from resort employment but from 1998 it slightly increased reflecting the demands for operations jobs of the new resorts. The rate of expatriate employment and capacity has a close relationship, but when new resorts were built, as the construction employment was separated from resort employment, this relationship was not that strong, nonetheless, with the commencement of operation, the rate of growth expatriate employment increased.

Although, the rate of increase of foreign employment is associated with construction and upgrading of resorts, the absolute number of expatriates employed in the industry does not decline, after construction. This is because manpower is also required for operations; hence even though the rate of increase of imported labour declines periodically, the overall situation in terms of numbers does not improve.

However, since 1997, the percentage of domestic labour employed in the industry has started to increase slightly, while the share of the expatriate labour force, in the tourism sector declined.

Issues in Human Resources

Tourism by nature, is an activity that requires a multicultural labour force. As tourists consist of diverse nationalities and ethnic groups, foreign workers cannot be eliminated entirely. However,

in the Maldivian situation, the expatriate labour force is not a consequence of the demands of the tourists, because nationalities and ethnic backgrounds of most expatriates are not that of the tourists. The reason for existence of such a large expatriate labour force is a consequence of many economical, cultural and institutional factors.

Economical Factors

The most obvious factor for high expatriate employment is economical. To reduce the foreign labour force, employers will have to pay wages, which are attractive enough for trained local people, to enter the industry. Such wages should compensate all cost of training (including the opportunity costs); cost of staying away from home; and the price of the service provided by the workers. However, as the industry employs many untrained personnel, it can be assumed that the employers are not willing to compensate the cost of training for those jobs where untrained labour is hired, but pay for the damage caused due to self – training, whether they are local or foreign staff. The employers do not compensate the full costs of Maldivians staying away from the family and in social isolation, but make a partial payment, which is equal to such costs of a foreign labourer. The demands of foreign workers are lower, because their opportunity cost of working in the resorts is low. This is because of the lower living cost and limited alternative economic opportunities at their home country for them. Therefore, wages in resorts are the price expatriate labour demands, which is not attractive enough for a Maldivian. Hence, low real wages is one of the economic reasons why Maldivians are reluctant to work in resorts. Consequently, expatriates are hired to fill the gap.

Cultural Factors

For generations Maldivians were in self – employed jobs, because fishing was the major economic activity. There were few wage earning employment opportunities in the Maldives prior to tourism, which were limited to public sector jobs. However, there were very few private sector jobs and employment in Gan Island in Addu. Hence, Maldivians are not used to wage earning jobs for which they have no control. While the situation is such, salaries offered in the resorts do not compensate for the

formalities and rigid requirements of these jobs, and wages are lower than the price demanded for labour by Maldivians. Therefore, the opportunity cost of losing a job is very low for Maldivians, hence, turnover among Maldivian staff is very high, making Maldivians very unreliable workers. This is often mistakenly associated with culture, although economic factors justify such behaviour.

Although, Maldivian women are economically active, women and even some male workers prefer not to work in resorts for cultural reasons. On of the reason is that resort islands are regarded as uninhabited islands, and the communities of these resorts are not considered as formal societies but a groups of people at work. In the traditional Maldivian societies and still in many island communities, behaviour of people are controlled by social pressure, and in exerting such pressure, the elderly people of the community play predominant roles. In these resorts, such traditional institutions do not exist, hence it is perceived that there are limited means to control people's behaviour. Consequently, the vulnerable segments of the community, like women are discouraged from joining such communities: the resorts. As a result, women and people, who have other means, avoid working in the resorts. Continuation of this practice resulted in development of male dominant communities in resorts, which makes survival more difficult for the few women, who prefer to work in the resorts. In consequence, in a country where there is a labour shortage, half of the economically active population is removed from the work force, further shrinking the available supply of labour.

Institutional Factors

Although there are remarkable entrepreneurial skills in the industry, it is deficient in management skills. Further, because of the poor level of development of commercial institutions in Maldives, management and ownership of resorts are still not divorced. As a result, resorts, which are multimillion-dollar investments, with over hundreds of staff, are also sometimes managed with no professionalism. Few resorts, if any, have functional management procedures like budgets, performance appraisal systems and clearly defined reporting procedures or chain of command. Personnel management, in most resorts, are by first order control and sometimes by the owners:

not by the managers. Further, because of the nature of the industry, people work and live in the same place; hence personnel life and formal duties are difficult to separate. Further, staff are sometimes under psychological pressures caused as a result of living in isolation from family and society, therefore their behaviour may not be normal at times. Consequently, problems in the personnel department of resorts may be different from other establishments, as a result personnel management will be more challenging and as such, more professionalism and expertise is required.

However, because Maldives is deficient in managerial skills, professional managers do not manage these complex establishments. Hence, the existing inadequately qualified managers, with no proper management procedures in place, would prefer to have staff, who are easy to control. Docile and vulnerable foreign staff are more controllable than Maldivians, hence expatriates are preferred for locals.

The existence of a large expatriate labour force also triggers other problems, which deter locals from working in the resorts. For example, in a resort, meals for staff have to be prepared to suit the majority, hence if there is an expatriate labour force larger than the number of local staff, the minority group: locals, will not be satisfied with the type of food served as it may not be their preference. Similarly, other services available for staff will also change to the disadvantage of the minority group. This further deteriorates the living conditions in resorts for local employees.

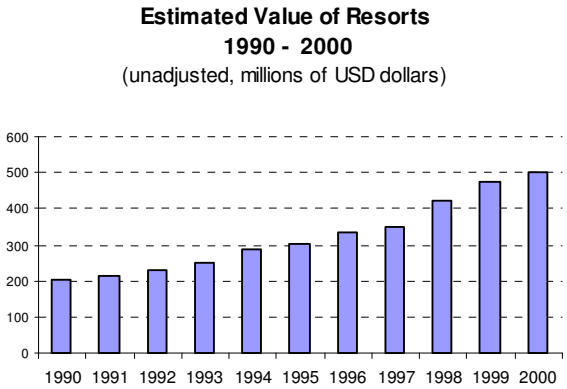
In conclusion, the human resources requirement of the industry includes a wide variety of jobs with varying levels of skills. And as a result of the structure of the industry, many indirect jobs of conventional tourism industries, become direct employment in Maldives. Further, the nature of tourism compels the use of multiethnic labour for the provision of services. This is because tourists normally consist of diverse ethnic groups and nationalities, and certain kinds of services can be better delivered by people, who share similarities, in ethnicity. However, in the Maldivian context, the existence of a large expatriate labour force is not a consequence of the demands of tourists, because the ethnicities of most expatriates in Maldives are

not even closely associated with that of the visitors. The analysis on human resources situation also shows that supply of labour is short of the demands of the industry. But the unsatisfied demand does not raise wages, because of the relatively liberal government policy on importation of labour. Wages are determined at the price of the supply of labour from regional countries. As the living costs in these countries are lower and alternative economic opportunities for these groups are limited, the opportunity costs of working in the resorts, are lower for expatriates than for Maldivians. Therefore, the actual wage demanded by a Maldivian is higher than that of a foreigner. The high turn over and unreliability of the Maldivian workers are mistakenly associated with cultural factors, but such behaviour is justifiable from an economic point of view. However, low female labour force participation in tourism , especially in resorts, has its roots to culture and traditions of Maldivians. Nonetheless, as cultural determinism in economic affairs erodes with acculturation these problems could be solved. However, the concern is that by the time, cultural barriers are removed other factors may emerge if the existing trends in labour continues. For example with the existence of a disproportionately large number of expatriates to local staff, it creates an environment in the resorts, which is to the disadvantage of the local staff. However, in the context of female labour, a positive development is the gradual increase in the number of female staff, including expatriates, which could create a more gender equal community in resorts. As a result, the psychological pressure that women feel, when having to work in a male dominant community will diminish. Institutional factors that contribute to the problem are lack of management procedures and qualified managers in resorts. With inadequately trained managerial staff, vulnerable and docile labour is preferred because they are easy to control. Therefore, as immigrants are more vulnerable than residents, the tendency is to hire expatriates. However, the major problem is that if these trends continue there will be a large number of expatriate labour in the country, which would result in economic as well as social consequence, which are detrimental in the long run.

Development Finance

Introduction

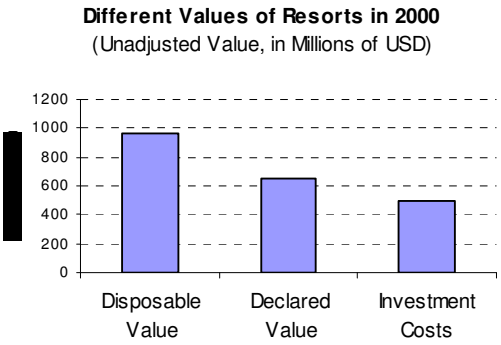
The issue of investment finance, for resort construction, is one of the most pressing issues in the tourism sector. In the early years of tourism: in the 1970s and early 1980s, capital requirement by the sector was very low, because of the limited facilities and type of structures in the resorts. In the 1970s, cost of constructing a bed, including the supporting infrastructure, was less than 3 thousand US dollars, however, over the years it has increased to 40 thousand dollars. Therefore, resort businesses, which were worth a few hundred thousand dollars, have developed into a large industry with high economic value. The total investment cost at book value of the industry is now over 500 million dollars, which is an increment of about 150 percent during the last 10 years (see graph 6). The value of the industry progressively increased because of improvements in the physical facilities of the resorts, increasing number of beds and escalating price of inputs. Further, market value of the resorts will be much high because of the going concern value and because of the escalating scarcity value of islands for resort development.



Graph 7: Estimated Value of Resorts 1990 - 2000

The declared value, estimated disposable and investment costs of resorts are compared in the graph 7. Declared values of resorts are investments registered, in the Ministry of Tourism, by the developers of resort islands. Investment cost is the value of inputs or the total

expenditures of building the resorts, which includes cost of imported capital goods estimated cost of labour, including consultancy fees; cost of finances; local purchases such as fish and local material; transport and fuel costs.



Graph 8: Different Values of Resorts in 2000

The disposable value is computed using variables such as acquisition cost of resort islands and resale value of leasehold rights of resorts, which are determined by factors like remaining period of lease; and condition and size of the resorts. However, going concern value of resorts have been excluded, therefore disposable value could be much lower than actual market price of resorts. Consequently, at this price owners may not be willing to sell the resorts, but investors will be willing to acquire the property. Even with this deliberate under valuation of resorts, the disposable value is about 50 percent greater than the value of inputs used in the construction of resorts, indicating the economic potential of resorts. Consequently, collateral values of resorts will be very high, but because of the smallness of the economy, poor domestic savings and high leakage of the industry, the supply of capital from lending institutions are insufficient to meet the demands of the industry.

Modes of Financing

In the 1970s and early 80s, finance for resort construction was mostly raised by advances from tour operator, suppliers credit, equity from foreign sources, short term loans from commercial banks and in exceptional circumstances, some entrepreneurs cross financed resorts from other profitable businesses. As the capital requirements were very modest, in early years of tourism, financing was not difficult.

However, from the mid 1980s cost of tourism projects started to rise, as a result, the supply of credit from conventional sources were insufficient. Although projects were large in Maldivian

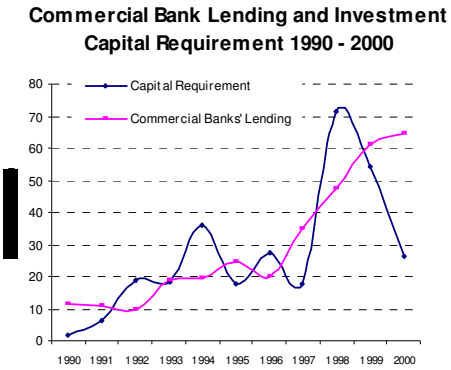
standards, at that time they were not large enough for foreign investment companies to finance. This is because as administrative costs for provision of finance is high, value of projects have to be at least over 5 million US dollars, if finance is sought from multilateral financing institutions and to procure finance from other international investment companies, the projects have to be even larger. Hence, in the 1970s and early 80s international off shore financing companies were not venues for procurement of investment capital.

Anecdotal, information suggested that on average, the capital investment of resorts consist of 10 percent of finance raised by divesting equity; 20 percent from tour operator advances; 40 percent from suppliers credit and 30 percent from loan finance. Procurement of finance from these sources entail many problems. Tour operator advances cause to lock hotel operators into a high-risk position of having to commit to sell to a particular market, at a specific rate, for a number of years. Normal suppliers credit facilities can be only used for short – term and it could jeopardise valuable trading relations of the future. Equity participation, in resort projects was mostly by foreign parties. This could have been because local entrepreneurs were not financially liquid enough to invest; lacked confidence in corporate management, legal and institutional systems; or hotel operators were not comfortable to offer equity to local parties, for fear of losing control over the lease hold rights. Further, as transfer of leasehold rights were restricted then, instruments used by foreign parties, to secure rights over the properties, may not have been acceptable to local entrepreneurs. However, divesting equity to foreign operators, in a liberal economic regime causes greater economic leakage.

During the late 1980s and early 1990s - the period of the implementation of the FTMP, supply of development finance was very tight. The commercial banking system, was not able to provide credit facilities for all capital investments; divesting equity was restricted because transfer of leasehold rights was prohibited; suppliers credit and tour operators advances were only available to parties with established businesses. To ease this situation, the government sanctioned loans from the treasury to hotel developers but they were insufficient to solve the crisis. Further, as Maldives

was not exposed to the international capital markets; investor were not aware of opportunities and procurement procedures of the international capital markets and because of the smallness of projects, international sources for investment finance were rarely explored and were not a source of credit supply. Hence, in the late 1980s, after a deceleration on resort construction, leasehold rights of many new resorts were either formally or informally, transferred to established local tourism business or to foreign parties.

In the decade 1990 the situation improved as from the mid 1990s, commercial banks, improved their lending capability. However, in the 1990s, at periods of peak demands: at times when new resorts commence construction, credit facilities extended to the tourism sector were insufficient to meet the requirement, if all projects were debt financed. This is neither desirable nor the actual situation, however, for purpose of illustration, such an assumption is used. As shown in the diagram, in 1992, 1994, 1996 and in 1998, credit provided from the commercial banks were less than the demand for capital during those times. However, after each year of shortage, except 1993, credit facilities extend by banks to the tourism sector gets greater than capital demanded in the respective year, indicating perhaps that the banks are financing the part of the investment, which were made by



Graph 9: Commercial Bank Lending and Investment Capital Requirement 1990 - 2000

developers, by borrowing from sources other than banks. Loans of banks will not be exclusively utilized for capital investments of the sector, but operational capital will be also borrowed and if these credit demands are considered, there would be a greater shortage for investment capital. Therefore, although the capacity of the banks to finance the industry has improved, the available capital is insufficient to meet the demands of the industry, resulting very unattractive terms of lending. Short term and high interest

capital is not suitable for real estate businesses like resort development, which is a major issue of concern among the developers.

Unavailability of investment finance is a result of many factors. As discussed collateral value of the resorts are high and these businesses are extremely profitable. Nonetheless, it has been observed that the terms of lending are unattractive to the borrower and that it has been an issue of concern. One of the major problems is that most profits from tourism do not enter the local banking system because many of the transactions of the industry are conducted elsewhere in the world. Therefore, tourism profits are deposited in other business centres of the world, while tourism is the most important industry in Maldives. Further, foreign capital flow is limited because of the poorly developed legal systems and institutional framework. As a result of this, coupled with many other factors, domestic savings are extremely limited and the capital demanded is high because of the size of the tourism investments. Therefore, while there is a strong demand for capital, there is a supply shortage because of limited savings, as a result the terms of lending are often in the favour of the banker not the borrower.

In summary, lack of capital for investments is a major concern of the industry. In the early years of tourism, when the projects were small, tour operator advances and suppliers credit were sufficient but when the cost of investments increased those business associates were unable to provide the required capital. However, in the 1990s, the capacity of the banks to lend improved, but the terms of lending: short term and high interest loans are unsuitable for a business like tourism, hence it has been a concern of the investors. Unattractive terms of lending are often related with restrictive monetary polices, that are induced by problems associated with small economies. Maldives being a small developing nation, it also has problems of low domestic savings; lack of capital mobilization capacity; inadequately developed legal systems and institutional frameworks. In addition, prohibition of transfer of leasehold rights was also identified as a barrier to use lease contracts as a tool to procure finance, but that restriction has been now removed.

Infrastructure Development: Transportation

Introduction

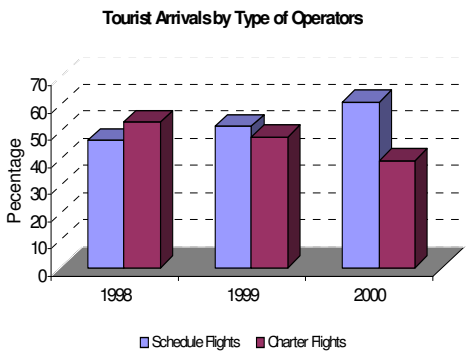
As discussed earlier Maldives was relatively isolated from the rest of the world, hence there were hardly any trading with the rest of the world. Therefore, before commencement of tourism, the link with the outside world was through Sri-Lanka or India, even if it was by surface or by air. Initially, tourists journey from Sri-Lanka to the Maldives but soon, after the commencement of tourism, an airport was opened and it linked Maldives with Europe. As Maldives cater for only leisure travellers and because there is no business travel, charter operations dominated the international air transportation sector. However, now there are more scheduled flights, than charter flights operating to Maldives, but these schedule operations are very similar to charter flights.

Maldivians being sea faring people, they have always travelled between islands. Sailing boats built for fishing, which were later mechanized were used to travel to Male' and other islands. And many of these boats were initially used for transfer clients to and from the airport, nonetheless now they are used for short distance travel.

International Travel

Most tourists travel to the Maldives by air. Of the total passengers who travel to Maldives, in 1998, approximately 85 percent were tourists, in 1999 it was 84 percent and in 2000 it increased to 87 percent. In absolute terms in 1998 it was 468 thousand tourists; in 1999 and 2000 it was 512 and 535 thousand tourists respectively. They arrive in schedule and charter flights, which originate mostly from Europe. In 1998 and 1999 there were 14 schedule flights operating to Maldives and it increased to 17 flights in year 2000. The total number of tourists who travelled on schedule flights were 329 thousand, in 1998, 376 thousand in 1999 and 387 thousand in

2000. This, as shown in the graph 8, was 47 percent of all tourists in



Graph 10: Tourist Arrivals by Type of Operators

1998; 52 percent of tourists in 1999 and in year 2000 it increased to 61 percent.

Initially, Maldivian tourism was mostly dependent on charter flights. However, since the 1990s, charter operations are changing to schedule flights and during the period 1998 to 2000 the number of tourist who travel on charter flights have decreased. Nonetheless, most schedule operations are similar to the charter operations, because they do not have the comfort classes, frequencies of operations and options of destinations, offered by establish schedule carriers. These flights normally shuttle passenger back and forth from Europe, and the seats are sold in advance to the tour operators.

Although, there are substantial amounts of aircraft seats available to and from Europe, links to other major cities of the World are very limited, especially to the Far East and West and the Southern Hemisphere. Poor international connectivity by air to Maldives is a result of many factors. Maldives is a leisure destination, to which people travel for a predetermined fixed period of time and there are very limited cargo movement, because of the very limited commodity trading. Therefore air links are limited to countries, where there is a demand for leisure travel, and as the most establish market is Europe, the air links are mainly direct to cities in Europe. Many however, argue that the poor connectivity is the reason that restricts penetration into new markets. While it may be true, the cost of establishing a link, to tap a new market would be extremely expensive, and when the aviation industry is entirely operated by the private sector, the potential benefits should be greater than the cost, for them to undertake such a venture. These are some of the factors, which result in poor connectivity of Maldives with major cites of the World.

Domestic Travel

Introduction

Tourists who travel within Maldives are very limited. The most important domestic travel is transfer to and from the airport and in addition, tourists travel to the dive sites, fishing spots and excursion islands, which are often short distances and mostly dhonis are used. In the early years of tourism, mechanised fishing vessels were used to transfer guests from the airport, however, over the years transfer operations developed and now seaplanes and surface effective vessels (SEV) are used in the industry.

Arrival and Departure Procedures

After immigration and custom clearance, tourists move to the landside of the terminal building to identify their tour operator, travel agent or the resort representative. Once they identify their representatives, tourists proceed to a place assigned by the tour representative, until all guests that were schedule to arrive have been identified or declared no show. Then, the representatives organize the selected method of transfer to the resorts. Tourists who travel by speedboats walk to the jetty where they board vessels to travel to the respective resorts. Tourists, who fly to resorts, are transferred to the seaplane terminals where they catch flights to the respective resorts**.** However, tourists who arrive at night, booked for air transfer, fly to the resort on the following day. The departure procedure at the airport is similar to the arrival procedure: tourists who travel on boats arrive at the jetty and proceed to the departure terminal. Clients who travel by air to the airport are transferred from the floatplane terminals to the main terminal building, and they wait for their luggage, which is brought separately. When the baggage arrives, they directly proceed to the departure terminal.

