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SMALL ISLAND NATION
EMBARKS ON BIG
DEVELOPMENT PLANS

Maldives makes waves



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THE FIRST RESORT

51 The Maldives is renowned all over the world as an idyllic beach destination, a reputation it has worked hard to cultivate. However, investment opportunities abound on the island chain, as it looks to diversify its economy and safeguard its future.

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57 Fish are a major natural resource for the Maldives, providing dietary protein and supporting an industry employing one-fifth of the population. Now the country, which is proud of its credentials in sustainability, is keen to develop value-added production, fisheries and agriculture minister Mohamed Shainee tells **FDI**.

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A bridge quite far: the China-Maldives Friendship Bridge is one of many joint Chinese-Maldives projects (photo credit: Maldives Ministry of Housing and Infrastructure)

The first resort

THE MALDIVES IS RENOWNED ALL OVER THE WORLD AS AN IDYLIC BEACH DESTINATION, A REPUTATION IT HAS WORKED HARD TO CULTIVATE. HOWEVER, AS NATASHA TURAK DISCOVERS, INVESTMENT OPPORTUNITIES AROUND ON THE ISLAND CHAIN, AS IT LOOKS TO DIVERSIFY ITS ECONOMY AND SAFEGUARD ITS FUTURE

The Maldives as a destination needs little introduction. The name alone conjures images of sun-swept palm trees, white sand beaches and pristine blue lagoons teeming with aquatic life. One of the most geographically dispersed countries in the world, its 26 atolls are comprised of nearly 1200 coral islands spread over 90,000 square kilometres in the Indian Ocean, southwest of the southern tip of India. Approximately 190 of those islands are inhabited, and just over a further 105 are occupied by luxury resorts.

Tourism and fisheries provide the bulk of the country's employment. With a GDP per capita of \$6722 for a population of almost 400,000, the Maldives is south Asia's smallest and most prosperous country.

The perfect host

"We are a sun, sand and sea country. That is our petroleum," says Mohamed Saeed, the Maldives minister of economic development. "For the past 800 years we have been a country with a very hospitable outlook to international visitors."

The Maldives' tourism industry is recognised as accounting for 30% of the country's GDP directly, but more than 80% indirectly. It was badly hit during the 2008 financial crisis, which saw the country go from 5.8% economic growth that year to a 1.3% contraction in 2009. However, it rebounded quickly with 3.4% growth in 2010 thanks to resumption of tourist arrivals and export activity. "Statistics over the past several years show that despite crises

around the world, the attraction of the Maldives hasn't diminished. In fact, it is so unique it's in demand," says David Feinberg, CEO of Crown & Champa Resorts, a resort group owned and operated by various Maldivian and foreign partners.

Last year saw 1.25 million tourist arrivals, representing roughly 5% growth from 2015, despite a dip in Chinese tourism, which currently represents approximately one-third of the Maldives' tourist market. The country plans to increase arrivals from 1.3 million a year to seven million within 10 years, an ambition aided by the current expansion of Malé International Airport, an \$800m investment that will increase its capacity five-fold.

Big money

"Big companies such as Thailand's Singha Group, Pontiac Group in Singapore and Damac in the United Arab Emirates are not just developing a resort which costs \$20m to \$30m," says minister of tourism Moosa Zameer. "They are developing multiple resorts at once, investing half-a-billion dollars or more. They see how we are developing the country, increasing the capacity of Malé Airport, and they see there is potential for growth in the Maldives."

The Maldives was part of the Commonwealth of Nations until late 2016, when it left after rejecting international criticism over human rights and corruption allegations. Rocky political transitions of the past few years have not seemed to slow the country's economic growth, however, as GDP continues to rise by about 7% annually and infrastructure projects push ahead at an unprecedented speed. ▶

Pledges of the government of president Abdulla Yameen, elected in 2013, involve significant infrastructure developments to upgrade transport, utilities and living conditions. Its projects are laying the foundations for increased air arrivals as well as new urban centres to attract international investors into areas such as financial centres, exports processing and renewable energy.