Modes of Transport

Most resorts within about 35 km radius from the airport use speedboats, with an exception of a very few. The rest of the resorts use air transfer by floatplanes but some larger resorts in distant atolls, which operate club style resorts, also use larger speedboats for transfer of guests. In the 1990s, Russian built MI 18 helicopters were the dominant mode of air transport, however

now they have been completely replaced by floatplanes.

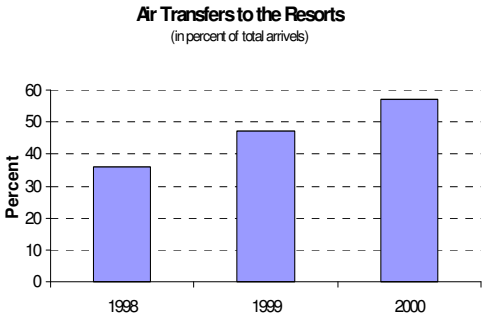
In the early years of tourism, the dominant mode of transport to resort islands were dhonis (mechanized fishing boats, converted for tourist transfer), however, with the development of resorts in atolls other than Male' atoll, and maturity of the industry high speed surface transfer boats, of varying sizes were introduced to transfer clients to the distant resorts. In addition, the resorts in closer proximity to Male also changed their transfer operations to speedboats, reducing their travel time to 10 to 45 minutes, depending on the location of the island. The travel time by sea to distant resorts range between 2.5 to 5 hours, depending on the distance of the island, weather and speed of the craft. These fast surface vessels were then, mostly owned and operated by the individual resort, however, with escalated demand for tourist transfers, two transport companies, started operating helicopters (Russian built MI-8P).

The helicopter fleet distributed tourists to 10 helipads, dispersed within an area between 35 and 145-kilometre radius from the airport. There were two helipads in two inhabited islands and in two resorts, and the rest were developed on uninhabited islands. From the helipads, except tourists destined to the resort where the helipad is located, tourists journey to the respective resorts by dhonis. On an average, travel time from the helipads to the resorts were 20 minutes using dhonis, as all resorts which used helicopter transfers had access to a helipad located at a distance, which is not greater than 40 minutes of travel time by dhoni. Hence, on an average the estimated transfer time for a tourist who use helicopters, ranged between 50 to 120 minutes from the time they complete the customs and immigration procedures. As only one or two helicopters were licensed to fly at night, most tourists, who arrive at night wait in Male' to catch the morning transfer, similarly, at their departure they travel to Male', in the late afternoons to join their international flights at night.

In addition, to the helicopters, a company commenced operation of two fast Surface Effect Vessels (SEVs) and entered the transfer business. These SEVs were catamaran hulls with an average cruise speed of about 30 knots and carried 250- 350 passengers. These vessels

provided comfortable, all weather transportation, however, even though they were fast vessels, they were also unable to effectively reduce the travel time to the average traveller, because they serve a cluster of resorts to reduce operational costs. As a result, the tourists who are destined to the last resort in the transfer plan, have to spend hours on the boat, which has made this mode of transfer unpopular and have had ceased operation. Consequently, with increasing number of bed in distant resorts, air transfers have become more and more important.

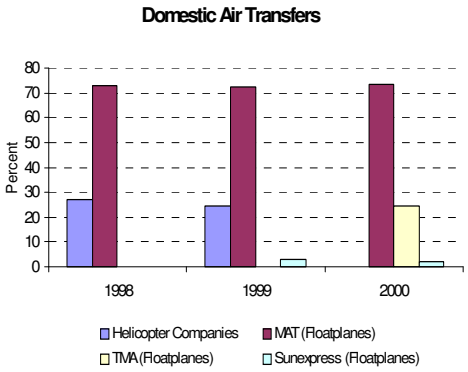
A later development in domestic air transportation was introduction of float planes (Canadian built, de Harvilland DHC-6, twin otter), to shuttle tourist to and from the airport. The first company: Maldivian Air Tax, which started this operation, with two aircrafts with a combine capacity of about 28 seats, increased its fleet to eighteen aircrafts, with a combine capacity of 252 seats by year 2000. As these floatplanes travel short distances, an aircraft is able to transfer many passengers per day. The floatplanes became very popular and later, a second company commenced seaplane operations. This operation became more important, because of the two helicopter crashers, which eventually resulted in grounding of the Russian built MI8 fleet in the Maldives.



Graph 11: Air Transfers to the Resorts

As shown in the graph 8, in 1998, 36 percent of all tourist used air transfers, in 1999, it was 47 percent and in year 2000 in increased to 57 percent. Between 1998 and 2000 over half a million tourists were transferred by air, which were 142 thousand tourists in 1998, 201 thousand in 1999 and 265 thousand tourists in 2000.

One company dominates seaplane transfer services, in Maldives, although three companies are licensed to operate. In 1998 , two helicopter companies transferred about 27 percent of tourists, while the seaplane company transferred 72 percent of tourist who use air



Graph 12: Domestic Air Transfers

transfers. In 1999, the helicopter companies' share was reduced to 25 percent, while the seaplane company maintained the 72 percent (see Graph 12). In 2000, the helicopter companies ceased operations and a new, floatplane company, which commenced operation in 1999 with about 3 percent of the market, has now acquired 24 percent of the market. In the sea plane operations: the Maldivian Air Tax have a large part of the market share: over 70 percent. This is a major threat to the Maldives tourism industry. As, in this situation, one firm is able to influence the price of Maldives tourism products because a substantial portion of the tourist expenditure in Maldives is spent on transfer to the resorts. Further, for any reason the company ceased to exists, the industry will have difficulty in finding solutions to the transfer operations, in a short period.

Although, seaplane transfers have been the most appropriate mode of transfer, with the increase in bed capacity, they are also facing difficulties because of the increased number of transfers at certain peak periods. Unlike the SEVs, these planes are able to serve resorts individually, but when large groups arrive, transfer of the entire group extends to over 3 – 4 hours, because each aircraft can only transfer a few at a time. While in the case of SEVs, an average tourist waste time at sea, in the case of air transfers, they spend time in the airport, waiting of a transfer. As a result now, smaller SEV's have been reintroduced for transfer to distant atolls. The other problem is that de Havilland DHC6 twin otter, which was initially flow in the World in 1965, build its last aircraft in December 1988. Of the 844 aircrafts totally built as of August 1999, only 623 were in service, indicating that the fleet is shrinking, because more aircrafts are not produced. The Field Aviation of Canada now only offers an upgrade, which includes four bladed Hartzell propellers, which reduce external and internal sound levels and cabin modification only. As these planes are not in production,

eventually the fleet will have to be replaced and presently there is no alternative aircraft. This is another major concern for air travel operations.

Transportation, which is most crucial for the tourism industry, developed in response to the demands of the industry. The opening of an international airport, had significant positive impact to the industry as it linked Maldives with the Europe. Nonetheless, because of the nature of tourism: leisure travel, there are no continuous and uninterrupted links with the rest of the world, constraining the operators to cater for free individual travellers. This restricts the selections of target markets and hamper progress towards, making Maldives a premium destination. In the area of domestic travel, transportation needs for different activities of the resort, have been very effectively solved, by using the modified traditional fishing vessels. However, travel to the resorts from the airport is a problem. The existing mode of travel is air and high speed surface transfers, where each mode of transport has its limitations, however, the process has been evolving and solutions are being found.

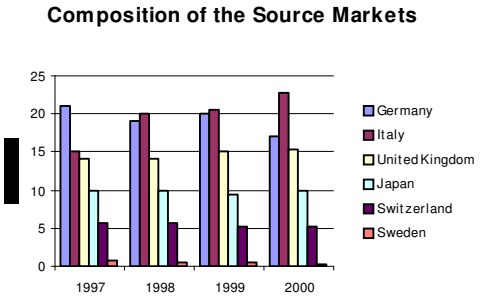
Market Situation

At the commencement of tourism, Maldives was considered as an extraordinary "Robinson Crusoe' island destination, very attractive to divers; travelers who explored remote destinations and for people who wanted to 'get away from all', dominated by Germans and Italians travelers. Even, in the late 1980's, the leading source market was Germany with 23 percent of the arrivals while, Italy's share was 20 percent of the total arrivals to Maldives. In the same period Britain's share of the total arrival was 7 percent; Japan 12 percent, Switzerland 6 percent and Sweden 5 percent.

In the mid 1990s', this composition slightly changed with Germany still leading at 20 percent, Italy at 15 percent, United Kingdom at 14 percent, Japan at 10 percent, Switzerland at 8 percent and Sweden at only 2 percent. In year 2000, the situation changed: Italy was leading at 23 percent, Germany contributing 17 percent of the guest followed by United Kingdom and Japan sharing 15 and 10 percent of the total arrival. In the late 1980' about 43 percent of the market were held by Italy and Germany and in the

1990's it was still at 40 percent. In the 1990's new markets like South Africa and Taiwan emerged, but they were not sustain.

In terms of the geographic distribution, from the commencement of tourism, Europe has always dominated the market. In the early 1980s, Europe's share was 73 percent, while Asia's contribution was 24 percent and Oceania only .75 percent. In the late 1990's the situation was more or less the same with a slight in increase in European arrivals to 78 percent; a decline in the Asia's share to 19 percent and an increase in arrivals from the Oceania to 1.8 percent.



Graph 13: Composition of the Source Markets

As shown in the graph, in 1997 Germany was leading followed by Italy. Over the years, the share of the German market has declined and now Italians dominate the source market. The shares of the Japanese and British market were quite stable. From the global geographical point of view, there has not been a significant change in the composition of the source, markets, as in 2000, 77.5 percent of the arrivals were from Europe, 18.5 percent from Asia and only 1.5 percent was from the Oceania.

It is difficult to identify the extent of diversification within the target market because of lack data on the profile of tourists. However, a survey conducted in 1999, revealed that about a fifth of the tourists are within the income bracket 20 – 30 thousand dollar per annum and the vast majority of the visitors were young between 26 – 35 years of age. The age composition of the tourists is confirmed by a previous tourist expenditure survey conducted by the Ministry of Planning and Development and this survey also revealed that the average expenditures of a tourist in Maldives is 150.00 US dollars per day. A subsequent survey undertaken, in 2000, shows that in 1997, the average daily expenditure was 138.00 US dollars and in 2000, it was 123.00 US dollars. These surveys indicate that the industry's main

customers are not very affluent clients. Most tourist, who visit Maldives are mainly traveling with partners, and many of them are on honeymoon.

Economic Analysis

Introduction

An economic analysis of the industry has been initially undertaken for the formulations of the FTMP and subsequently by Chow and Kit Boey in 1988, in a study commissioned by ESCAP. In addition, other ad hoc studies complement these findings, however, except for the above-mentioned studies, all others used secondary data. The STMP and the Social, Economic and Environmental Impact Study (SEEIS) undertaken in the 1990s were also dependent on secondary data. The sources of the secondary data are surveys of Maldives Monetary Authority and Ministry of Planning and Development.

Absence of accurate, objective and in depth economic analyses of the tourism sector is a result of many factors like difficulty in obtaining accurate information, because of the reluctance of some hotel operators to provide data. However, over the years the situation has changed, because many new resort owners are more liberal and thus they disclose information. Further, now resorts keep proper books and are periodically accounted and beds are now not only sold directly by the owner to foreign tour operators; but many beds are also sold through local tour operators and from the resorts itself, hence withholding information is now difficult.

In this economic analysis, situations of year 2000, is presented, however the financial status of the industry varied year by year. With the opening of new beds, receipts for accommodation declined, and later it started to normalize in 2000. The fluctuations are reflected in the report, but 2000 have been selected as the reference years. Nonetheless, the detail workings and assumptions of 1997 to 2000 are presented in the Annex One of this document.

Economic Benefits and Costs

Measuring tourism benefits and costs is extremely complex due to the nature of tourism. Because

of the wide variety of activities and participants in the industry, many scholars argue that tourism is not a single industry but a set of closely related industries. Whichever way tourism is defined, its benefits to the host community include;

- foreign exchange earnings,
- generation of income,
- employment,
- improvement of economic structure,
- entrepreneurial activity and improved public facilities.

The direct costs of tourism are over dependence on tourism, inflation and high land values, increased propensity to import, seasonality of production and low rate of return on investments and other external costs.

The magnitude of tourism benefits to a country depends on many factors of which the nature of main facilities and their attractiveness to tourists are important. External factors include the volume and intensity of tourist expenditure; level of economic development and size of the economic base of the destination; degree to which tourist expenditures re-circulate within the destination and the degree to which the destination has adjusted to seasonality of demand.

Like most developing small island countries, economic development in Maldives is limited, and the local economy is extremely small and dependent on two sectors. The limited resources, smallness, dispersed nature of islands and difficulties in transportation hamper economic development. Hence, tourism will continue to develop with high economic leakages and poor linkages with other sectors of the economy. Nonetheless, foreign exchange earnings, generation of income and to a lesser extent employment are the most important economic benefits. In the recent years, development of entrepreneurial activity is becoming important. Direct costs of tourism are over dependence on tourism, high land values, and increased propensity to import. Issues of seasonality and low rate of return on investments are less important. This is because seasonal fluctuation in demand is limited, and the return on investment is very high.

Even though Maldivian economy is tourism-oriented, actual tourism benefits to the economy is extremely limited because of the narrow economic base and

structure of the industry. The economic benefits of tourism in Maldives can be broadly categorized into government revenue and private sector revenue. The public sector revenue can be further classified into tax revenue and non-tax revenue. Tax revenue consists of airport tax, import duty, tourism tax, visa and work permit fees and other fees and charges like registration fees. Non – tax revenue consists of land leases paid by the resort operators as rent for islands, and other charges for services like port charges. Private sector receipts include payments made by the tourists for services provided in the resorts and other tourism facilities. As most tourists stay in resort islands, which host only one resort, apart from international travel expenditure, resort operators collect almost all other tourism receipts. However, exceptions to this are the expenditures of tourists who stay in the few hotels and guesthouses in Male', where tourists have access to facilities other than the ones in the place of accommodation.

Foreign Exchange Earnings

Foreign exchange is one of the most important contributions of tourism to the Maldivian economy and it is estimated that over 70 percent of all foreign exchange earnings are from tourism. However, the net earnings are a fraction of gross earnings, but maximizing foreign exchange earnings is difficult, because of structure of the economy as noted earlier. To calculate net foreign exchange earnings, primary, secondary and tertiary effects have to be considered. Secondary effects are subdivided in to direct, indirect and induced secondary effects. In the Maldives, primary effect is negligible because the number of residents who travel abroad is very limited in comparison to the number of foreigners visiting Maldives. Consequently, primary and tertiary effects: preparatory expenditures of outbound tourists are very low.

However, direct secondary effect is very high because most resorts are sold through tour operators and foreign capital is utilized for construction of resorts. Because of the smallness of the economy and limited domestic savings,

capital requirements of the industry cannot be met locally. From 1997 to 2000 about 170 million US dollars were spent on construction and upgrading of resorts, and it is estimated that over 85 percent of the finances were raised from foreign sources, either direct borrowings from foreign sources or mediated through local commercial banks. With maturity of these short – term loans, there was a rapid outflow of foreign currency to service debt, which resulted in a major shortage of foreign currency.

The indirect secondary effects are also very pronounced, in the Maldives, because most inputs for provision of tourism products are imported. As mentioned earlier, there is hardly any manufacturing and agriculture is limited to home gardening hence, the only product that is locally supplied to the tourism industry is fish. As there is no local airline, expenditures on international travel are paid outside the country and hence do not enter the local economy. Induced secondary effects: payments made to expatriates are also relatively high because of the large expatriate labor force.

In 1988, Chow and Kit Boey, estimated the import content for each tourist expenditure items. Using these figures and data from resorts it is estimated that in 2000, import content of boarding and lodging was at 80 percent, beverage sales at over 98 percent, and excursions, and water sports at 70 percent. Diving for which more capital equipment and specialized skills are required, has a higher import content of 80 percent. The overall import content of the tourist expenditures, in 2000, was about 80 percent. While in countries like Hawaii it was 45 percent and Kenya 22 percent. For developed countries, it would be even lower, because those economies will be able to provide the inputs required for tourism.

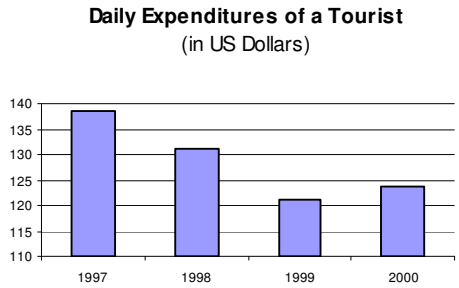
Foreign currency is one of the most important economic benefits and in Maldives, the gross foreign exchange earnings, was 484 million US dollars in 2000, which is almost equal to total tourism income. As Maldives is highly import dependent the net foreign currency earnings is relatively low. Although primary and tertiary effects are low, the indirect and direct secondary effects are high. In addition as most big tourist establishments conduct their business transactions in Europe, accommodation expenses of

some European tourists are collected in Europe, thus those income does not reach Maldives. Therefore, taking into consideration the receipts which does not reach Maldives foreign currency earned was about US dollars 324 million, in 2000, and when direct secondary expenditures are subtracted, it is about 236 million US dollars of foreign exchange earned. The direct secondary effect in the year 2000 will be much greater than most years, because of the maturity of the loans of the resorts of the first phase of the STMP. Further, when adjustments are made for indirect secondary and induced expenditures it is reduced to US dollars 178 million, which is the net foreign exchange earned year 2000.

Generation of Income

The income from tourism or the expenditures of tourists in the host country is the other most important economic benefit. Because such expenditures circulate within the economy, the initial income is multiplied several times in the economy. In 2000, there were 15,044 beds in resorts; 446 beds in hotels, which are located in inhabited islands, and 800 floating beds. As most tourists are confined to resorts islands, resorts collect most expenditure of tourists. International transport component of the tourist expenditures is paid at outside Maldives, hence tourist spending in Maldives, include payments to accommodation, food and beverage, local transport and recreational services. However, as mentioned earlier, some larger establishments, collect payment for accommodation of European tourists, in Europe, hence some accommodation income may not reach Maldives.

According to a study under taken the average daily expenditure of a tourist was found at US dollar 138.35, in 1997, 131.21 in 1998,



Graph 14: Daily Expenditures of a Tourist

121.25 in 1999 and 123.65 in 2000 (See graph 14). An expenditure survey undertaken

by Ministry of Planning and National Development (MPND) shows that the average daily expenditures were 150.00 US dollars, in 1997. This figure has not been used because other corresponding information required for this analysis is not available from the survey of the Ministry of Planning and Development.

In 1997 the direct tourism receipts were 411[1] million US dollars, in 1998 it increased to 496 million US dollars and then it declined to 444 million US dollars in 1999. However, total receipts increased to 484 million US dollars, in 2000 because of an increase in bed capacity. In year 2000, 64 percent of the daily tourist expenditure were for food and accommodation, the rest for transfer to and from the resort; diving and other recreational activities, which include, excursions and shopping, amounting to 36 percent of the expenditure, while in 1997, board and lodging amounted to 68 percent; transfer to resorts were at 10 percent and other activities including diving amounting to 22 percent of the expenditure. The total receipts declined in 1999 because of a fall in the price for accommodation, when this component was the larger chunk of all expenditures. The decreasing price of accommodation of the late 1990 was a result of a large increase in the supply of beds. From 1997 to 1998, there was a 2 percent decline in the accommodation income, but the total decline of the accommodation income, in the period from 1997 to 2000 was 21 percent. However, with a slight decline in 1999, the total receipts increased because of the increased capacity. All these tourism receipts does not enter the local economy because of many transactions conducted outside Maldives and many of the direct expenditures of resorts are on imports. Hence, from these receipts, only expenditures for provision of tourism product: cost of sale, spent locally will have the income generation capacity.

The cost of sale: expenditures incurred by the businesses to provide tourism services vary from the types of establishment and services. On an average, in 2000, in resorts the cost of sale for boarding and lodging was 24 percent; beverages sale was 25

[1] The figures used are higher than the official figures normally used, however, as these figures are based on a more recent survey, and breakdowns are available instead of official figures, survey figures are used.

percent; transfer was 90 percent; diving at 15 percent and fishing at 2 percent of the sale price. On an average for all services, the input prices were about 30 percent of the sale price and approximately 60 percent of these expenditures flow directly out of the country, because resorts directly import inputs. Therefore, only 40 percent of the price of inputs can be considered as expenditures, which could have a income multiplier effect, and generate additional income within the economy, which is US dollars 58 million, from the US 147 million dollars actual expenditure.

The tourism multiplier for Maldives has not been calculated and there is not enough data available to calculate an accurate multiplier however, for purpose of comparison and illustration, if we assume that the multiply is 1.06 (ie: 30 percent cost of sale, of which 20 percent local sales), the expenditure of US dollar 58 million (40 percent of the total expenditure) after about nine rounds of income and expenditure, would create a cumulative income of US dollars 61 million. However, if the country is not import dependent (multiplier at 1.42) the direct spending of the US dollars 58 million would could create, after 21 rounds of expenditure, a cumulative income of US dollars 209 million dollars. Nonetheless, it is not case in most small islands nations, with limited resources, limited manufacturing and poorly developed economies, because these countries will not be able to provide the inputs required to produce the tourism product. Hence, to maximize tourism benefits maturity and diversity of the economy is essential or products should be designed in a manner that maximize the use of local inputs, then income multiplier would be greater.

Employment Generation

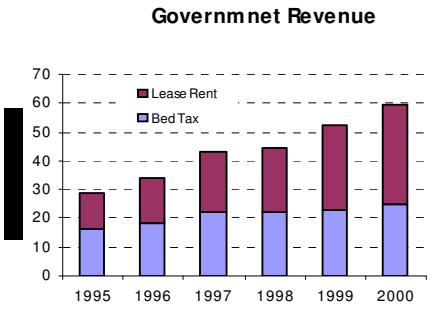
Data on total employment generated from tourism is very limited, however, the numbers of direct and indirect employment generated in resorts are recorded. Largely, because of the nature of tourism in Maldives, some jobs considered as indirect employment elsewhere in the worlds, have to be considered as direct employment. This is because resort islands are autonomous units, which provide their own electricity and water, and people who work in these areas although employed in the tourism establishment are in indirect employment. In addition, as all staff of resorts live in the

resort island, jobs are also created to serve these people, which are either indirect or induced employment. However, as some of them have dual responsibilities, identifying direct and indirect employment is extremely complex.

In 1999, tourism sector generated about 24 thousand jobs, of which, 46 percent: 11 thousand jobs, were occupied by foreigners. At the early years of tourism, the entire tourism labor force, was Maldivian but from the late 1980s, expatriate labor has been progressively increasing. In year 2000, it is estimated that over 25 million US dollars was spent on imported labor. Therefore, while employment is a major economic benefit in many countries, in the Maldives, it is actually an economic cost in the long run, but as mentioned earlier, because of the nature of the industry labor cannot be substituted with capital.

Government Revenue

Acknowledging the poor linkages tourism has with other sectors of the economy, its potential to induce imports, high capital demand and crowd out investments in other sectors, and its environmental and social costs, to maximize tourism benefits, government started to directly tax tourists: a bed tax of US dollar 6.00 per day is charged from each tourist. In addition, to avoid surplus supply of tourist beds and minimize adverse environmental impacts, Government started to control tourism. This resulted in increased scarcity value of resort islands, which boosted the value of islands. For example, now for each bed in a resort, the



Graph 15: Government Revenue

leaseholder has to pay on an average US dollars 4,500 per year, as rent.

Government revenue has been boosted substantially in the recent years. The graph 15 shows the increasing government revenue from tourism. In 1995, the government collected 28.89 million US dollars and it

increased to 59.7 million US dollars in 2000, which is about 107 percent increase in 5 years. From 1995 to 1996, the government revenue from lease rent of islands increased by about 24 percent and during the period from 1995 to 2000 it increased by 171.42 percent. Between 1995 and 1996, the tax revenue increased by 23.56 percent and in the period from 1995 to 2000, the increment was 55.72 percent. The high rate of increase of lease rents are because new islands were awarded for development and rents proposed for those islands were substantially high than that of the previous leases, because of rising scarcity value of islands. Similarly, increased receipts is due to the increase of the bed spaces in the industry.

In the cost of sale, tax and lease rent are exclude hence, from the 484 million US dollars, 147 million was paid to purchase tourism inputs, and as profits US dollars 337 million were retained by the industry. Therefore, from this US dollars 337 million, 60 million was paid to the government for rent and tax: 58 percent for rent and 46 percent for tax. In addition, all imports to Maldives are subjected to an import, duty ranging between 20 to 30 percent of the value of imports, hence import duty of tourism inputs are also additional revenue government receives from tourism, but those indirect government revenue from tourism is excluded from this analysis.

Table 1 **Summary of Economic Benefits in 2000**

	Expect.	Actual	%
Total Receipts (USD million)	484	324	67
Initial Income (Expenditure on purchase of inputs) (USD million)	147	58	39
Cumulative Income (USD million)	209	61	29
Foreign Currency Earnings (USD million)	324	178	55
Government Revenue (USD million)	60	60	100
Employment (thousand of jobs)	24	13	54

As shown in table 1, all economic benefits are less than what is expected. Total receipts, which were expenditures of tourist to purchase Maldivian tourism product, is 484 million US dollars in 2000, but because a part of the tourism product is sold

outside Maldives, they do not enter the local economy. Hence, the actual is much less. Expenditures on purchase of inputs were 147 million US dollars, but as tourist establishments import directly only 58 million US dollar enter the local economy. With the estimated multiplier, if Maldives is not heavily import dependent, it is expected that 209 million US dollars of cumulative income will be generated within the economy, but because of the high import content of the industry, the cumulative income was 61 million US dollars in nine rounds of expenditure. The total tourism receipts are gross foreign exchange earned but when all factors and leakages are taken into consideration, the net foreign currency earnings were 178 million US dollars. In year 2000, the direct government revenue from tourism was USD 60 million and the employment created was 24 thousand jobs of which Maldivians occupy 13 thousand jobs.

Environmental Condition

The islands of Maldives are formed on 'entire' atolls, hence, in the closed atolls there are chains of reefs encircling the lagoon, while in the open ones, such formation is not so obvious. However, even in the open atolls there are clusters of islands located on a shallow and a calmer lagoon and sometimes many of the islands are on the periphery. In the South and in the center of the archipelago, atolls are more closed than in the north, hence as the resorts are developed on the center of the archipelago, most resorts are located in closed atolls.

The growth of a number of corals colonies on a hard substratum creates a reef, which hosts lagoons, islands and sand cays. Each reef is a thin veneer of living corals that cap a structure composed largely of calcareous debris, resulting from the breakdown and subsequent cementation of stony corals and other skeletons. On some of the reefs, coincidence of wind, tide and current causes sediments to accumulate on the reef flats to form sand cays. Subsequently, seeds dropped by birds or washed on shore, germinate and grow, and such vegetation causes to stabilize the material, and provide nesting places for birds and turtles. This result in transfer of nutrients from the sea to land to fertilize the vegetation and with maturity of islands, the nutrients also start to flow onto

the reef flats, resulting growth of sea grass beds, which also cause to accumulate sediments. The many islands of Maldives are at some stage of this process, except the ones, which have been altered by human intervention.

Hence, these islands, barely a meter and a half above the sea level, consist of a white sandy beach encircling a patch of tropical vegetation and are tiny with an average size of about 16 hectares. The islands located within the lagoon are mostly round with a smaller host reef, which often supports a single island. While the reefs on the periphery of the atolls are larger and often hosts more than one island, especially in the closed atolls. Strong waves break on to the ocean ward side of the reef slopes of reefs that are located on the periphery of the atolls, while the lagoon ward sides of the reef slopes are often clam. There is no plage, as the islands are low lying, and surrounding seas of the islands are shallow with clear waters that extend to the edge of the host reef where it slopes down into the deep lagoon. All these reefs are inhabited by a number marine species making these places one of the most spectacular scenery of the planet. It is these land and seascapes and the tropical climate, which attract tourists to the Maldives.

While this natural setting provides excellent opportunities, the eco-systems being very fragile and non resilient to change, anthropogenic interventions create a number of environmental problems, for which solutions are hard to find. These reefs and coastal dynamics of islands are in an extremely delicate equilibrium, and if it is disturbed, the impacts are often irreversible and detriments extend to others ecological systems in the neighborhood. Nonetheless, taming and hardening the environment, as technology and resources permit have been the trend in the industry, although, it jeopardizes the aesthetic integrity and visual quality of the ecosystem: the base on which Maldives tourism product is developed.

In the early years of tourism, the islands and reefs of the archipelago, including the resort islands were the sources of supply of resources for production, as well as sinks for production and consumption waste. As mentioned reef materials, coconut timber and palm leaves, were the major construction materials, and the consumptions waste: sewage and

solid waste were disposed, either on to the sea or into the island ecosystem in their raw form. With the commencement of such practices, in magnitudes, which is beyond the assimilation capacity of the ecosystems, the reefs started to deteriorate, islands started to erode and the aquifers of the islands were contaminated and commenced depletion. With the contamination of the aquifer, the nutrient transfer process from land to sea accelerated and when nutrients started to seep on to the reef flat, sea grass beds stared to grow, tarnishing the visual quality of the reef flats and inner lagoons.

In the islands, as materials of the reef were extracted or relocated to make passage and harbors for boats, the coastal equilibrium gets distorted and the natural accretion and erosion patterns are altered. In many cases, beach erosion became a problem, for which a process of trapping sediments using groynes commenced. Nonetheless, the dynamics of the processes being far too complex, the impacts are hard to predict. Consequently, while the trapped sediments cause to form beaches in some areas, limitation of the supply of sediments to other areas caused greater erosion elsewhere. In the first two decades of tourism and to a lesser extent now, some developers are engaged in an infinite process of chasing the sediments around the resort islands, as a result some resort islands transformed into a spider like configuration, with groynes protrude out like legs. In the early years of tourism, the developers were entirely unaware of the dynamism and complexity of these ecosystems. But this dynamism caused to surface environmental detriments in a very short period of time, which made some developers more cautious, while others continued to struggle against nature. As a result, the quality of the products deteriorated, because of the loss of the aesthetic integrity of the natural coral island environments.

As mentioned earlier, in the early years of tourism, because of the low density, less resource use and poor technology employed for alteration of the environment, the islands had the assimilation capacity to bear the environmental stress, hence the problems were very minimal. Nonetheless, with the 1980 boom in tourism, the adverse environmental impacts started to surface, because of the rapid densification of islands and high resources use. Hence, since the early 1980's many regulations

were made to control the use of the island environment, as sink for waste. Extraction of reef resources from the resorts and neighboring reefs were also restricted: a 'not in my back yard principle' was adopted, which was well supported by the industry. In addition, Maldives being a traditional fishing community, dependent on marine resources, traditional controls, on fishing gear complemented these efforts. Moreover, the government imposed restrictions on the design of coastal structure, and made it mandatory to use environmentally friendly technologies, in the disposal of waste. Imposition of these regulations has made Maldives a destination, which is exceptionally environmentally friendly; nonetheless, there are many issues that require urgent attention.

In the 1990s with the increased profitability of resort operations, technology required to find hard engineering solutions, to the impediments caused due to the natural configuration of islands and reefs, became affordable. As a result of this coupled with the limited controls on hardening and taming the environment: dredging, reclaiming and construction of breakwaters some developers altered islands to unprecedented levels, further deteriorating the quality of island environments. As there is a lag time for regulatory tools to take effect, especially in issue like environment, until the late 1990, the process of taming and hardening the environment continued, and the regulation enacted to minimize, environmental impacts to resort operations are poorly enforced.

In summary, the environment of Maldives, is a complex interrelations of very delicate ecosystems and thus, the islands of Maldives are in an extremely delicate equilibrium. In the early years of tourism the islands of the archipelago, including the resort islands were the source of supply of resources, and the sinks of production as well as consumption waste. Extensive use of the island and reef ecosystems as sinks for waste and extraction of reef resources caused to surface environmental detriments. The geographical configuration of islands also imposed constraint for operation, for which engineering solutions are found, but those interventions triggered additional environmental problems. This compelled further intervention causing loss of the beauty and integrity of the ecosystem, which

diminished the quality of the product. As a result, regulations were formulated to control waste disposal method and resource extraction. Designs of coastal structures were controlled to minimize their impacts to the coastal dynamics of islands; it was made mandatory to acquire environmentally friendly technologies for disposal of waste and resources extractions was prohibited. Although, imposition of these regulations have controlled environmental detriments, much needs to be done to transit into ecologically sustainable tourism.

CHAPTER TWO
Evaluation of the Plan Implementation

Introduction

This part evaluates the extent of achievement of the objectives; relevance and effectiveness of the polices, goals and objectives of the STMP. In this evaluation key issues and aspects of the industry, which are identified as crucial in the plan have been appraised. Many of these issues, however extend beyond the boundary of tourism, but the relevance of them are immense. The major areas that were identified are:

a) Employment and human resources.
b) Legal and institutional aspect.
c) Investment finance.
d) Transportation.
e) Growth and expansion.
f) Product development and diversification.
g) Harmonizing tourism and environment.

To attain the objectives and goals of the plan, the government followed a two-pronged approach. The spatial expansion and product development polices formulate were geared towards facilitating conditions that will assist attainment of the goals and objectives of the plan. The other approach, which it used, was ensuring that resort development projects are also compatible with the goals and objectives of the plan.

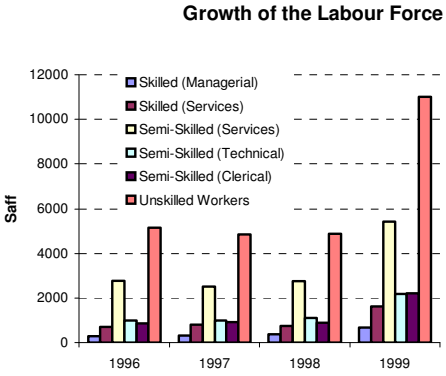
Employment and Human Resources

The most important aspect of tourism is its capacity to generate employment, however, in the case of Maldives, many of these jobs are occupied by foreigners. Therefore, STMP identified human resources as a critical issue because of the large number of expatriates working in the sector and the resultant economic and social consequences. Creating additional tourism sector jobs and Maldivianising the tourism labor force are priority objectives of the plan. Capacity expansion accompanies additional employment, and market forces have always pressured industry expansion.

Therefore, generating additional employment is not the challenge, but providing these opportunities to the target group. Maldivinising the tourism labor force is very complex and cannot be attained in the short or the medium term. Nevertheless, a number of strategies were implemented to make progress towards Maldivianising the tourism labor force, and during the period under review additional employment opportunities have been created.

The estimated demand for labour, for the capacity increase proposed for the entire planned period, was 8500 people. This is on an average, an annual increase of 850 staff per year. Excluding unskilled labour, it was estimated that in 1996, a total of 724 jobs will be created; in 1997, 774 jobs; in 1998, 827 jobs; in 1999, 944 jobs and that in year 2000, 1030 personnel will be required. The actual additional employment created in 1996 was 13 percent greater than estimated by the plan; in 1997, it was 0.5 percent more; in 1998, it was 4 percent less than planned but in 1999, the increment was 90 percent more than estimated. Although, the STMP estimated creation of an additional 8500 jobs by the end of the planned period, even during the period under review, over 12 thousand new jobs were created and this is with a 44 percent increase of the planned capacity. Therefore, in terms of numbers of job created it was much greater than planned.

The rate of the overall growth of the entire tourism labour force was very stable, in the period from 1996 to 1998, as at that time only capacity in existing resorts were developed. From 1996 to 1997, the total tourism labour force declined by 4 percent but from 1997 to 1998, it became positive to 3 percent and in 1999, with the commencement of the operation of the new resorts, the labour force registered a growth of 53 percent increase, from the previous year.



Graph 16: Growth of the Labor Force

As shown on graph 16, in 1999, the labour force started to rapidly

increase with the opening of the new resorts, however, as shown on the graph, there was a disproportionate increase in the labour force, especially in the unskilled and semi-skilled, service categories in 1999. The large increase of the unskilled labour force of 1999 is because, although some of the new resorts were officially opened, in late 1998, their full operations started in 1999. And even then, few construction[2] related jobs like resort cleaning, disposing of the construction machinery were incomplete, hence some construction workers were absorbed into resort employment, which were reported as unskilled labourers. The semi-skilled service staff increased, because the new and upgraded resorts started providing additional facilities, and also in the new resorts, in some areas like guest relations, more staff were used to enhance the services.

As mentioned earlier both the government and the private sector implemented a number of projects to Maldivianise the tourism labor force. Some of these include the initiatives of then the Institute of Hotel and Catering Services (IHCS), the industry and Ministry of Tourism. Institute of Hotel and Catering Services, upgraded its physical facilities and improved the quality of training programs: they now offer internationally recognisable diploma and masters courses. The industry has upgraded many of the staff facilities in the resorts to attract Maldivians. In addition, Ministry of Tourism in collaboration with the resorts conduct tourism awareness programs for school children, which are undertaken annually. The impact of them is still difficult to evaluate, but it has been observed that the awareness programs instigated a demand for higher education in tourism, although such awareness creation does not encourage people to join the industry at junior levels. However, this is encouraging, although it is a faint glow at the end of the *cul de sac*. This is because if this trend continues more competent people will be available for resort management and if they manage resorts the institutional barriers that obstruct Maldivians to join the labour force would be removed.

The most significant and effective tool that have been used to improve participation of the

[2] Construction related employment is excluded from tourism sector jobs even though, these employment opportunities are in resorts

locals in the tourism industry is incorporation of the human resource aspects into the evaluation process, for identification of potential developers, to lease islands for resort development. As the bid evaluation criteria included points for human resources policy of resorts, all investors proposed development of very superior facilities and services for staff and incentive programs for local staff. Consequently, in the new resorts, fewer staff share rooms and toilets, and dining facilities are improved. Spiritual, intellectual and physical development facilities for staff are provided in all new resorts. In most of the resorts, physical facilities, required to commence programs to motivate staff, have been built. Further, improved facilities, especially for accommodation have enabled female workers to undertake jobs in the resort islands. As a result, more females work in the new resorts, however, the bulk of them are expatriates. This is a note worthy development because, although most of the female staff are expatriates, a female community is being developed in the resorts, which would cause to ease the psychological pressure that women feel, when they have to live in a male dominant community. These developments actually relax the cultural barriers that restrict entry of the more vulnerable segments of the society into the tourism labour force.

Most activities and programs, proposed for implementation in the operational phase of the resorts, have not been carried out in most of the cases. However, some resorts conduct very professional training programs; buddy training and induction programs for recruits and implement objective performance appraisal systems. Some performance appraisal systems, inform staff of their contribution to the overall productivity of the resort and when all staff are aware of their inputs to the establishment, their motivation boost and a stronger drive to work harder develop. Although, there are high short-term costs associated with these programs, in the long run, such appraisal systems will provide economic benefits. And when other operators realise that these practices are beneficial, such programs will be duplicated in more resorts, which have been the case for many aspects in the tourism industry. Professionalism in management is now seen in few resorts. As managerial

capacity increases better institutions will develop in the resorts, and with objective performance appraisal systems, people will be better motivated to work.

As shown in the graph, **(a)** in page ….. although, the expatriate labour force increased in 1996, from 1997 the share of the expatriate labour force, in tourism started to decline. This indicates that the superior facilities, incentive programs and professional management all contribute to the human resources goals of the STMP. Nonetheless, while these trends are promising an issue of concern is that, in most high paying jobs there are still more expatriates than Maldivians. In the resorts, 66 percent of the food and beverage managers and 62 percent of chefs, are expatriates. Similarly, 89 percent of accountants and 55 percent of managers are foreigners, these jobs are the highest paid positions in the industry.

In summary, attaining the goals of human resources is extremely difficult, because although, additional capacity creates more jobs, foreigners often occupy them. This is because motivating Maldivians to enter the tourism labour force require overcoming many cultural, economic and institutional barriers. This requires improved physical facilities as well as institutional development and reversal of the existing trends in the sector employment, using economic instruments and stringent regulations in the area of labour. In almost all new resorts there are better facilities for staff. The training programs and adaptation of professionalism in management, have improved the institutions in the resorts. These factors have contributed to encourage more Maldivians to work in the resorts, resulting a deceleration of the rate of increase expatriate employment. While this is very encouraging, expatriates occupy most high paying jobs, which is an issue of concern. In conclusion, during the period under review progress has been made in the area of human resources, nonetheless, the actual benefits are still to be reaped.

Legal and Institutional Aspects

The STMP, emphasized the importance of institutional development to create an enabling environment for private

sector investments. In this, aspect the most important areas are for the tourism sector are the legal environment, regulatory procedures and institutions for marketing and promoting Maldives. Providing an environment conducive for development and growth of private business, is essential for any industry, and the institutional and legal aspects are most important for creation of such and environment. Development of the private business is essential for development of any society; hence, this objective will remain relevant and effective.