Set for completion in 2018 is the China-Maldives Friendship Bridge, a \$210m project funded by the Export-Import Bank of China, one of many joint Chinese-Maldives projects resulting from the latter's role in China's maritime silk route. It will connect the crowded capital Malé, on which 30% of the country's population lives, to Hulhumale, a reclaimed island being developed as a new 'Youth City' which it is hoped will eventually house 70% of the population upon completion within the next 10 years. "Connecting the two islands creates more opportunities for jobs and housing, making it a link of both social and economic development," says minister of housing Mohamed Muizzu.

"The biggest challenge in our developmental process has always been the smallness and the difficulty in achieving economies of scale," said the president during the project's inauguration, remarking that the bridge, along with the expansion of the international airport, will "change the Maldives' landscape".

Tax benefits

"We have advanced the laws and regulations to give investors the certainty they have been seeking for many years," says Mr Saeed. "Since the president took office in 2013, nearly \$2.5bn has been invested here in tourism alone." Indeed, the government offers attractive business benefits including what it claims is the simplest tax code in the world, the right to 100% foreign ownership, long-term leases and no restrictions on foreign exchange or capital repatriation. But with a global market frequently rocked by mar-

ket fluctuations and terrorism, the Maldives is putting a particular focus on diversification away from the shock-sensitive tourism sector.

"One of the government's main goals is to diversify our sources of GDP," says the country's finance minister, Ahmed Munawar. In 2014 Mr Yameen passed the Special Economic Zone Act, allowing relaxed regulations on non-tourism projects costing at least \$150m. Indeed, notable investment opportunities exist in the construction and infrastructure sector, which has grown rapidly – at about 20% for the past three years – on the back of rapid urbanisation and development.

Further opportunities lie in the financial sector, where the Maldives' young and educated population, its high-quality ICT infrastructure and the capacity for Islamic finance have the potential to make it an offshore financial centre. "If you look at some of our most highly educated youth, they are women," says Mr Munawar. "This is a very important sector for fulfilling the president's pledges – empowering our women and youth."

Thinking local

"The Maldives has managed to reinvent itself over time, becoming more and more competitive," says Crown & Champa's Mr Feinberg. "It enjoys a reputation for being on the forefront of design and facilities in many ways." Indeed, the Maldives boasts innovations such as the world's first undersea restaurant, the first exclusively solar-powered resort on the five-star Gasfinolhu Island, and the world's largest fleet of seaplanes. And the country is now embarking on a mission toward integrated tourism, introducing guest houses on locally populated islands where locals can host travellers as a source of revenue.

"The shift in policy to encourage guest houses has enabled the island community to become part of our tourism revenue," says Mr Zameer. "This creates more economy of scale and opportunity for other businesses to grow."

Trans Maldivian Airways (TMA), the country's private seaplane company, operates a fleet of 48 aircraft, which has allowed tourism and development to reach the country's more remote islands. "One of the biggest enablers of the fleet expansion has been the topography of the Maldives," says TMA chief executive AUM Fawzy. "The 'one island one resort' concept that is ubiquitous in the Maldives provided us the opportunity to innovate our business model.

"The government has been very supportive and this has helped businesses thrive. We believe developmental activities such as the new airport expansion will drive tourism growth and provide a big boost to the overall social and economic development of the Maldives."

"The Maldives' resilience to global fluctuations over the years goes to show the support for the destination around the world," adds Mr Feinberg. "So when you look to the future, you can only think positive." ■



WE ARE A SUN,
SAND AND SEA
COUNTRY. THAT IS
OUR PETROLEUM



Q&A: MOOSA ZAMEER

An extended honeymoon

THE MALDIVES HAS NAVIGATED GLOBAL FINANCIAL CRISES AND POLITICAL INSTABILITY WHILE MAINTAINING TOURISM GROWTH AND LEADING THE WORLD IN ENVIRONMENTAL INNOVATION. THE COUNTRY'S MINISTER OF TOURISM, MOOSA ZAMEER, TELLS NATASHA TURAK HOW HE INTENDS TO STAY AHEAD OF THE GAME

Q Tourism is your main industry, accounting directly for 30% of GDP, but indirectly for approximately 80%. What are you doing to ensure the sector's continued growth?