Legal Aspects

In the legal area, there have been much development, since the implementation of the plan, nonetheless, these developments have not solved all problems. The key issues identified by the plan are analyzed, in the light of the post STMP, developments. Some of the issues identified here are purely legal issues, but others relate to the terms of leasing islands. As the GOM is the property owner for all islands even though the rights are derived from a lease agreement, the implementation necessarily involves considerations of equity objectives.

Lease Period and Financing

The STMP identified that shorter lease period is a factor that obstructs tourism development, nonetheless, there is evidence to prove that resort projects payback at least with half the lease period, hence even if it was identified it may not be a constraint to secure finance for development. Nonetheless, Tourism Act of 1999 has provided for the increase of the lease periods of all islands by an additional four years. Two islands have been leased for a period of 35 years because the proposed investment exceeds US$ 10 million. There is also a move within MOT to get the requisite approvals for the increase of the leases to 35 years of resorts that have had initial investments in excess of US$ 10 million. However this increase will be subject to the investors' ability to prove that US$ 10 million was in fact invested. It is expected that at least 10 resorts would benefit from this increase.

The 1999 Act also provides for lease periods of 50 years, in the event a company holding a lease goes public by selling 50% of its shares within four years from the date of enactment of the Act. If the IPO occurs after this four years the increase would be equivalent to the remaining

portion of the lease before the IPO. It is perceivable that many resorts would not be in a position to take advantage of this provision mainly due to the following reasons:

- The absence of an established framework through which an IPO can be made;
- Absence an established mechanism within which shares of a public company can be bought and sold (the recent efforts by MMA is developing a capital market seems to be a step in the right direction but there still is a lot of work that would have to be carried out before a proper mechanism is established) and
- The insufficiency of the current domestic savings to support more than a few IPOs.

The insufficiency of funds issue relates to the fact that each resort has an average market value close to US$ 10 million and the apparent unavailability within Maldives, the amounts required to sell 50% shares of more than a few resort-operating companies.

It is the view of the STMP that the resort leases are far too short to enable long term financing. This however seems a fallacy because the profitability of the industry is such that the entire investment is returned within a period of five to six years and any loan financing available for this period of time should by definition be considered 'long term'. It is the view of the Maldivian bankers that the lease period has never been a problem because they have never had the requirement to provide loan facilities for a period longer than 9 years. Even when the financing is provided for nine years the residual portion of the lease suffices as good collateral. It is indeed true that the longer the lease period the higher the disposable value. However there is no empirical evidence to suggest that the length of the leases act as a major barrier against access to financing.

Mortgages

The STMP, identified that the banker's right to seize property for default of loan payment as an issue, because proper valuation process may not be followed as the resorts may be sold at distress price. Such provisions exist but there is no precedence for a bank having to foreclose for default on a loan secured by a mortgage of a resort. Considering the Law on

Mortgages and the laws and regulations that relate to sale and transfers of resort leases, there are no technical legal reasons why a bank cannot foreclose for default. Despite suggestions to the contrary by the STMP, it is not foreseeable that a bank would have to step in as a manager of the resort; they would be able to sell it on.

However, the procedure followed by MOT may pose a certain amount of difficulty. MOT requires that all claims be settled prior to the sale and transfer of a resort. In the event a mortgagee attempts to make a sale, the financial situation of the operating company may be such that all claims cannot be settled even with the full proceeds of the sale. This would mean that the normal process followed by MOT would require modification if the sale is being made subsequent to foreclosure proceedings. In order to provide the requisite confidence to the lenders it is important that MOT publishes the procedure for approval of forced sales by lenders.

Company Law

The STMP, emphasized, the importance of a Company because of the some deficiencies in the Presidential decree. In the period under review the Companies Act of 1996 has replaced the Presidential Decree on Limited Liability Companies. The new Act has addressed several issues that have been raised by STMP. However this Act is in no way a comprehensive framework, it can only be treated as primitive starting point. In most countries Companies Legislation is something of substantial volume because the issues, which it has to address, is numerous. The Act covers some of the key issues and has left a lot of development to delegated legislation, none of which have surfaced as yet. The Economic and Legal Advisory Services Committee (hereinafter "ELASC") of the Commonwealth Secretariat has assisted the Registrar of Companies in drafting an amendment Bill and the various pieces of regulation that need to complement the 1996 Act. The amendment Bill and the Regulations, when implemented, would no doubt fill the voids in the Act and provide a better framework.

Section 63 of the Act states that every company shall keep clear and sufficient accounting records of day to day sums of money

received and expended and records of assets, liabilities and obligations of the company. Section 66 states that annual financial statements showing the income and expenditure, profit and loss and balance sheet shall be submitted to the Annual General Meeting of any company. Section 67 states that the statements shall specify the paid up capital, the assets, the liabilities and information generally expected to be disclosed in relation to the assets and liabilities of the company and the manner in which all immovable properties of the companies are valued. Section 70 states that every company shall appoint an auditor and if the authorized share capital of the company is in excess of MRF 1,000,000, the auditor has to be a chartered accountant approved by the Audit Office. The financial statements required to be submitted to the Registrar of Companies pursuant to section 96 has to be accompanied by a report of the auditor which should specify whether or not the financial statements show a true and fair picture of the company's financial status. The Act specifies penalties for failure to carry out the activities of a company in contravention to these provisions.

The provisions outlined above should in theory suffice to enforce the requirement that all companies in Maldives maintain accurate books of accounts. However this has not been the case in practice. As the STMP pointed out, not all companies maintain proper books of accounts. It is common practice not to reflect owner's equity in the share capital of a company for the purposes of avoiding the stamp duty associated with it or to avoid the use of a chartered accountant. Such is the case with some of the resort operating companies. Very few have internal or external auditors. As most companies in Maldives have a share capital of less than MRF 1 million, people signing the audit report are rarely chartered accountants or even accountants. Even the bigger accounting firms have been observed to take a very relaxed approach to verifying the statements prepared by the companies. The accounting firms probably carry out such practices because companies consider the audit report to be a regulatory nuisance. They do not want anyone to probe the manner in which they run their companies. They just want someone to endorse a document which is mandatory for them to submit. Hence it can be said that in the

case of books of accounts and financial statements, the problem lies not so much with the absence of statutory requirements. The root of the problem is the government's inability to enforce the provisions of the legislation. Proper internal controls and maintenance of proper and accurate books of accounts are important because they have ramifications on a company's ability to access investment finance. The enforcement by the government of the provisions of the Companies Act would only go a certain way. The development of a corporate culture where such practices are considered the norm would be the ultimate solution.

Mobilization of Domestic Savings

The absence of the instruments for individual investor to participate in resort ownership, has been identified as a major obstacle to mobilize domestic savings for resort investments. Stock markets have not developed in the planned period, nonetheless, the change of law since the STMP, has allowed for the public sale of shares without the government having any stakes in the Company at all. The government appreciates the importance of the mobilization of domestic savings so that these savings would find its way to the investments made in resorts. In fact the government has provided a great incentive by providing a 50-year lease in the event a resort operating company sells 50% of its shares to the public. It is conceivable that some resorts, especially those with a very few years left on their leases would want to take advantage of this provision. However, the following stand as difficult, but not insurmountable, barriers:

- There are no published guidelines on the contents of a prospectus. The Ministry of Trade and Industries will soon specify this by way of regulation, but even now, the Registrar does provide an unofficial guideline.

- The absence of a stock market imposes a certain amount of restrictions on the sale and purchase of shares. This is however, should not be considered a major problem because the sale to the public can be undertaken by the company itself, like the way Bank of Maldives and Maldives Transport and

Contracting Company handled their issues to the public.

It is perceivable that some resort companies would undertake IPOs subsequent to the establishment of the stock exchange. It however remains to be seen how these new public companies would perform in the absence of certain basic corporate governance procedures such as directors' duties and minority protections. At the moment the majority of a company can sell all of its assets at a nominal value and the minority would have no remedy. The directors can get away with anything because their duties are not specified. It is the author's view that at least the basic directors' duties such as the duty to act *bona fide* in the interest of the company and for proper purposes be specified by statute before companies start to undertake IPOs. It is also important in the public interest that remedies be specified for conflicts of duty and interest.

Negotiable Instruments

Since the STMP a law on negotiable instruments has been enacted. Law number 16/95 provides a detailed treatment of Bills of Exchanges, Cheques and Promissory Notes. Despite the detailed nature of the Act, hardly anyone uses any negotiable instruments except cheaques. Banks have used Demand Promissory Notes for sometime now but even the banks use them only as evidence of debt. The scarcity of their utilization is mainly due to the absence of a proper mechanism of enforcement, and lack of awareness on the opportunities they offer. The Act specifies that in the event of dishonoring, the instrument should be submitted to a registered lawyer who would attach to the instrument a detailed account of the circumstances of dishonoring. This may not be a very useful enforcement mechanism and further regulation will required. These instruments can play a vital role but their role can only come to the forefront if appropriate enforcement mechanisms are established.

In conclusion, during the period under review substantial developments have been made to the terms of the lease and several new pieces of legislation has been enacted with a view to strengthen the legal framework, which will facilitate business transaction. Nonetheless, these pieces of legislation alone, does not solve all the problems.

Considering the immature status of the legal framework as relate to commerce, perfect legislation cannot be passed, they have to evolve and develop as enforcement capability improves and awareness of the among beneficiaries increase. For development of corporate cultures and maturity of the legal system there is long lag time because of the large human component in the sector. Therefore, although progress has been made this area still requires to be nurtured for development.

Institutional Aspects

The Ministry of Tourism is the key agency responsible for regulating; planning and development of the industry. Further, on behalf of the Maldivian Government MOT also acts as the property owner of the resort islands and operates Nasandhura Palace Hotel. At time of the formulation of the plan, it also coordinated the marketing activities of the industry and the Institute of Hotel and Catering Services, which is now the Faculty of Tourism and Hospitality Studies (FHTS) of the College of Higher education, was also under the Ministry of Tourism.

The STMP, recommended many changes to the functions of the MOT, which included;

- Disposal of the Nasandhura Palace Hotel
- Devolve the marketing functions to new tourist promotion board.
- Devolve the training functions
- Combine Civil Aviation and Tourism
- Prioritizing the functions, eliminate duplications, and discard duties which can be successfully assigned elsewhere and use the resources released to concentrate on new priorities.
- Resume the functions of formulating tourism policy; in coordination with other government agencies and communicate it to the private sector.
- Leading the government agencies and the private sector to achieve sector objectives.
- Developing co-operation and participating between public and private sector and provide the resources and specialize training to implement changes
- Play a lead role in preserving the environment.

It also suggested involvement of the private sector in marketing, and recruitment and training functions. In the area of marketing, the private sector has been involved in the very beginning, and the recruitment and training functions have always been mainly a task of the private sector.

Since the formulations of the STMP, many developments and changes have been made to the MOT. It has devolved its marketing functions to a new Tourist Promotion Board and the IHCS to the Maldives College of Higher Education. The lease rent of resorts, which was collected by MOT is now been collected by the Department of Internal Revenue of the Ministry of Finance. Hence, MOT is now primarily responsible for planning and development, maintaining industry standard and playing a coordinating and facilitation role for industry.

In addition, there has been reorganization within the organization itself. The functions of quality and environment control, which were sections in the Planning and Development, have been made into separate departments and qualified personnel head these sections. The MOT has acquired much technology equipments, hence, it has the means in terms of technology and skills, to undertake its functions more effectively. However, like any organization, problems exist, especially in the area of coordination, due to compartmentalization. However, as functions of the departments get more defined, coordination procedures will improve, and such trends are very obvious in the organization.

However, there are some redundant functions that are undertaken, because such procedures were followed previously. Therefore, an organizational appraisal is now required to verify whether an organizational restructuring is needed to serve the industry, which has transformed substantially over the years. Further, the entire government machinery, technology, and skills levels have also changed over the years, which further necessitates an evaluation of the organization.

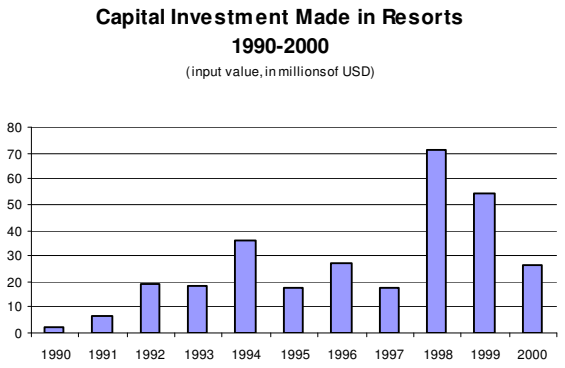
In conclusion, significant progress has been made in the area of legal and institutional development. Many pieces of legislation that were missing have been enacted, but because of the immaturity of the entire system they are not as functional

as expected. The MOT have reorganize itself and some major functions have been devolved, nonetheless, it still requires increasing efficiency, by devolving some redundant activities, so as to release resources for more important activities.

Investment Finance

To maximize the economic benefits of tourism to the Maldivian economy it is essential to strengthen the financial infrastructure: tourism industry should be able to finance its developments locally and with low costs. However, from a small and weak economy, with a low domestic savings and inadequately developed institutions, procurement of investment finance at internationally competitive rates is extremely difficult. Nonetheless, during the period under review, progress has been made to ease the problems and new developments were observed in this area.

Investments for upgrading of existing resorts and construction of new resorts escalate the demand for credit to unprecedented levels in 1998 and 1999. During the period under review, for development of additional capacity in existing resorts over 68 million US dollars were spent and for construction of new resorts over 101 million US dollars where spent. The STMP estimated an annual capital requirement of US dollars 38 million during the period 1996-2000. This is about a total of 152 million US dollars for the period 1996 – 2000, while the actual requirement was 169 million US dollars. The estimated capital investments of the last ten years are shown in the graph 17. The demand for investment finance, of the entire industry was highest in 1998, when 9 new islands under the STMP, were leased for resort development.



Graph 17: Capital Investments Made in Resorts

The capital requirement of the industry in 1998 was about 42 percent of the total demanded, during the period under review, amounting to 71 million US dollars. In 1999, when the other 4 new islands were leased, the demand increased by another 54 million US dollars and in 2000, an additional 26 million dollars were required. Capital demands of the new resorts were 31 million US dollars in 1998, 42 million US dollars in 1999 and 28 million in year 2000. The STMP estimated an annual investment finance requirement of 38 million US dollars, while on an average between 1998 and 2000, the actual capital requirement for new resort were 34 million US dollars annually. However, during the period 1997 – 2000, the combined capital requirement of the industry: for upgrading and construction of new resorts was on an average 56 million US dollars annually.

While the investment finance requirement of this period is unprecedented, when new resorts were awarded, the investors were compelled to organise finance for resort development in a very short period, because of the high penalties imposed for failure to develop resorts in accordance with the work plan proposed by the developer. Further, bank guarantees submitted with the development proposals become invalid after expiration of the period of bid validity, which is after the award of the islands. Hence, in this situation, where the supporting banks have no contractual obligation to finance the projects, if the banks refused to finance, investors were compelled to seek finance from sources other than the banks. However, most developers received part of the finance for projects, from the commercial banks in the Maldives, but the terms were not very favourable.

Most developers did not make financing plans, prior to award of islands, as most projects were not professionally designed. Most investors worked in a linear fashion, undertaking each activity of the project after completing the other, when time was extremely limited. For example, the initial priority was securing a lease of an island, followed by attempts to organise finance and development: marketing was often the final activity. Therefore, most developers were not able to sought finance from international sources on favourable terms. The developers, who were able to procure a part of the project cost from the banks, also borrowed from tour operators and procured suppliers credit. Others, who did

not have access to these means or found that the returns were greater by selling the leasehold rights, sold the leasehold rights of islands to third parties. As sale of the leasehold rights were restricted prior to completion of the project, these transfers had to made indirectly. This made transactions more costly for the purchasers of leasehold rights, because of the potential risks and uncertainty. Although, all islands, leased in the first round were constructed using credit facilities, there were many legal as well as economic issues that surfaced after completion of the projects. Some developers, because of liquidity problems had to divest equity, even after a year of operation. These problems portray the ambiguity of transaction, difficulty and uncertain terms of procurement of finance; and perhaps unfavourable terms on which finance was sought. Although, by observing the trends in the mount of finance that was dispersed from the commercial banks, it can be assumed that these institutions have enhanced their capacity to offer credit, the terms of lending have not been very attractive.

However, during the period under review, substantial developments have been made in the area of legislature, as many new laws required for conduct of businesses have been enacted, to ease the issue of raising capital. In addition the bidding process has been now made more transparent and objective, which would enable better project planning. The bidding process and the new agreements have made foreign investors more confidant opening new avenues to procure finance. As a result of these changes in legislature, lease agreement and increased profitability of tourism, coupled with economic and political stability of Maldives, few international financing companies have extended credit to the tourism sector, although, they did not flow in timely basis. For constructions of new resorts, different modes of international credit were utilised, which included exports finance, equity participation from foreign parties and long-term borrowings from international lending agencies.

In summary, the capital requirement of the industry was highest during the period under review. The investors have procured finance and developed the resorts but it was with extreme difficulty and in many cases, the terms of borrowing were very unattractive for the developer. Further, because the

supporting banks of developers, at the time of the award of islands, were not contractually obligated to finance the projects, in some cases only a part of the project was financed by banks. Hence, the rest were sought from other sources, which included suppliers credit, tour operator advances, export finance and long term borrowings and equity participation from international sources. Because suppliers credit is short term, tour operator advances cripple future cash flow, some developers divested equity even after a few years of operations, while others sold their leasehold rights prior to construction. Statistic indicates a positive trend in the capacity of banks to lend, however, the terms of lending: short term and high interests rates, do not adequately solve the financial liquidity problems. Nonetheless, the new laws enacted, changes to the lease contract and maturity of the banking system have partly eased the problem of investment finance. Further, the exposure of the Maldivian tourism industry to international capital markets; stable political and economic environment and increased size of projects have enabled procurement of finance from international capital markets. However time constraints and lack of skills in project design and management are some barriers that obstruct utilisation of these sources.

Transportation

Unlike other tourist destinations in the world, resorts being autonomous units that provide their own power, water supply and have waste disposal arrangements, tourist facilities are developed together utility infrastructures. As such the most important tourism – support off-site physical infrastructures are transport related ones. STMP identified the need to upgrade the facilities of the airport, however, issues related to transportation of goods were not highlight, perhaps because such a need did exist. At the time of the formulation of the STMP, Male International Airport was undertaking a major project to upgrade the existing terminal building; develop a new departure terminal; improve landside facilities, hanger and refueling facilities. Hence, with the completion of the activities, the situation in the airport has improved significantly.

At the time of the formulation of the STMP, there were many constraints, in the provision of

the services to tourists at the airport. This is associated with congestion and poor organization at the landside of the terminal, where post arrival and pre departure services are provided. The structure of tourism industry; the clientele it serve; host community restrictions; inadequate development of domestic travel and geography of the country, necessitate conducting many activities or providing guidance to tourists, immediately after arrival. The problem of congestion resulted in difficulties for tourists to identify the resort representatives or the tour operators on arrival. This was because, as there were not enough space at the arrival side, agents and representatives of tour operators do not have stations to stay. The resort and tour operator representatives carried name boards and received clients as they arrive; hence, it was very difficult for tourists to identify their hosts. However, the projects that were under implementation at the time of the formulation of the STMP have been now completed. As a result, the difficulties tourist and the hotel representatives had at the airport have been partly eased, because some representative have counters. However, these counters cannot be provided on an unlimited basis because of the limited space available at landside of the Airport terminal. Thus, alternative plans need to be made if future tourism expansion is to center around Male' airport.

Prior to the late 1990's, there was no formal mechanism, or procedures established for the use of the harbor at the airport island, as a result people who travel to resorts by sea were faced with much difficulty, in the identification of baggage and in boarding the boats. This problem is worse for free individual travelers who do not have prior reservations, because there will be no one to guide or assist them on arrival. However, with improvements at the harbor and establishment of procedures to use the harbor, these problems have been now solved. Nevertheless, if the dominant mode of transport to the resort is by surface, which is the trend now, better facilities are required. Even now, congestion and lack of alongside berthing space for larger speedboats is an issue that needs to be addressed. The STMP identified development of domestic terminal buildings for both surface and air transfer operations and now seaplane terminals, have been built. This has partly solved the problems, because over 70 percent of the clients now fly to resorts.

Although, facilities have been built and organization at the arrival and departure points have been improved, in domestic travel not much progress have been made. For example, when larger groups of tourists have to be transferred by air in small aircrafts: tourists have to wait in the airport for long hours to catch the flights. While air transport is the dominant mode, there is still no alternative aircraft to de Harvilland DHC twin otter, although the fleet may not be in commission for long.

The other major problem with domestic transfers is that tourists who fly by night-flights have to be transferred in the day, because seaplanes do not fly at night. Similar to tourists who travel by air, some resorts, which are 30 – 45 kilometers away from the airport, which use sea transfers, also avoid night transfers when the weather is unfavorable. Some of these tourists visit Male' and use the waiting time sight seeing, while others stay in the airport. With the development of an Airport Hotel, the condition of stay in the airport has been improved, because they have the option of using the services of the Airport Hotel. Even though, better conditions are in the airport, for tourists who travel by night, undue time has to be spend waiting, because there are no night transfers. As wasted sunlight hours would be a cost for the tourists, it is important to find a solution to this problem.

International connectivity with Maldives, has not improved significantly in the planned period. As Maldives is only a leisure tourism destination, people travel for a predetermined, fixed period of time and the major markets being Europe, most air links are with Europe. Although, more tourists now travel by schedule flights, they do not have the comfort classes, connectivity, and high frequencies for freer and convenient travel, demanded by travelers in higher income brackets, constraining the positioning of Maldives as a premium destination.

Many problems obstruct continuous development of the services at the airport. For example, to continuously improve post arrival and pre-departure services, development of physical infrastructure, trained manpower and institutions are essential. And most of the facilities and physical infrastructures have to be developed on the landside of the terminal building, where there is a serious shortage of land in the

right location, because of the existing pattern of development at the Airport. For example, the existing runway was built in the center of a narrow island. This means that development to improve passenger and cargo throughput, have to be located on the western side of the islands where the land area is very limited and the potential for reclamation is restricted because of the small lagoon. In addition, because tourists originate from the northern hemisphere most flights arrive and depart at more or less the same time and same days of the week. This is partly because departure and arrival times of flights are organized in such away that the time tourists spend in Maldives is maximized. As a result, at most of the time, the airport is under utilized, while at peak times, the airports reaches its limits, acerbating the problems of congestion.

Other issues identified by the STMP include difficulties and risks associated with having a single runway. It was identified that with the existing traffic a single runway is suitable but as traffic is congested for few hours of a day the airport reaches its peak handling level on many days. In addition, the report, with reference Gibb's study: an appraisal of the situation of the Male' Airport, also identified that as there is no taxiway at the Male International Airport, runway utilization time is double the required time for a flight take off and landing. However, it was concluded that with the forecasted growth it would not be a constraint, except at peak hours. None the less, a nations economy depending on a single runway was identified as an issue of concern, because should for any reason the runway were to be out of commission, the tourism industry will come to a halt, resulting substantial financial loss.

In summary, the most important offsite infrastructure for tourism is transportation facilities. As problems in transportation of goods were not addressed in the STMP it was considered that it was not a pressing problem at the time of the formulation of the STMP and constraints were not even expected for the planned period. Therefore, that aspect in transportation has been excluded in the report. Infrastructure development of the airport has eased many problems associated with congestion at the airport, which was a pressing issue at the time of the formulation of the STMP. However, there is a limit to the extent additional infrastructure can be provided at

the existing airport, because of the smallness of the island. While the quality of infrastructure can be improved, development of additional infrastructure, in response to capacity increase will be constraint in the future. The problem of transporting people to and from, and within Maldives is problematic. In trans boundary travel, poor connectivity with major cities of the world and lack of comfortable, and higher frequency access to Maldives are major problems. Improvement of international air travel, with better connectivity, frequency and quality is not constraints due to deficiencies in infrastructure, but it is market determined. In domestic travel not much progress have been made. Dependence on the depleting and non-replaceable floatplanes for transfers is extremely risky, hence alternatives have to be found. However, the use of sea transfers are now increasing, because with increased capacity, distribution of tourists from the airport to the resorts in small air crafts, have become less efficient. The contributions of the transport sector to the goals of STMP are adequate but Male' International Airport is now reaching its limits, hence for distribution of tourists to future resorts alternatives have to be found.

Growth and Expansion

The STMP suggested spatial expansion of the industry to be compatible with national regional development strategies. Further, it suggested government intervention to direct tourism to other regions, so as to avoid congestion and environmental stress in the Male' area, to be in par with the capacity of the airport to handle additional capacity, and cautioned to be pragmatic in the implementation of capacity expansion plans. For the first five years, STMP suggested to concentrate on consolidation and upgrading in the central region, which is the existing tourism zone, developing Villigilli in Addu Atoll and allocating about five to six islands from the atolls close to the airport for resort development. This is largely because if tourism were to expand into other regions, so as to facilitate regional development, it would entail capital expenditures for development of off site infrastructures at these locations, therefore to avoid it STMP suggested using the existing infrastructures like the airport, for initial expansion.

Therefore, in the first phase, the government, decided to develop islands from the nearby atolls; Villigili in Addu atoll and enable densification of the existing resorts, if there were land to meet the requirements of the determinants of capacity controls.

Densification in Existing Resorts

Upgrading and capacity expansion in the existing resorts commenced prior to the formulation of the STMP and the rate of expansion in the existing resorts intensified, when many resort operators were unable to secure a lease of a new island. Further, some operators redefined the boundaries of their islands, to justify availability of more land in these islands for construction of additional rooms. As a result, capacity expansion in the central region was greater than planned in the STMP and the resorts also got denser. A total of 2,783 beds were developed in islands in the Ari and Male' atolls. However, as the committed upgrading projects accounted for 1,000 beds at the time of the formulation of the plan, STMP proposed additional capacity increase of 1500 beds in the region. As the densification, was greater than planned, the increased density actually adversely contributed to the marketing and product development goals of the STMP.

Expansion to Nearby Atolls

In expanding to the nearby atolls, the government decided to limit the zone to an area within about 142 kilometer radius from the airport, because it is the distance seaplane could serve without having to stop for refuelling. The atolls in this area include Southern part of Raa Atoll, Baa, Lhaviyani, Vaavu and Faafu Atoll and Northern part of Dhaalu Atoll, in addition to Male and Ari Atolls. All uninhabited islands in this area except islands of Male' and Ari Atolls were surveyed, which was a total of about 141 islands. The few islands in Male and Ari atolls were left for excursion needs of resorts and safari boats. To be compatible with the national as well STMP goals of spreading the benefits of tourism to as many people as possible, islands were selected from all atolls within the zone identified by the government, except from Vaavu Atoll which was reserved for the use of Safari boats, and development of attractions like Marine Parks in the future.

A rapid assessment of these islands was made and 14 islands with the capacity to host about 3100 beds were selected for development. These 14 islands were not only selected for their natural beauty, but environmental, economic and equity objectives were also given high priority. Large and small; round and elongated; islands within and on the periphery of atolls; and islands with large and small lagoons were included as all these aspects have advantages and disadvantages for product development. Proximity to inhabited islands; relative isolation and potential of the islands to host other economic activities were some other factors that were considered prior to finalising the selection.

After selection of the islands, they were offered on tender: interested parties were invited to submit proposals for resort development. The number of beds that can be developed in each island was determined. The combine capacity is 3,160 beds in 14 islands, and all islands, except one with a capacity of 400 beds, have been now developed and are in operation.

Expansion to Southern Region

From the Southern region, Villigilli, was offered for development so that it can be a springboard for development of other atolls in the southern region: Huvadhoo Atoll. Villigilli was awarded in 2000, to develop as a 500 bed resort in 2 years. It was awarded to a company, which has government as well as private sector shareholding. The resort has still not commenced construction, because of difficulties in procuring finance.

The STMP proposed development of 20,500 beds by year 2005 and the regional distribution of the capacity is as shown on the table above. The plan proposed, increasing the capacity of the central region by 2,500 beds but the actual increase was 2,783; in the nearby atolls it proposed an additional capacity increase of 3,500 bed and the actual was 2,999 bed. On completion of the last project, this figure will increase to 3,399. From the southern region it proposed development of 3,000 beds and in the other regions: atolls where domestic airports are located , another 1,000 beds but no development have occurred.

Table 2: **Existing and Proposed Bed Capacity by Region**

Location	No. Beds Prior to 1996 (Planned Period)		Proposed Number of Beds	Actual Number of Beds			Beds Required
	No.	%		Dev.	Total	%	
Central Region	9655	92	2500	2783	12438	76	- 283
Nearby Atolls	769	7	3500	2999	3768	23	501
Southern Region	100	1	3000	0	100	1	3000
Other Regions	0	0	1000	0	0	0	1000
Total	**10524**	**100**	**10000**	**5782**	**16306**	**10**	**4218**

Therefore, by 2005 the industry should develop about 4,218 beds to meet the targets specified in the STMP.

In summary, the government followed the spatial expansion plan proposed in the STMP and most resorts are developed and in operations. The resorts in the central zone continued densification and the capacity in this area surpassed the planned capacity. From the atoll nearby to Male' atoll, 14 islands were selected for resort development and all except one are in operation now. However, the proposed development of the southern region is far behind schedule. Now to develop the capacity proposed in the STMP, in the second phase 4,218 beds have to be developed.

Product Development and Diversification

The STMP suggested development of products and attractions to facilitate positioning of the Maldives as a premium and an ultimate marine eco-tourism destination; and suggested to continue to diversify the product, source and target market. To diversify the source market it was suggested to penetration into Japanese and Australian markets. Catering for higher income clients of the exiting source markets; the silver market; and the environmentally conscious travelers were recommendations to diversify the target markets. Therefore, to attain these marketing objectives

the industry has to develop new products and re oriented it to serve the new clientele.

The STMP, specifically suggested that Maldives will not be able to match the competitors in building, capital-intensive luxury facilities and hence to avoid such developments. It suggested building products that give the peace and solitude the mature, and nature loving tourists demand. It emphasized on capitalizing the most outstanding asset of the Maldivian tourism industry: the environment and providing personalized quality services.

As mentioned earlier, apart from the regulatory tools available for tourism management, the rights the government has over islands, in the capacity as property owner is another tool to direct the industry. It was very effectively used, by incorporating design concept as a major criterion for evaluation of projects. However, as regulations now require reformulation to use them as a tool to guide tourism along the planned paths, regulations were ineffective. The achievements of the product development goals, which are essential to position Maldives as a premium destination, are arguable. The progress and the pattern of product and attraction development are as follows.

Upgrading and Consolidation of Existing Resorts

The consolidation and upgrading of the existing resorts commenced before the implementation of the STMP, because, if the built – up area and other determinants of carrying capacity, justify building additional rooms in an island, extensions to such resorts cannot be restricted. From the late 1980s, almost all resorts in Male' Atoll commenced upgrading. Most resorts of the 1970's and 1980's were demolished and more permanent structures were built. The rooms of resorts were improved to the conventional hotel standards: temperatures of room were artificially controllable; international telecommunication links, television and mini bars were provided in the rooms. Toilets were fitted with hot and cold running water, bathtubs and shower facilities. Public facilities were also improved by introduction of additional food outlets like coffee shops and the services of the resorts became more standardised and formal.

At the time when the resorts were being upgraded, prefabricated houses were introduced to the Maldivian tourist industry. Some of them were used for water villas while others were used as land bungalows. As a result, there was a large number of very identical rooms in resorts all over Maldives. In addition, the layout of the resorts also started to change. According to the regulations, all rooms have to face the beach, hence, they are often located on the periphery of islands, adjacent to one another, in a linear fashion. With the need to locate more rooms in islands, this pattern changed. This is because, developers started locating clusters of rooms in a concave fashion, this way, more than one can share the same beach length and all face the beach. Hence, the number of rooms that can be constructed in one location is increased, although there will be less privacy for clients. In addition, some resorts commenced reclamation, either by the residual sediments of the harbour improvement projects or by direct reclamation, to increase the land area of islands so that more rooms can be built. With the increased land area in islands more and more beds were developed making these islands more congested.

The consolidation and upgrading projects resulted in a substantial change to the industry: the traditional Maldivian tourist product was reduced to a few resorts with a combine total of less than 500 beds. Most upgraded or re-built ones are standard resorts with varying levels and types of facilities, but they do not have distinct themes or unique concepts. The emphasis of most of these projects was on improvement of the physical facilities rather than enhancement of the total product. Hence, these resorts now have better physical facilities, which can provide improved services for guests and staff. However, the increased numbers of buildings in these resorts, which in some cases are beyond the actual natural capacity of the islands, have made them more congested. This, actually deteriorated the quality of the product, even though, a number of man made facilities were developed, to compensate for the loss of natural attractions. From a conventional hotel classification point of view, resorts improved their rating but in the context of island resort tourism, the quality has deteriorated. Further, the intangible aspect of the product has not been adequately addressed in most resorts; as a

result these products may not actually enhance the holiday experiences of the clients.

Most of these resorts became standardised, congested, operations more formal, resulting loss of 'local colour'. The product, which very effectively contributed to the physical and tangible aspects, failed to cater for the psychic experiences and satisfaction of the travellers. At the time of the formulation of the STMP, the impact of the deteriorated quality of the products was not apparent, because of high demand and supply shortages. However, since the late 1990's, the impact of standardisation, congestion, loss of identity of the products and formal operations were felt, indicative from the declined selling rates of such products.

Therefore, most of these projects were diagonally opposed to the product development and marketing objectives of the STMP. However, it can be argued that these physical developments may be beneficial, because these are potential products, which can be targeted to a different market segment. Nevertheless, improvement of the quality of services, to match the physical developments, are essential to offer them to new markets and contribute to the product diversification objectives of the industry. However, few upgraded resorts, which focussed on enhancing the psychic and physical experience of the clients contributed well to the product development objectives of the STMP. Some of them undertook limited physical infrastructure development, but concentrated on enriching the product by offering a limited but a selected, higher quality services to a specific segment of the market. Hence, the clients were a special group, and the package of services was delivered to meet the needs of this particular market.

In short, the overall contribution of the upgraded resorts to the product development objectives of STMP was limited. However, one of the noteworthy contributions of the upgrading and consolidating programs are the improved facilities for staff, which could contribute to the human resources objectives of the STMP.

New Tourist Resorts

The resorts, developed under the STMP were developed very differently. As resorts were offered on tender, and in the evaluation points were given for

good concepts developers were compelled to submit innovative and creative concepts in order to win the bid. The facilities for staff had to be of superior quality and environmental aspects adequately addressed. As a result, most of the new resorts were developed on entirely different lines from that of the ones constructed prior to the STMP.

The proposals submitted to secure lease of islands were evaluated using a merit point system where the project which propose the highest rent scores 60 points; the best development concept gets 20 points; staff facilities and incentives, and environmental preservation are awarded 10 points for each aspect. Most proposals emphasised on increasing the number and quality of facilities, improving the built environment of the island, providing better facilities for staff, and protecting and conserving the environment. This was because maximising scores from all aspects were essential to win the bid.

Consequently, even though, the development concept or the target market did not actually require a certain facility, such facilities were also proposed for development, in order to maximise the number of scores. This resulted in development of many unrelated facilities in some resorts, which cause to dilute the concept, made products less cohesive, and created marketing and management difficulties. For example, a resort, which has a well-developed tropical 'relaxation resort' environment with health care facilities, could also have a noisy urban style discothèque. Hence, the disadvantages of some of these resorts are that some of them have either too many or redundant facilities.

In designing, almost all resorts have emphasised on creating structures that blend with environment. Hence, most of the structures, apart from water villas in most resorts, blend with environment. Therefore, the aesthetic qualities of tropical islands have been kept intact in almost all, new resorts. Very creative ideas have been used to ensure that the buildings and structures portray 'local color', however, largely because of the absence of strong Maldivian architectural features, and lack of adequate research such attempts have not been very successful in some resorts. Nonetheless, the built environment of resorts is different from each other and most of them have tropical island environments, which are different

from other regional destinations. Nonetheless, in few 'facility intensive' resorts, the public areas are reminiscent of regional destinations and these places have an ambience that is rather rigid, structured or strong. The 'temporarily built' open types of public areas, which are more suitable to the Maldives tourism product, are in fewer resorts. However, none of the resorts have closed, artificially ventilated buildings in public areas.

In the new resorts, the standard 'urban hotel' types of room interiors, were seldom found and the interior of the rooms in most resorts are different and well designed. Nonetheless, except for a few resorts, perhaps because of limited Maldivian handicrafts and artefacts, furniture and decorative items that were used were non - Maldivian and reflect alien cultures (See Photograph).

Few resorts have, however, used some locally available materials, and indigenous handicraft items very effectively. Although, these items are not durable, are very easily associated with the Maldives, because they are made of materials found in the islands. These items are simple; hence, they demonstrate the simple nomadic life styles of the traditional Maldivians.

Almost all resorts use the relaxation and heath tourism themes at varying levels and some are fashionable pleasure resorts. While some resorts emphasis greater on health tourism, by having juice bars, fitness centres others emphasis more on relaxation. Some of these resorts give a lot of emphasis on services like oriental massage. Although, older resorts also have massage parlours, the emphasis on this aspect is greater in the new resorts.

A very interesting development in these new resorts is in the nomenclature: many resorts have very effectively used local names for different facilities of the resorts, for, example, a pool bar is called 'Veydhoshu Bar' . Although, there are Maldivian names for many of the facilities in the resorts, these names have been now forgotten and English names are used for convenience. Names of places are important because many important events

for tourists will happen in these places, and keeping the name of the place in mind for the sake of the event, actually keeps the destination live. This is because there cannot be another Veyodhoshu Bar in any other destination, except Maldives, but a Pool Bar can be anywhere in

the world. Hence, if this trend continues, it would help to give these products a distinctive local identity.

Landscaping in many new resorts have shifted from rigidly defined, artificially grown, imported flowerbeds to more natural landscapes with native plants. Most of the resorts have kept the natural vegetation intact, as a result, the buildings in these islands are less visible or unobtrusive and the untouched virgin island environment has been sustained. This is very important because living close to nature is a priority for most clients, who select Maldives because of its natural beauty. This method of landscaping also provides greater privacy, because of thicker vegetation. Further, tourists can get the feel of being in a tropical coral island more easily when living around native vegetation. Protecting the natural vegetation is also very important because, these plants are very uncommon in the world. They are native to coral islands, which are supported by one of the most rare ecosystem of the world: the coral reefs, which cover only about 0.12 percent of the earth's surface and 0.17 percent of the oceans (Salvat,1979:143)[3]. Hence, if landscaping, by use and sustenance of native vegetation is continued, it will positively contribute to the Maldives tourism product because these landscapes can only be seen in destination like Maldives, which cannot be many in the world. Similar, to the naming process, if this trend continues, it will assist in the development of a distinctive identity to these products.

In the same manner as physical facilities are important to the product, management is also vital. This is because management style is a more powerful determinant of the

[3] Salvat,B. 1974, 'The meaning of marine resources', in The Population – Environment Relations in Tropical Islands: The case study of Eastern Fiji, Unesco, Paris 140-156.

quality and type of the product than the buildings and facilities in the resort. In few resorts, there were professional managers and human resource development personnel and hence, they are operated more professionally. In general, management is more efficient in most new resorts; consequently, they are more customer-oriented than some of the older resorts. In these resorts the clients have greater contact with the staff because, more and better guest-relations officers are employed. This enables tourists to adapt to the resort environment more quickly hence, it enriches and maximises their holiday experiences. Further, with well-trained staff, resorts will be more hospitable in general. The improved management in most new resort is another important contributions to the objectives of the STMP.

In summary, although the project selection process was geared towards developing products that contribute to the marketing and product development goals of the STMP, not all resorts contributed equally well to these goals. The major issue was that in the development of the project proposals, the developers have actually attempted to secure a property rather than develop a product that matches their target market. As such, some products lack cohesion and product features are not well articulated, because of the development of either mismatching or redundant facilities and incompatibility of the management styles with the physical aspects of the product. In most resorts, generalisation rather than specialisation is still the norm. This could be the result of an error in the selection process, or could be a manifestation of the low level of product development capabilities in the Maldives.

Nonetheless, new resorts have provided new dimensions to the Maldivian tourism industry: they offer greater variety; facilities are of better quality and in general the management better. Some very interesting and noteworthy developments are the naming process, landscaping and attempts made to demonstrate 'local color' and variety in the design of facilities. Few new resorts aim at attracting individualistic travellers and the products are still immature to evaluate their success on these lines. In general the contribution of these new resorts to the product diversification and enrichment goals are sufficient and their contributions can be easily enhanced, because for these resorts to will be easy to

transit to cater for an up market clientele, as most infrastructures are developed.

Development of Attractions

Sailing

Sailing cruises were introduced to the Maldives during the period under review. Exclusive sailing holidays were organised where vessels are leased to groups of tourists. Only with groups, which do not have a professional sailor, a skipper is accompanied. The institutions and regulations to govern these operations are still to be developed; hence they are conducted under the normal safari licences. This is a potential attraction that can be very effectively marketed to enrich the Maldives tourism product. None the less, this operation has been now ceased.

Diving and Water sports

Diving and water sports are the important sports which tourists use in Maldives. During, the period under review no significant developments were observed in the area of diving. Declaration of some new protected areas and allocation of additional dive sites, are the diving related developments, which contribute to the marketing and product development objectives of the STMP. In the area of water sports, introduction of additional sports and the trend of moving away from motorised water sports are the developments during the period under review. This trend is extremely beneficial to the environmental and marketing objectives.

Recreational Fishing

The STMP identified improving gear and vessels, for recreational fisheries, so as to develop it as a key-attracting feature of the product. The plan identified that it has potential to attract visitors from the Japanese, Far Eastern and European Markets. The STMP, highlighted issues relate to conflict of interest among, different interest groups in the tourist community and to avoid such situations suggested to developed specialised resorts for fishing and diving. As there are substantial markets for fishing holidays and environmentally compatible fishing methods are available, if such resorts develop, it would substantially contribute to the product development and marketing goals of the STMP, but such developments have not

occurred. An increase in trawler and big game fishing opportunities for tourist are developments in the period under review. Hence, sufficient progress has not been made in this area.

Excursions

Organising memorable events to enhancing the experiences of tourists, is essential to keep the destination alive. Such experiences cannot be provided in the resorts alone, which makes excursion trips to islands very important. To promote excursion trips to other islands development or rejuvenation of the attractions, in those destinations are essential. As such the STMP, suggested developments, which including improvements of the waterfront; cultural and historical attractions of Male' Atoll and development of colourful market places in some inhabited islands of Male' atoll. In the area of improving the attractions of tourists in inhabited islands, the progress has been minimal, during the period under review.

High density and congestion in the resort islands have increased the demand for uninhabited islands. Recognising this STMP, suggested identification of uninhabited islands for the use of tourists. It was proposed to conserve three uninhabited islands for each resort selected for tourism development. However, developments in these lines are limited.

An alarming trend is that while the importance of uninhabited virgin islands are increasing a new legislation, which was passed recently, give the opportunity for interested investors to lease islands for tourism related activities other than resort development and other economic activities. As a result a number investors are proposing to build facilities in virgin islands to provide services, other than accommodation to visiting tourists. To secure the lease of islands, most developers proposes large investments, which results in development of permanent structures on these undisturbed islands, but it diminishes the actual value of these islands. This a major issue of concern, because as the density in the resorts were low initially, there was privacy in resorts for tourists to get a feeling of isolation from civilisation, but with densification of resorts, these qualities have been now eroded. The alternative has been organising visits to uninhabited

islands in close proximity of the resorts. However, if the present trend in developing picnic islands intensifies it would actually make the atolls also denser. This would deteriorate the quality of the existing resorts and tourist would have to travel longer distances, to visits virgin islands to experience nature.

Health Clubs

Health related travel is now common in the world and in the recent years Spas have become very popular. During the period under review, substantial developments have been made in this area. Almost all new resorts, as mentioned earlier, are developed on these lines. Many of them have well equipped sports centres, massage parlours, Jacuzzis, steam baths, saunas and chilled pools. However, as mentioned previously the massages, in most islands are duplications of East Asian practices. Not much attempts have been made to capitalise on the natural environment and provide a treatment, which can be considered local. Developments in this area is still immature, hence the contributions to the product diversification and development gaols are minimal.

In summary, the development and improvements in the area of attractions for tourists, in the planned period are minimal. The sailing operation, which commenced during the planned period, has been now ceased. The developments in the area of diving and water sports are limited. However, more dive sites are now reserved for diving. Surfing has not revived substantially to make a significant contribution to the Maldives tourism product. Other water sports activities are carried out but no significant developments were observed. Fishing, which comprise of the conventional night fishing now encompasses limited trawling and big game fishing. The impact of it to the product diversification goals still remains to be assessed. The need for excursions to uninhabited islands have escalated and hence more remote islands are now required, making island use planning now essential. Excursion to inhabited islands continues in the conventional manner and no significant development is observed. However, the upgrading of the Male' water front is a contribution, while more needs to be done, to enhance the man made attractions of Male'. Development of a museum, has been a priority of

the government for a long time, however, the fear is that there might not be much artefacts left to keep in this proposed museum, if urgent steps are not taken now. Not much development has been made in the area of developing and promoting attractions.

Other Options for Product Development and Diversification

The STMP's implementation guidelines suggested some options for product development and diversification. Those options include variation on the existing themes; capital and urban overspill concepts – MICE Business; new pilot and demonstration projects; protected areas and visitor management regimes and new potentials in new areas.

Variation on Existing Product Themes

Variations in the existing product themes proposed by the STMP, include diversification in the actual product type to include family all inclusive resorts, self catering resorts, better excursion islands, improved diving and water sports, better safari cruises, developing international cruise ship businesses and getting the untapped potential in the area of recreational fishing. The numbers of all-inclusive resorts have increased but not a single self-catering resort developed in Maldives. Progress in the area of diving, water sports and fishing has been discussed in the previous part. Although quantity and physical quality of the resorts and safari vessels have improved, there is not much variations in the themes.

Capital and Urban Overspill Concepts – MICE Business

The Second Tourism Master Plan also proposed development of facilities to cater for the capital urban overspill concepts –MICE business. The facility intensive luxury resorts that were developed during the period under review are products, which have the potential to cater for this market. However, although the product is established, the air links that have to accompany such products have not been developed effectively. The STMP also proposed improvements for the waterfront of Male' and Hulhule, with regard to the

transfers to and from the airport. The organisation in Male' and Hulhule for ferry services have improved substantially.

In short, the product that is required to penetrate into such a market has been developed, but accompanying facilities, that is vital for such products are still not in place.

New Pilot and Demonstration Projects

The STMP's proposed to develop new pilot and demonstration projects like resorts in inhabited islands; eco-model resorts and marine research leisure centres. Developing resorts in inhabited islands require a radical policy change and from the past experiences it is evident that isolation of tourists from the community is socially very beneficial, although, some economic benefits have to be foregone. The high level of expatriates employed in the industry and the social as well as economic consequence of accommodating them in inhabited islands, and the advantage of one island one-resort concept of Maldives; does not justify a policy reversal. If new resorts carry out the projects as proposed, some of them could be considered as quasi- eco model resorts. Further, some new resorts have marine research centres, but the rapid appraisal of them revealed that such centres are not operational, therefore, not much have been achieved.

Protected Areas and Visitor Management Regimes

During the period under review, additional protected areas were declared however, management regimes are not in place. The STMP identified declaration of Marine protected areas and devising visitor management regimes with effective cost recovery mechanisms. One suggestion was to declare a small atoll like Vaavu Atoll as a marine park, where the visitors pay for the use of this Park, but such a system has not been established yet, during the period under review.

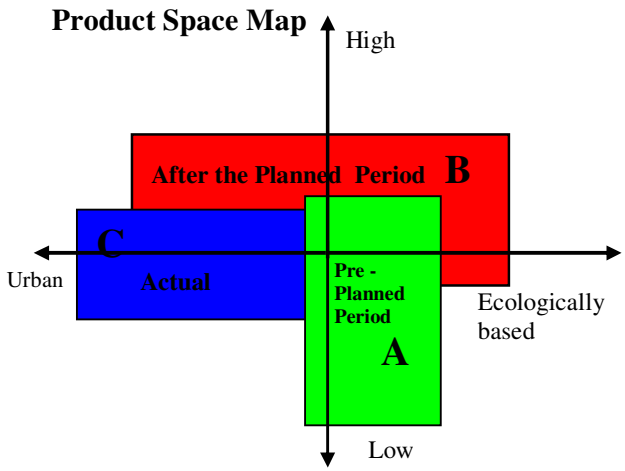
New Potentials in New Areas

Projects proposed to tap potentials in new areas include development of a chain of islands with varieties of accommodation facilities like holiday homes and timeshare schemes, managed by a development corporation. The relevance of this option to the Maldives situation is

questionable and the possibilities of developing such tourism estates have not been explored during the period under review.

In general, the period under review saw many changes to the Maldives tourism product. Although achievements are below expectations, progress towards product differentiation and diversification has been made, with the contributions of the upgrading projects and new resorts. A major drawback is the poor development of the intangible aspects of the Maldivian tourism product, which can only develop with human resources development. The STMP also acknowledged that all resorts will not be a developed in line with the themes proposed in the plan, however, from the product development, aspect, the plan was to develop an industry, which produces higher yield in general. The was illustrated in a product space map, and the progress made during the period and the proposed spread of resorts on this product space map is illustrated.

In the product space map, 'Y' axis shows the types of resorts. In the extreme left are facility intensive 'Urban Style' resorts and on the right side of the axis are the ecologically based resorts, which cater for specific target markets. The 'X' axis shows average receipts that can be generated. As shown on the product space map STMP noted that prior to STMP, the spread of the resorts were within the box 'A' and hence there were few urban style resorts and most resorts had lower yields. Hence, it suggested to re – orienting the industry, so that after implementation of the plan resorts are located within the box 'B', where more resorts generate higher profit. In this situation the industry would have a balance of urban style and ecologically based resorts that yield greater receipts. By completing the implementation of first phase of the STMP, the resorts are estimated to be situated within



the rectangle C. This is because almost all new resorts are facility intensive, and although the proposals specified environmentally friendly developments, they are not ecologically based resorts. The progress towards achievement of the target specified in the product space map, is not constrained due to lack of development of physical facilities, but largely due to managerial deficiency and lack of skills in product development and marketing.

Harmonizing Tourism and Environment

As Maldivian tourism product is primarily based on the natural features of islands and the marine environment, STMP suggested harmonizing tourism and environment. The environmental goal of the STMP has two distinct dimensions which are making the resort development and operations more environmentally friendly and using the environment conservations measures and practices as an attraction in itself.

The first aspect of the environmental objective calls to ensure that facilities, from design to operational phase, are environmentally compatible. The designs of facilities should help energy conservation, reduce environmental footprints, use fewer resources, and ensure that the use of such facilities do not impact the environment adversely. The other aspect extends beyond the boundaries of the first one: it is much more than reiterating the industry into more environmentally compatible paths. It suggests, capitalizing on the environmental assets to develop tourism products, rather than sustainable use of the environment resources, on conventional lines such as a provider of tangible resources and as a sinks for production and consumption waste. It attempts to draw the natural assets into the product: to make conserving, reviving or rejuvenating the environment, as an activity in itself that is strong enough to attract tourists. These two aspects of the objective are not mutually exclusive but are complementary to each other. This however, requires very creative and innovative marketing and product development skills. The increasing concern of the global community on environmental affairs, and the curiosity that is developing on such issues among them, have developed a new motivation for travel. Therefore, now there is a potential market segment that can be served with

environmental based tourism products. Catering such market segments would be economically, environmentally, and socially beneficial. Some of the suggestions of the STMP, on this aspect include, integrating tourism with coastal resources management; tourism and marine research; protected area management and developing public awareness creation centers, where the threats to the environment are modeled.

In the selection of projects for development of new islands, priority was given to projects that proposed environment protection and conservation measures. Therefore, many of these projects proposed activities that could contribute to both the aspects of the environmental goals of STMP. Most concepts proposed by the developers covered environmental conservation measures at the design, construction, and operational phases. Nonetheless, in many instances, when the detailed drawings were submitted these environmental conservation measures, were omitted in some cases. In the construction phase, many developers did not implement environmental monitoring programs hence, the extent of adherence to environmental standards is doubtful. Proposals, which suggested avoiding hard engineering solutions to obstacles caused due to configuration of islands, justified otherwise at the implementation stage and some developers dredged harbors in some islands. Therefore, although the proposals were prepared on environmentally compatible lines actual implementation was different in some cases. Nonetheless, most physical developments that were proposed were constructed, but many such facilities including the basic ones like sewage treatment plant are dysfunctional in some resorts.

It is mandatory to conduct Environmental Impact Assessments (EIA) prior to commencement of construction. Therefore, all new resorts undertook EIAs and the government, prior to issuance of construction permits, approved them. Nonetheless, Maldives is no exception, as far as the problems of EIAs and their capacity to reorients projects to environmentally compatible lines are concerned. In addition to the inherent problems of EIAs, because the ecosystems of these islands are extremely complex a number of technical studies based on historical data are important to make any of the EIAs functional

and effective. However, lack of site-specific historical data, time constraints and resource limitations obstructed such assessments. Therefore, very inadequate EIAs, only to fulfill the mandatory requirement were conducted. Hence, EIAs were not very effective and compliance monitoring is ill enforced because of the high costs involved.

All proponents, in view to maximize scores on the environmental aspects, proposed many activities that could potentially contribute the second aspect of the environmental goal of the STMP. They include development of marine research center, sanctuaries and protected areas in the resorts. However, in most resorts these aspects are not accorded priority, for example, in one resort where there is a conserved area, few people in the resort including staff knew that there is a protected area in the islands. Other facilities like marine research centres are inoperative, because of the lack of compliance enforcement, absence of required skills and a lack of demand for such facilities, because the proposed target market and the actual clientele were different.

Some new resorts and a few upgraded resorts have contributed to the environmental objectives. Although, some developers failed to carry out the proposed activities, many environmental conservation aspects are addressed in some of the new resorts. The landscaping is one quintessential example. While the upgraded resorts concentrated on importing plants, soil, fertilisers and pesticides, to develop rigidly structure flowerbeds most new resorts used native plant, organic fertiliser and attempts to keep the original nutrient cycles intact by conserving native plants and avoiding clearance of undergrowth. Further, in addressing the problems of erosion people are more cautious and instead of hard engineering solutions soft solutions are more common. Hence, the sediment chases in these resorts are non-existent. The greatest achievement in this area is that the environmental aspects are now on board and except for a few '*cornucopians'*, other the developers are more conscious and accept the fragility and the importance of nature. Further, as environment is now on the forefront deviance from environmentally compatible path, for the developers are far more difficult.

In summary, the STMP proposed a two-pronged environmental objective. While one aspect focuses on conservation through design and in operation, the other aspect calls to make the conservation and preservation programs, as a feature of the tourism product. As, more points can be scored, in the evaluation, by making projects more environmentally friendly, most proposals were developed on environmentally compatible lines. Proposals covered both aspects of the environmental objective of the plan. However, some proposals which covered many conservation measures in the concepts, failed to implement them in the design, construction and operational phases. Few proposals attempted to use environmental conservations as a product feature but in the operation of resorts such activities were ignored. As it is mandatory to submit EIAs the developers fulfilled these obligations, but their contributions were minimal. Further, as compliance monitoring has been poor, many of the mitigation measure have not been implemented. Nonetheless, because environmental conservation was an evaluation criterion, coupled with the increased demands of the tourists, environmental aspects have moved to the forefront of the tourism product. The increased awareness is the greatest achievement, because as a result of it, many conventional practices that were environmentally detrimental have been abandoned. Therefore, although there are many areas that require addressing, the contributions to environmental objectives are substantial, during the period under review.

CHAPTER THREE
ISSUES, POLICIES AND STRATEGIC OBJECTIVES

Introduction

Tourism is heavily reliant on open access resources. Theories on common pool resources, suggest that, if such resource use is uncontrolled, they get depleted because of over exploitation. This is because, each user, to maximize his/her benefits continuously intensify resource use, without considering the productive capacity of the resource. As a result, industries that depend on open access resources eventually collapse, if proper management regimes are not in place. Although, tourism in Maldives started in a haphazard and uncontrolled manner, it was soon institutionalized, thus the resources on which the industry is based have been managed over the years. Therefore, in general, tourism activities are in relative harmony with the environment, although there are few incompatible activities. Tourism practices are also socially acceptable and the industry has been economically viable, as such, it has never reached declined, albeit there were fluctuations. The successful development of the industry is the result of the creativity; innovativeness; courage; and entrepreneurial spirit of the Maldivian community involved in tourism, coupled with the enabling, supportive, and regulatory environment created by the Government.

At every stage of the development of the industry, the government has very timely intervened, either to regulate, plan, serve or subsidize the industry. The initial, intervention was to contain the negative social impacts, which not only achieved social goals, but contributed to economic objectives as well: it boosted the profitability of the industry. Simultaneously, the government also commenced developing an enabling environment conducive for development of tourism businesses, and harnessed the industry to achieve national goals. Therefore, tourism support physical infrastructures, human

resources, and institutional development programs commenced. With this private and public sector partnership, the industry prospered and developed.

Issues in Tourism

Tourism by nature encompasses many economic activities, which has many consequences to society, and culture. And it is also influenced by a myriad of international and domestic factors and some of the internal factors have roots to historical development of the industry; structure of the economy; social structure; culture and geographical factors. Therefore, although, tourism has been very successful, there are many problems for which solutions are hard to find. While over the years solutions have been found to many such issues, new ones have surfaced. Some of the major issues in tourism include:

- lack of hospitality and managerial skills;
- spatial polarization of resorts and concentration of ownership;
- the rapid growth of the expatriate labor force;
- high factor costs, especially capital;
- inadequate international connectivity;
- high economic leakages and poor linkages;
- homogeneity within products;
- dependence on a single geographical market segment;
- issues related to direct foreign investments and Multinational Corporations.
- requirement to adhere to international ethical standards in production;
- deteriorating identity of the Maldivian tourism products and the diminishing visual quality of seascapes; and
- inadequate participation of the stakeholders of the industry in the planning and decision making processes;

Management and Hospitality Skills

In any business, skills and know-how are vital, and as competition increase, more and better skills are required, and in the area of tourism, competition has increased globally and within establishments in the industry. Similarly, when businesses expand entrepreneurial skills alone would not be sufficient for the economic sustenance of the

firm, thus professional management has to be employed. In addition, lack of professional skills in the industry is a factor, which causes to intensify other issues of the industry, like the growth of expatriate labor force, issues in environment, product development, and marketing.

Tourism, because of its capacity to generate revenue, employment, and income, has become an important industry for many countries hence, governments all over the world are encouraging investments in the sector. Therefore, countries that share similar climate and environments with Maldives are potential competitions and their numbers are increasing, when these countries venture into resort tourism. Although, now Maldives is a leader in resort tourism, it is disadvantaged in many ways. This is because of high factor costs, lack of natural resources and smallness of the economy. Consequently, Maldives can never compete in terms of prices, therefore progressive improvements in quality, periodical re-launch of products, and diversification of source, and target markets are essential. These however, require research, knowledge, marketing, and management skill, in addition to just creativity.

In the recent years, Multinational Corporations (MNC), seeing the potential of Maldives tourism, have expressed an interest to Maldives. Hence, they are now progressively acquiring properties, either through management contracts or with equity participation. The MNC, with their corporate identity, access to skills and capital, large and establish reservation and marketing networks, are now no match for most local resort operators. However, with enhanced skills local operators can also compete with them, because in tourism there are many advantages of being small and being local. For example, in the recent years, branding tourism products have taken new shape: small local establishments are getting more popular, than big international brands. Therefore, it is an area, where Maldivian operators have a comparative advantage, but to effectively develop brands, very specialized marketing and management skills are required, in addition to creativity and innovativeness.

Therefore, although the global traveler market is substantially large, competition both internationally and within the industry is increasing rapidly,

and to face such competition professionalism in management, institutions, and modern technology are very vital. Further, to benefit from the new developments of the industry and to establish own identities, possession of management skills and establishment of proper micro institutions are preconditions. Many issues in tourism have its roots to poor management in resorts and other tourist establishments. As discussed, problems related to human resources, economic leakages and poor linkages, issue in environment and product development are either directly or indirectly linked to lack of professionalism in resorts management. Therefore, if the issue of human resources are addressed it would contribute to many other tourism development objectives. Further, in this dynamic and disturbed world of crisis, where the unexpected are becoming a way of life, to face those shocks and to survive through crisis, professionalism in management is very essential.

Spatial Polarization and Concentration of Ownership

Resorts developed around Male' area, because of the existence of support infrastructure in the area and the existence of resorts justifies additional infrastructure development. The expansion, policies of the FTMP, suggested development of resorts in Huvadhoo Atoll, however, due to lack of support infrastructures in the area, Ari atoll was selected. At that time, there were no airport and telecommunication facilities in Huvadhoo atoll. In the first phase of STMP, islands that can be served from Male' International Airport were developed to avoid additional infrastructure development. In the past, closeness of resorts to inhabited islands does not result in employment of people from the islands around the resorts. However, when resorts started getting located at a distance from Male' Atoll, it has been observed that people prefer to work in resorts of their home atoll. Further, when resorts are developed, the host atoll benefits in many ways. They include easier access to Male' and improved communication in the atoll, in addition to the demand created for some locally grown

fruits and vegetables, fish and handicrafts items. Although, when resorts are developed there are many economic advantages to the communities of the host atolls, high cost for development of the required infrastructures, have been the constraints that prevented wider disbursement of resorts in the archipelago. The spatial polarization of these productive assets results in many issues like migration and spatial inequality. Nonetheless, now communications; transportation and other support facilities have been improved in most atolls and thus, expansion to distant atolls is possible.

The other feature of the industry is that ownership of resorts (leasehold rights) is in the hands of a few people. In addition to equity issues, other problems also surface, because of the oligopolistic nature of the industry. When few control the industry, if one of those businesses faced with financial liquidity problems, chooses to reduce rates to ease the situation, the average selling rates of the industry could also drop, as the number of beds controlled by the business is significant enough to affect the industry. The problem is worse when equity objectives are considered. This is because as there are no functional public companies and share trading system, there are no mechanisms for the public to share ownership of resorts, while acquisition costs of an entire resort is exorbitant. Although, through the taxation system every Maldivian enjoys the benefits of tourism, the concentration of ownership has resulted in the existence of a very few but extremely rich resort operators or lessees of islands and a relatively poor public in the Maldivian society.

The polarization of resorts to Male' area and concentration of resort ownership, therefore contributes to inequality in society. This skewed distribution of national resources in the society for an extended period of time would result in emergence of radicalism, social tension, and antagonism to the industry, while peace and harmony of the host society is the cornerstone of any tourism industry. Therefore, urgent steps have to be taken to enable equitable distribution of resources, either through greater or better taxation, greater participation of public in the industry, and by disbursement of resorts to all regions of the country.

Issues in the Use of Expatriate Labor

Previous analyses on human resources have confirmed that there is a shortage labor in Maldives, and that issues in human resources cannot be solved in the medium term. Nonetheless, even in the short to medium term it poses many threats in addition to economic losses.

As just mentioned, peace, harmony and stability is the most valuable asset of the Maldives. And it has had an appreciating trend with intensification of social turmoil else where in the world. Nonetheless, as Maldives has never experience social disorder and loss of security, its value is often overlooked. Maldives, is a very homogeneous society, where the communities all share the same language, religion and ethnicity. And juxtaposition of foreign communities, with such homogeneous groups, could result in social disorder and erosion of the harmony of the society, if inequality, especially to the advantages of the foreigners, exists. Even if such extreme situations do not emerge, any social tension and decline in security would affect tourism adversely.

In addition, in many critical posts, like accountants and managers, foreigners work, and if they occupy such jobs, it could adversely affect the Maldivian businesses in the long run, because of skills transfer. Further, many contact staff like barmen and guest-relations officers are also foreigners. While people in these jobs are instrumental in promoting the destination, if expatriates occupy these jobs, they could intentionally or unintentionally promote attractions at their home countries, instead of Maldives. Therefore, although issues in human resources cannot be eased in the near future, in the use of expatriates, resort operators have to become more selective and cautious, so that these negative impacts can be evaded.

High Factor Costs

In Maldives, capital is expensive, labor is locally unavailable, and the price of land is increasing, because of the escalating scarcity value of islands. The problems related to capital scarcity have been discussed in detail, and solutions are difficult to find.

Nonetheless, as tourism is the most profitable industry, if all tourism receipts flow into the economy and are retained, more capital would be available for investments, however, this requires monetary policy interventions. Further, by developing long-term spatial development plans, and by phasing developments of islands, the escalating rents of islands could be reduced. Nonetheless, if capacity is controlled, scarcity value of islands will rise. It also has advantages, because as profit margins shrink managements will have to become more efficient, and inefficient operators will be compel to exist the industry. This way the most efficient operators will manage national assets, which is environmentally, economically and socially most rational. Reducing the costs of other tourism product inputs will be extremely difficult because of limited natural resources of the country.

International Connectivity

As discussed, air links with Maldives and major cities of the world are very few, because Maldives is a leisure destination; there are limited outbound tourists; and inadequate development of other economic activities in the country. Poor connectivity to business centers of the world obstructs positioning of Maldives as a premium destination, increases the vulnerability of the industry, but in the medium term solutions cannot be found. To increase international connectivity with Maldives and other cities of the World, demand to travel to Maldives, from diverse geographic regions of the world has to be created. This necessitates diversification of source and target markets, and product diversification. These have been objectives of the tourism marketing plans and goals of product development. The Marketing Strategy of the Tourist Promotion Board is in annex two of this document.

Linkages and Leakages

As mentioned repeatedly, because of the limitation of natural resources, inadequately developed manufacturing sector, unavailability of local labor and lack of capital, the industry is hardly linked to any other economic activity, and thus tourism is an economic enclave. The unavailability of production inputs creates high economic leakages and it will not be

possible to eliminate leakages entirely but linkages can be enhanced even in the short term.

There some linkages with agriculture, and fisheries sector, but the strongest linkage tourism has is with construction apart from the financial sector. This is because, many locals work on contract basis in the construction phase of resorts, and some local items are also used in construction. Therefore, continuity of these linkages is important to enhance economic benefits and strengthen such economic links. Hence, seasonality in construction should be eliminated, by carefully planning the temporal development of the industry. Similarly, to strengthen linkages with other economic activities, mariculture should be encouraged so that in additions to fish crustaceans can be also supplied to the industry in a consistent manner. And the supply of available varieties of fruits and vegetables should be made less seasonal by use of modern technology in production and distribution. The spatial distribution of resorts in the archipelago could partially help to strengthen these linkages, as when resorts are located closer to fishing and agricultural communities, even the limited inputs supplied could be more consistent.

Homogeneity within Products

There is an overall sameness of the products in the industry. This is largely because most concepts of the industry are developed without adequate research. Following the industry leaders or duplicating the products, which are at maturity stage, under the assumption that there would be unlimited demand for them has been the trend in the past. Launching new products and niche marketing is practiced by a few in the industry, consequently, many resorts have become more or the less same. While, this was the case with most upgraded resorts, new resorts also developed in a similar pattern, because the guidelines used for evaluation of all development projects, submitted for the 14 islands tendered under the first phase of the STMP, were the same.

Hence, in the future, a broad generic development theme should be prescribed and the guidelines for evaluation of

projects should be varied for each island tendered for resort development. For resort upgrading and reconstruction projects, the developers should be mandated to present concepts depicting stages of concept formulation, target market and management policies, and only innovative and viable projects should be approved. Projects, which are unique, should be given priority by providing greater subsidies (waiving of customs duty).

Further, tourism in Maldives started because of the creativity and high innovative capacity of the youth. To venture into tourism at a time when the country was relatively isolated from the rest of the world, even essential food items were unavailable, only primitive means of transport existed and when there were no direct international communication, high levels of intellectuality, creativity, innovative ability, patients and courage will be required. Therefore, even to day's Maldivan youth would have such capacities, and perhaps they would be better, because they are far more exposed and educated than their predecessors. But their ability to contribute to the industry is limited now, because of financial barrier that exist for entry into the industry. Hence, to tap such human potentials, supportive environments have to be developed, therefore, bidding documents have to be changed to enable submission of projects without bank guarantees, which are highly expensive to obtain. This way more parties could participate in the bidding process and independent architects, designers, product development specialists would have more freedom to demonstrate their skills, as developer interventions will be less. With such a process, more innovation and creativity will surface, and after evaluation for the internal consistency and profitability of projects, they could be tendered for interested property developer. This way better and diverse products will emerge, reducing the sameness in resorts.

Source Markets

Most tourists originate from Europe, and in general, Maldives caters for low to middle-income tourists. The dependence on a single geographic market segment results in many problems. They include seasonally in the use of infrastructure and facilities, and vulnerability of the industry to

external economic shocks. Therefore, it is very important to cater for a number of niche markets from geographically diverse areas. Nonetheless, it is constraint by many factors. New products, and better international connectivity is conditional for such diversification. Although, in the recent years progress is being made, more needs to be done, hence the Marketing Plan incorporates such objectives (See Marketing Strategy in Annex One).

Multinational Corporations

In the very early years of tourism, a MNC commenced operating a resort in Maldives, however, as it was a single operation, there were no threats or issues that required attention. However, from the late 1990s, MNCs, especially large management companies have commenced operation in the Maldives. Although, there are many advantages, when MNCs participate in a tourism industry, it also poses threats. The advantages include, diffusion of technology, skills, and know – how, and to a lesser extent international exposure of the host country. Most MNCs, promote their brand and not the destination, hence clients develop loyalty to the chain or brand not to the destination. Therefore, if for any reason they stop operations, clients who came to resorts managed by the MNCs are lost, but if smaller establishments operate resorts, change of management does not result in the loss of clients. However, in a world where globalization is the trend, MNC operations cannot be controlled, thus attempts have to be made to minimize the adverse affects and maximize benefits. Technology, skills and know - how can be acquired, if mechanisms are developed. As such, institutions, and efficient bureaucracies armed to deal with such mega entities have to be developed to maximize the benefits from their operations.

International Ethics in Production

Enhanced awareness of the global community, as relate to natural environments resulted in dissatisfaction from wasteful consumption and hedonism. Similarly, increase concern for humanitarian issues, has made the way labor is utilized in the production a process a factor that

influence consumption decisions. These have radically changed the attitudes of some travelers: motivation to travel.

In the recent decades, the global community is getting more aware and concern over increasing inequality among and within nations, gender, communities, and ethnic groups. Hence, the extent, and conditions at which inputs are employed for production is increasingly becoming a dominant factor for consumption decisions. If the conditions of work are below internationally acceptable standards, there are pressures exerted to avoid purchase of such products and services. Similarly, extensive and wasteful use of environmental resources in the production processes and environmentally incompatible practices are being condemned.

In Maldives, the awareness, institutions, and legal framework are in adequately developed to address issue in utilization of labor and environment. The employment contracts, which prescribe minimum protection and rights to the employees in international standards, are hardly enforced. In the area of environment, although there are many laws, and regulations compliance monitoring is in adequate. Therefore, as there would be high economic costs and industry resistance, to transit into utilizing production processes, which are internationally acceptable, efforts needs to be made well in advance. To be able to trade internationally, adherence to such principles is vitally important otherwise, competitors could take advantages of those weaknesses.

Product Identity and Seascapes

Maldivian tourism had a very distinct identity, however, with the development of the industry, the individuality- features of the products are being progressively eroded. This is to some extent because when foreign architects with limited knowledge in local culture are employed for designing products, they associate the strong cultures and architectural features of the region, which are far more visible than the ones in Maldives. Further, while poorly formulated concepts of local designers also contribute to this process, some developers, with no knowledge in product development, duplicate the regional products, in the Maldives. This results in loss of the identity of the products.

In addition, congestion in resorts is also a factor that adversely affects the product identity. This is because, while Maldives has been internationally known as a 'Robinson Crusoe' destination, high density in resorts is incompatible with this image. The loss of the features that give the feeling of isolation and remoteness, in resort islands has escalated the demand for uninhabited islands, to use as alternative venues to experience solitude, tranquility, and wilderness. Paradoxically even in these uninhabited islands, operators are making structures for conveniences, resulting loss of the qualities for which they were initially demanded. Moreover, as uninhabited islands can be now leased for economic activities, many businesses to secure a lease of an uninhabited island, are submitting proposals to develop islands for use of tourists. As only provision of accommodation is restricted in these islands, other facilities are being built, which hardens the environments and cause loss of aesthetic integrity of islands. If this trend continues, it would jeopardize the seascapes of the atolls, making the entire atoll unsuitable to provide a 'Robinson Crusoe' experience, and thus this distinct feature of the Maldives tourism product will be lost.

As maintaining the local identity of the product is essential to make Maldives a unique destination, separate from other regional destinations, attempts have to be made to conserve the identity of Maldivian tourism product. There two aspects that need to be addressed, one is that architectural features which depict foreign cultures should be discouraged in resort construction and the solitude, seclusion, original natural features of atolls, islands and resorts should be conserved. Therefore, spatial planning should be accorded higher priority, and islands and project selection processes should be further strengthened.

Stakeholder Participation

Multi - stakeholder participation is essential in the development of any tourism industry. Although, government policy encourages stakeholder participation, at all levels of planning and decision making processes, institutions and mechanism that facilitate such participation is limited. Further, with the development of the industry, the stakeholders of the industry have increased.

Tourism industry started with a group of investors, and these entrepreneurs and their organizations provided all inputs required for tourism products. However, with the development of the industry, many organizations and individual from different trades have entered the industry and most of them provide specialized services, which are all important. Further, in some cases, ownership and management is also divorced, and tourism and real estate components are separated, hence new interest groups have emerged. One single monolith organization, is therefore insufficient to represent, such diverse interest groups, therefore, to give the opportunity to all stakeholder representatives, to participate in the decision making process more specialized private organizations have to be developed, and due recognition given to them.

Further, in the expansion of tourism, adequate consultations and information exchange with local communities are not held. As a result, the expectations of the local communities and actual benefits are different. The actual direct benefits are very limited compared to the resource they sacrifice, and this is largely because of the immobility of tourists and limited tourist encounters with the locals. Although, such a situation is beneficial from a social and long term economic point of view, but if these information are not communicated to the community resentment could develop. Therefore, development or use of the existing institutions to enhance their participation is essential.

The major issues of the industry are outlined, and for many of them solutions can be found only in the long terms and to make progress towards achieving such goals the following polices and strategic objectives are proposed.

Policies and Strategic Objectives

The key policies that guided tourism over the years included polices aimed at environmental protection, containing negative social impacts, and attaining equity and distributional objectives. All of these polices have been very successful and the findings of the evaluation of the plan justifies continuation of the policies. Therefore, taking those policies and the

contemporary situation into consideration, the following polices and strategic objectives are recommended.

- Tourism should be private sector led, where the roles of the public sector are regulating and providing supportive environments, while the private sector under takes commercial operations.

- Tourism activities should produce not only short term financial returns but adequate long term financial and economic benefits to firms and the population at large, as such, attempts have to be made to maintain the industry at profitable levels at all times.

- Beneficiaries of tourism should be all Maldivians disregard of their location, as such, they should be in the center of all planning processes, therefore, maximizing the benefits of tourism to present and future Maldivians should be the priority as enhancing their welfare is the ultimate goal.

- Tourism should be developed with dignity. Religion culture and traditions should not be compromised for economic benefits: cultural and religious practices should not be commodified and sold, and traditional beliefs and practices should be respected. Hence, economic goals shall be achieved with dignity and the local populations should be protected from all adverse social impacts of tourism at all times.

- Maldivian culture, traditions and way of life, is an asset, not an impediment for tourism, therefore, revival, rejuvenation and sustenance of the authenticity of folklore, cultural dances, art and crafts and traditional ceremonies should be made a priority in all tourism projects.

- Environmental resources should be used sustainably and ecological systems: the resource base of the industry should be kept intact. Tourism facility expansion, should not cause to deteriorate the original aesthetic qualities or alter the natural features of the ecosystems, but product development and diversification goals should promote conservation, protection, and cause to rejuvenated the environment.

- Capacity should be planned and expansions controlled, so as to maximize economic, environmental, and social benefits. As such, density in resorts and number of resorts and tourism related islands in the atolls should be planned, and thus the total bed capacity of the entire archipelago should be managed and expanded taking into consideration, national needs, strength of the off site infrastructure, global and national trends in tourism.

- Efforts should be made to ensure that the islands are used for the purpose for which they are most appropriate, and activities undertaken in one island should not jeopardize the productive capacities of others.

To over come constraints and enable progressive development of the industry, within the broad framework of the above mentioned polices, the following strategic objectives have been recommended for the rest of the planned period. These strategic objectives are not mutually exclusive but well interrelated and attainment of one could serve to ease a number of issues and they include:

- Implementation of programs and projects that facilitate transition of the industry into utilizing professional management; that support institutional development and acquisition of technology.

- Develop institutions, adopt strategies, and implement projects geared at harnessing the creative and innovative potential of the Maldivians, to meet the goals of the industry.

- Continuously improve the tourism support infrastructures and expand tourism, taking into consideration, the strength, and capabilities of those facilities.

- Enhance the legal framework for conduct of tourism businesses.

- Undertake spatial planning or 'zoning' within and between atolls of the existing and potential tourism zones, so that islands are not only identified for development of resorts, but for all other tourism related activities.

- To extend the benefits of tourism to a greater number of communities, disburse tourism: resorts and other tourism related facilities, to a wider area in the archipelago, taking into consideration infrastructure availability, environment and other economic potentials of such areas.

- Encourage and facilitate entry of new entrepreneurs to the industry, devise mechanism to fragment ownership of resorts and other tourism assets, and develop means to exchange or trade such ownership, without influencing the management.

- Assess the existing labor importation policy, in view to further control the use of expatriate labor by setting limits in areas where skills and workers are available locally; and establish a plan to phase out expatriate employment in resorts.

- Revise the existing regulations governing employment in resorts, in view to incorporate internationally acceptable standards and conditions at work.

- Assess the existing tax regime, in view to develop a more direct and equitable tax regime, and establish mechanisms to ensure entry and retention of the tourism income within the local economy, for at least for period of time.

- Develop institution, laws, and regulations where necessary, to govern the operations of MNC and other direct foreign investments, in view to enhance the benefits from their operations in the Maldives.

- Enable better organization of the private sector, so that special interest groups within the tourism sector can be organized and all stakeholders of the industry are involved more directly and actively in the decision making processes.

- Diversify the source and target market, and be selective in the target market segment, so that catering for those clients do not jeopardize or undermine progress towards environmental and social goals, but support them.

- Foster mechanisms to ensure that product development and diversification are compatible with the new traveler needs and demands; and ensure that the industry have facilities to cater for travelers in the entire range from allocentric to psychocentrics, originating from diverse geographic and ethnic backgrounds.

- Make an assessment of the functions of the Ministry, eliminate redundant functions, devolve specialized functions to other agencies, and undertake new responsibilities to manage new challenges.

- Strengthen the research capability of the Ministry of Tourism so that timely and objective information are available for decision-making.

- Strengthen the regulatory capacity of the ministry and formulate regulations that address human resources and management aspects, in addition to physical facility standards.

IMPLEMENTATION GUIDELINES

Introduction

As the policy on tourism is private sector led development, where creativity and innovations are the foundations, a predetermined list of activities have not been prescribed but mechanisms to guide tourism along the planned paths have been suggested. Therefore, these implementation guidelines focus on two major aspects, which include, product development management and growth management. For development management, alteration of some existing practices and implementation of pilot demonstration projects are vital to attain the product diversification and development strategic objectives. Similarly, for growth management, both temporal and spatial planning is essential. This however, requires proactive management decisions aimed at attaining the strategic objectives of the planned period.

Two major management tools the government can use to attain the strategic objectives, are using the rights the government have over the land as property owner, and legislative and regulatory authority. As property owner, the government will be able to control and manage new developments, through the selection process of new islands, bid submission requirements and evaluation criteria, and contractually obligating the lessees of islands to adhere to certain principles in the development and operation of resorts. As new issues and problems emerge, regulatory tools can be used but they would require reformulation on a timely basis. In addition, the government on its own or through the private sector will have to undertake pilot projects to demonstrate or introduce new and innovative concepts to the industry.

Product Development Management

Tourism facility developments, which include resorts, safari boats and other tourism related facilities should be managed to

ensure consistency with the product development strategic objectives. And such management measures should not be limited to private sector activities, but should be applied to public sector projects if they alter land and seascapes, and affect tourist conveniences. As the bidding and evaluation processes, determine the kind of resorts that will be developed, and distribution of those productive assets, to attain the strategic objectives some changes are recommended to the bidding and evaluation processes and they include:

- To tap the creative and innovative potential of the people, enable more parties to propose projects for resort development, by eliminating the condition to produce bank guaranties when submitting proposals.

- To ensure wider distribution of the productive assets in tourism, in the evaluation of proposals additional points can be given to new entrants and entities that have greater number of shareholders.

- Better projects will be proposed when more freedom is given to the developer, hence rents should be pegged not to the number of beds but to the size of the islands and the developers should be given the freedom to decide on the number of beds that will be developed on the island.

- If the construction period of islands are extended, taking into account the size of the project, it will assist in raising finance on terms that are more favorable, seasonality in the construction business will be eliminated and development will be more sensitive to demand.

- To reduce sameness of resorts evaluation guidelines have to be varied for different islands, depending on the generic theme of the development concept determined for the island and such guidelines should take into consideration the following aspects:

    - Maintaining the identity of Maldivian tourism product.
    - Avoiding development of too many similar products.
    - Conserving the coral island environments:

avoiding importation of foreign plants and animals.
  - Providing privacy to clients, as having access to private beaches is not very common in the world, hence, it is a comparative advantage for Maldives .
  - Maintaining a balance on hardening the environment for convenience and conserving it for its intrinsic values.
  - Encouraging innovativeness and creative projects.

In addition, to the above recommendations, the existing regulations also have to be changed or modified, in order to improve quality of tourism products. And such amendments should include:

- Rigidly define resorts, mariners, picnic islands and other tourtism related establishments, and develop rules and regulations to govern their developments and operations.
- Standards to control density in resorts and they should cover aspects like built – up area; distance between buildings; environmental buffer zones; allocation of beach area for staff as well as guest and all these aspects have to be rigidly defined.
- Stricter environmental standards to include controls on environmental resource utilization, use of environments as sinks for consumption and production waste and limitations on hardening the environments.
- Density control in the atoll and lagoon, which require setting controls and standards on facility construction on reef flats and guidelines for development of uninhabited islands.
- Standards to protect aesthetic integrity of islands including the

resorts and uninhabited islands; and other tourism related islands in the vicinity of resorts.

- Regulations to govern the use of uninhabited islands under the Ministry of Tourism, and other excursion islands, and environmental protections measures of such islands.

- Defining minimum industry standards, and compulsory classification of all resorts and properties that meet minimum requirements.

- Prohibiting false marketing and promotions, by imposing strict fines and penalties.

- Controlling the visual quality of safari vessels, including the exterior of these vessels; determining minimum standards for facilities on board for both guests and staff, and environmental protection and safety measures.

- Restricting safari vessels operations to allocated zones and limiting the number of safari boat operations in each zone. This would not limit their cruising area, but this would enable use of a zone by fewer vessels at a given point in time.

- Developing controls and standards for recreational fishing, whale and dolphin watching and other consumptive and non-consumptive recreational activities.

- Establishing minimum standards for the facilities developed for staff conveniences, including facilities for intellectual, spiritual, physical development, working conditions and controls on working hours.

- Mandatory staff training and establishing minimum standards for such training programs, including the number of contact hours, and trainer qualifications.

- Mandating development of operations manuals, job descriptions and objective performance appraisal systems and adherence to such procedures.

Some of the suggestions as relate tourism regulations are already incorporated in the existing regulations, however, they are not well defined, and as a result, those rules are sometime interpreted to suit the situation. Further, considering the changes that occurred to the industry new regulations have to be formulated to address new problems.

In addition to the changes recommended to the bidding and evaluation processes and regulations, the following projects are proposed for implementation. Many of these projects were proposed in the STMP, but are pending commencement. They are recommended to achieve the product and market diversification strategic objectives but in addition to achieving those objectives, the contribution of them to many other strategic objectives would be immense; will instill new concepts and make the industry more dynamic.

Marine Park Development

The ecological setting of the archipelago provides unique opportunities, to develop Marine Parks, in Maldives. However, the open access nature of these sites, discourages the private sector from developing such places. Therefore, the government should initiate and enable development of a Marine Park in the Maldives, by either fostering mechanisms to protect private investors, developing visitor management regimes and developing guidelines to govern such places or by piloting such a project by the government. One suitable site is Vaavu Atoll, because of its size and locations.

Establishment of Colorful Markets for Sale of Souvenirs

In Maldives, because of the high factor costs, most souvenirs are imported and sold as Maldivian products, although they are

manufactured elsewhere. Presently, there are no mechanisms to protect authenticity of products. As a result, the limited linkages tourism has with the manufacturing and handicrafts sector is also being eroded. Development of the local handicrafts sector has to be market driven and to create a demand for local products, mechanism should be developed, where Maldivian and foreign products can be identified. However, maintaining economic viability of such businesses would be extremely difficult when imports of souvenirs are unrestricted. Nonetheless, protectionism would cripple innovation and creativity because of the lack of competitions. Therefore, to make the businesses viable, without protectionism, the products should be packages with some additional features, like sale of them in colorful market places, where other cultural activities are also conducted. Therefore, in collaboration with the island communities, market places should be developed on excursion islands. This project could be piloted in Himmafushi Island. This project will not only increase the linkages tourism has with other sectors but would be an additional tourist attraction, contribute to equity objectives as well as help to rejuvenate the culture and traditions.

Whale and Dolphin Watching Programs

Recreational activities for tourists are very limited but Maldives, have a comparative advantage in developing marine based activities because of the calm seas around the islands. Therefore, in association with the Marine Research Center, a project to collect and disseminate information on the migratory patterns of dolphins and whales is proposed for implementation. With the help of this project, the resorts could commence activities like whale and dolphin watching.

Project to Improve the Cultural and Historical Attractions in Male'

Male' is the most visited excursion island and the center of most cultural and historical monuments. The historical monuments like the tombs in Hukuru Misky and other such objects has to preserved and the surrounding area should be planned to enable unobtrusive

viewing. This area can be developed together with the museum, which is a vitally important priority now. The physical layout and development of facilities in the area should also necessitate unintentional visits to the site, by locating additional conveniences like cafes and restaurants. Interpretation facilities should be made available at site. The other component of the project is developing a museum either by the government or by out sourcing it to the private sector.

Similar, to historical sites, the cultural attractions like the fish market and the local vegetable market also have to be improved and access and view facilities developed. These places are extremely important attractions, because most tourists will not be able to see landing sites of fish, because of the high technologies employed in most fisheries of the world. Similarly, locally grown fruits and vegetable and other homemade items are not common in the world and are unique to Maldives. Therefore, with proper guidance, interest of tourists can be retained for hours in such places, but physical layout would be extremely important to market such attractions. By implementing this project in additions to improving an attraction, the culture and traditions will be revived and economic benefits enhanced.

Project for Development of Herbariums and Botanical Gardens

The flora of Maldives is extremely rare because the limited coverage of the coral islands environments on the earth's surface. Therefore, if a botanical garden where these rare species are displayed is developed, it would be an attraction for tourists, in addition to other many benefits like conservation of biodiversity. However, such a place has to properly planned and presented in such away that it is attractive to tourists, because as most tourist to Maldives are leisure travelers, only a collection of plants may not be very appealing for a common tourists. This project can be offered for implemented to the private sector.

Project on Development of Coral Gardens

Maldivian archipelago hosts a number of coral reefs, which supports sand cays and islands of varying size and shape. These

reefs are also extremely rich in marine life, hence they form one of the most spectacular underwater scenery of the world. The conventional method of viewing these sights are by snorkeling and diving, but there are hardly any opportunities for interpretation. Therefore, development of coral gardens, with interpretational services and easier viewing facilities could increase the demand to see these places. Hence, to tap this market and to add greater variety to Maldivian tourism product, this project could be piloted in one of the small islands and like other projects, implementation can be offered to the private sector.

Development of Golf Courses on a Group of Islands

In the recent years, golf has become a very popular sport, especially among the affluent communities of the world. Development of golf courses require large land space, which may not be available in one island and the environmental consequence of development and management of golf courses could be detrimental. Nonetheless, it might be worthwhile to explore the possibility of developing a golf course on two or three islands adjacent to each other and investigate the options for developing an environmentally friendly management regime. Existence of golf courses would be vital, especially to market Maldives as a premium destination. Therefore, through the private sector, this project could be piloted in the new tourism zone.

Project on Development of a Resort School

Maldives is now well known for its success in resort development, and the country is now in the focus of some academic and research institutes. Hence, in collaboration with such institutions a resorts school, which comprise of hospitality, architecture, and management departments could be developed in the Maldives. With proper marketing, the demand for such services could increase and it may provide an additional dimension to the Maldivian tourism and help to ease the human resources problems of the industry.

Project on Development of Cultural Centers

Maldives has a rich culture and a long history which requires be documented and presented in a form that is easily understandable and appealing to tourists. To do so, cultural centers can be developed. As economic activities and handicrafts vary between atolls, different themes can be developed for different atolls. For example, Raa Atoll is famous for boat building; similarly Baa Atoll is well known for their lacquer work; Dhaal Atoll for manufacture of jewelry and Huvadoo Atolls for weaving mats. These practices are very unique to Maldives, hence these activities can be used as themes for the cultural centers. Like other projects, private sector should be encouraged to develop such places.

Project on Institutional Strengthening

Both for development and growth management, institutions are important. Therefore, a project on strengthening the capacity of the Ministry of Tourism and the Maldives Tourist Promotion Board is proposed for implemented. This project should aim at improving the marketing, quality control, planning and monitoring and research functions. The major focus of the program should be to enhance the human resources; data collection, storage, retrieval capacity; and establishment of management and administrative procedures.

Growth Management

The STMP proposed development of an additional 10,000, bed spaces by the end of the planned period and on completion of the first phase 5,782 beds have been built. Hence, between 2002 and 2005 an additional 4,218 beds have to be developed. In the consultative workshop, the issue of capacity increase was discussed and concluded that such developments should be compatible with the strength of the support infrastructures, availability of capital and other inputs, and access to markets. Hence, both spatially and temporally phased expansion, subject to qualifying conditions like access to production inputs and markets was suggested. Therefore, to make tourism growth responsive to market signals and strength of the support infrastructures and access to production inputs, capacity

controls measures should not only be applied for new islands but it should cover existing resorts and safari operations as well.

In terms of the location of future resorts, the recommendation of the consultative workshop was that future developments should be around the existing airports and that such expansion should be compatible with the regional development plans. Therefore, resorts have to be located, near the exiting airports and as much as possible, in close proximity to future population centers. But such closeness should not adversely impact the products, due to visually unattractive seascapes in the vicinity of resorts.

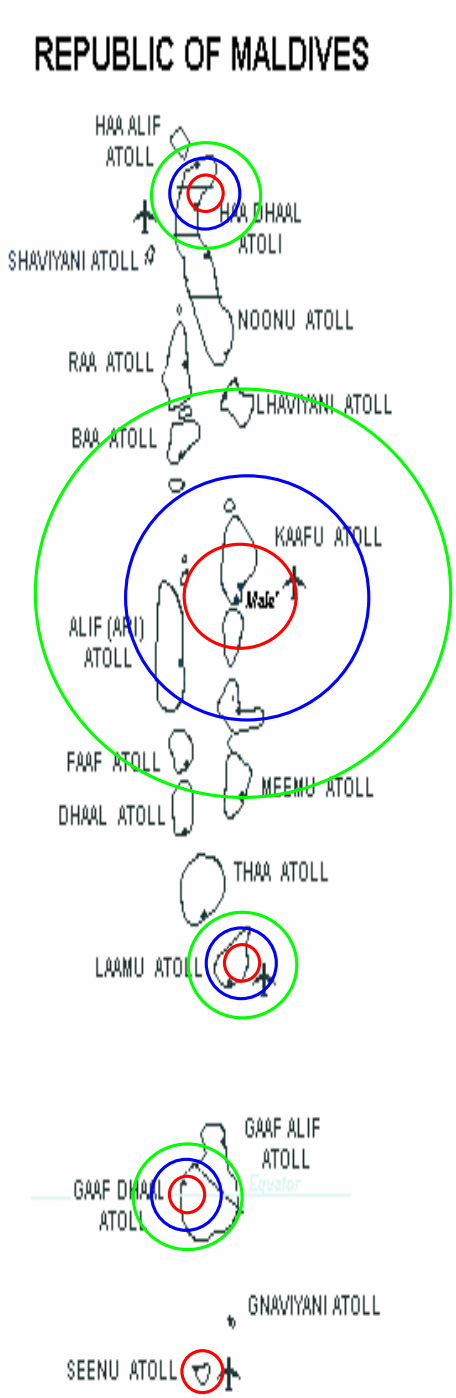
Tourism being the most important economic activity, it has to grow at least, at a rate at which revenue generated is sufficient to meet the needs of the people. Thus, the rapidly increasing population and the escalating aspirations of the people would pressure, tourism but, such pressures have to be well managed. According to the STMP, additional 4,218 bed spaces have to be developed by 2005. To attain this target 10 - 11 resorts of about 200 beds have to be opened in 2004 and 2005, this is a capacity increase of about 12.5 percent each year. Considering the past growth rates, it is not exceptionally high growth, hence, infrastructures could cope such developments and beds can be marketed. Nonetheless, considering that new issues and problems could surface when resorts are located at a distance from Male', temporally spreading resort development may be more beneficial. Therefore, opening about 5- 6 resorts, each year from 2004 to 2007 will be more appropriate. This way construction work of resorts will continue for about 5 years and in the construction phase direct benefits to the communities are greater. Further, because now rents for lease of islands are higher, and as supply restraint increases occupancy, even with this pace of development revenue requirement may not be constrained.

Further, in addition to controlling capacity, density of resorts and tourism related activities in each atoll have to be also managed, so that congestion in atolls do not result in loss of the product identity and environmental detriments. In view to attain these growth management objectives, it is proposed to cluster resorts and tourist facilities into groups and

to develop density control measures and development standards to each group rather than applying an industry wide density control measures and standards.

Future expansions have been proposed around the airports of Addu, Huavadoo, Hadhunmathi and Thiladhunmathi Dhekunuburi, Atolls. Taking these centers as hubs it is proposed to cluster resorts and tourism facilities into 'center', 'periphery', 'satellite', and 'conservation' areas. On the map the centers are the area within the red circles, the peripheral areas are between the red and the blue circles, the satellite areas within the blue and green circles and the conserved areas are beyond the green circles. In addition, in each cluster, there will be conserved pockets, but they are not marked on the map. These pockets now exits in Male' area. In the initial development: resorts and other tourism related islands of the second phase of the STMP, will have satellite status and as tourism expand they will transit to other groups.

Taking into consideration the historical pattern of tourism development in the Maldives and other tourist destinations of the world, it can be expected that the



pattern of development of Male' area will be duplicated at other regional airports. This is because the regional airports will become feeder points for future developments and thus economic pressures for densification of resorts will be strong around those places. Therefore, instead of resisting such economic pressures, this growth management plan is proposed. This pattern of development will enable developers to plan businesses, and assist periodic introduction of different products to the industry, but at the same time maintain the identity of the Maldivian tourism.

Central Area

The proposed central areas are the islands within 40 kilometer radius from Male' airport; Addu Atoll and the areas within 15 kilometers radius from Hanimadhoo, Kadedhoo and Kadhoo Airports. However, as mentioned earlier in the second phase of STMP, the resorts in these areas will have to be developed with the characteristics of resorts in the satellite areas and only in the future, as tourism continues to expand, they will transit to the status of other groups. Hence, these resorts will undergo two stages of transition: redevelopment, to attain the status of center resorts.

In the islands in the center group, more 'urban style', facility intensive developments, which could cater for MICE market will be developed. They would be permitted to have higher density developments and building standards will be different from others. This is because the number of islands in these areas will be limited and for expansion to other areas in the future, availability of accommodation facilities, in these zones will be crucial. Nonetheless, no resort should have a built - up area of more than 20 percent. While the resorts in these areas could provide motorized water sports and line fishing, such high impact sports will be banned in other areas.

Peripheral Area

The existing peripheral area is the zone between 40 – 100 kilometers radius from Male' airport. In the new zones, the islands, between 15 – 30 kilometer radii from the airports, could transit to peripheral status as the industry expand and they

will become the peripheral areas in the future.

In these areas, nature based relaxation, and ecologically-based resort development will be encouraged. The building standards will be more stringent and the resort islands will have to be less dense: the built – up area should not exceed over 15 percent. Facility developments in one resort should not adversely impact neighboring islands because of the deteriorated seascapes, caused due to artificial structures. Therefore, physical facilities of islands, in this cluster, should be less visible: lighting of jetties and buildings should not cause to tarnish the aesthetic integrity of seascapes. Line fishing, motorized water sports and other high impact recreational activities have to be banned. The number of safari boats that can be operated, in these areas, has to be controlled and only a limited number of islands, disbursed onto a larger area, can be developed for tourism related activities. In the peripheral area of Male' Atoll no additional resorts should be developed, and in other peripheral areas, for each resort developed, two islands have to be conserved.

Satellite Area

This cluster consists of islands that are located between 100-142-kilometer radii from Male Airport and the areas between 30-50 kilometer radii from the regional airports will remain as satellite areas in the future. However, presently, the entire area selected for development, under second phase of the STMP, will fall under this cluster. In these areas, resort development should be very sparse, physical facility development in picnic islands restricted and safari operations very limited. The resorts will have very strict building standards, low density, high level of safety requirements, and developments should have less environmental footprints.

Conservation Areas

Conservation areas are the zones beyond the satellite areas, which is the remaining part of the archipelago where tourism is restricted presently, and in addition, in each cluster, pockets of conservation zones will be identified. While the areas beyond the satellite areas are now considered as conservation areas, in the long term, as the need for further expansion arise, tourism may be extended to those areas

after an assessment of the situation. However, the pockets of conservation areas, in the different clusters, should always remain conserved. In these conservation pockets there could be reefs, sand cays, and/or islands. The number of conservation pockets should increase from the center to the satellite area. Therefore, while there are fewer such pockets in the center and peripheral groups, more conserved pockets should exist in the satellite areas. Although, the conserved zone and conservation pockets fall under the same cluster, they are different. While the conserve pockets are actually protected areas, the conservation zones are areas where tourism related activities are restricted, so that they become reserves for future.

The above growth management strategy is a prototypal model that can be used in managing growth and it will also partially contribute to product development management. With this approach, the migratory patterns and spatial distribution of productive assets will take a new pattern. Unlike the previous growth management strategies, with this model 'tourism is going to people, at varying intensity, rather than people coming for tourism'. Therefore, prior to adopting such a model it is important to collect information on islands and their environment, and identify communities that will be highly impacted and excluded from tourism activities in the immediate future. Three major projects are proposed in the area of growth management and they include;

Project on Spatial Planning of Atolls

The islands in the archipelago have to be used for many different economic and social activities. Therefore, although there is an abundance of uninhabited islands now, the situation will change in the future. Further, unlike other economic activities, tourism requires unspoiled land and seascapes. Therefore, commencement of economic activities in an island, even in the vicinity of a resort, could deteriorate the quality of the product sold in the neighboring resort. This is because some of these infrastructures, required for some production processes cannot be concealed in the vegetation, but could extrude out of the island, tarnishing the seascapes. Therefore, it is important to preserve the productive capacities of all islands as much as possible,

through spatial planning and zoning. Thus, in collaboration with the Ministries of Planning and Development; Atolls Administration and other line ministries, a project for physical planning of atolls is proposed.

Project on Human Resources

Human resources and institutions are key to any industry. Therefore, future capacity expansion should be parallel to human resources availability. As discussed, there are many issues in the area of human resources. Therefore, to ease the situation a project, with multi-stakeholder participation, is proposed for implementation. The major components of the project should include assessment of the human recourse requirements, creating awareness on employment opportunities in tourism and training. The major part of the training programs and awareness creation campaigns should be mobile training, conducted in the islands in the new tourism zones.

Project for Market Surveillance

To effectively manage tourism growth, information on the market situation is essential. Indicators like occupancy levels, and arrival figures will be insufficient to project future demand. Therefore, to get timely information on the market situation periodic market research is essential. Hence, more resources have to be allocated to the Maldives Tourist Promotion Board to undertake such tasks. And with the participation of the private sector, a project for market surveillance has to be launched.

In summary, this implementation guideline is in congruence with the implementation guidelines of STMP, nonetheless, to suit the contemporary situation of the industry and to accommodate the recommendations of the consultative processes, new aspects and additional management tools have been introduced. The major components include product development management, aimed at achieving the product diversification goals and growth management aimed at controlling capacity and resort density. In addition, these two aspects will address most issues that hinder achievement of the long-term goals of the industry.

Product development management strategies, in addition to diversifying the product, focuses on making the

destination more tourist friendly by adding more attractions and activities to the destination. This way, linkages with tourism and other economic activities will be enhanced. Further, it also addresses equity objectives and at the same time devises mechanisms to attract more creativity and innovativeness into the industry. Growth management model aims at attaining the growth oriented strategic objectives. Taking into consideration the size of the industry, to attain the growth targets of STMP, additional 4,218 beds have to be developed by 2005, but because tourism will be developed in new areas it is proposed to extend the developments until 2007. This is because when resorts are located at a distance from Male' and at new atolls, utilizing additional infrastructures, new issues and problems could emerge. Therefore, it is recommended to open 5- 6 resorts of about 200 beds, each years from 2004 – 2007, instead of increasing at the rate STMP, recommended.

In addition, to manage density and develop a mix of different types of resorts and tourist related activities the archipelago, is zoned. These zones include 'center', 'periphery', and 'satellite' and 'conserved' areas. And in each of these areas different products or different types of resort will be encouraged for development, by varying density control measures and determining generic development concepts. Therefore, evaluation criteria, standards, and density control measures have to be varied for each group. This way, while maintaining the identity of the Maldives tourism product, the industry could be re-launched periodically.