A Malé International Airport, for transport and transfer, has always been the bottleneck for the development of the tourism sector. We are currently investing close to \$1bn in expanding the airport as well as building new regional airports, and we see there is keen interest from foreign and local investors to take advantage of the new government's strategy to increase tourist arrivals and enhance the industry.

In the past two years we've seen many international investors coming in. In fact, we've slowed down leasing islands for tourism because we don't want the capacity to increase overnight as tourism arrivals have to match it. That is why we are doing special work on marketing as well. Additionally, many structural changes have been made and debt-to-GDP ratios have improved tremendously over the past three years, so I think, as a result, the investor confidence is there.

Q How are you balancing the development of the industry with environmental conservation?

A We have been very cautious in selecting resorts, for example. We want to ensure the islands selected have a suitable environment and that there is minimal impact on their ecology. We do not develop all the islands, we keep some reserved – for instance, the Unesco biosphere reserve in Baa Atoll, where we have preserved certain lagoons to ensure the protection of the natural habitat.

Before each project starts, developers must submit an environmental impact assessment plan, based on which the tourism ministry decides whether we go forward with it. And if you look at adaptation to climate change, the Maldives has been innovative in shore protection and water management – best practices that have been adopted by the tourism sector. We try to keep a balance and harmony with the natural habitat of the environment.

Q Any economy heavily dependent on tourism is vulnerable to external shocks. How has tourism in the Maldives been affected by the financial shifts and downturns of the past few years?



CURRICULUM VITAE

MOOSA ZAMEER

2015

The Maldives
Minister of tourism

Previously
Maldives Marine Product,
managing director

MANY STRUCTURAL CHANGES HAVE BEEN MADE AND DEBT-TO-GDP RATIOS HAVE IMPROVED TREMENDOUSLY OVER THE PAST THREE YEARS

A While we are certainly vulnerable to external shocks – for example, with Brexit we anticipated some uncertainty – we see that it has not, in fact, adversely impacted us. The growth is not really there from that market, but we've never gone into negative growth because of that.

The financial crisis impacted us, and the Asian financial crisis especially impacted arrivals from the region. But the Maldivian market is primarily focusing on the honeymooners, and we see that we are not that badly affected. People understand that the Maldives is unique. You just come to the airport and go to your island.

Even when we had difficult political problems about five years ago, surprisingly we were not that badly hit because what happens in Malé has very little bearing on the resort islands. There have been times when a specific market is targeted by something negative and it does have a short-term effect – but we find that eventually the numbers come back. ■



Reclaimed land: the Maldivian government's aim is for Hulhumalé to house two-thirds of the country's population, some 240,000 people

Shifting sands

WITH CAPITAL MALÉ OVERCROWDED AND THE REST OF ITS POPULATION SCATTERED ACROSS ALMOST 200 ISLANDS, PROVIDING KEY SERVICES TO THE PEOPLE OF THE MALDIVES PROVIDES THE COUNTRY'S AUTHORITIES WITH A HEADACHE. WITH THIS IN MIND, THE GOVERNMENT HAS BEEN DEVELOPING A 'SECOND CITY' ON AN ISLAND NEAR MALÉ, IN WHICH IT HOPES A LARGE NUMBER OF MALDIVIANS WILL CHOOSE TO LIVE. NATASHA TURAK REPORTS

The Maldivian capital of Malé, with an area of 5.8 square kilometres and a population of more than 130,000, is one of the planet's most densely populated cities. With the aim of relieving Malé's congestion and housing crises, for two decades now the government has been developing a second city – the reclaimed island of Hulhumalé, 4 kilometres from the capital in North Malé Atoll.

Phase one of the project began with land reclamation in 1997. In 2002, 188 hectares of land was ready for development and two years later the island celebrated its first settlement of 1000 residents. Today the island is home to about 40,000 people, and phase two of reclamation – named the 'Youth City' and consisting of another 244 hectares of land – was completed in 2015.

Something different

The government's ultimate goal is to bring 240,000 residents to Hulhumalé, enabling it to house two-thirds of the Maldives' population. More than just housing, the

new island city's master developer, the Housing Development Corporation (HDC) – a state-owned enterprise – envisions Hulhumalé as a place to live, work and play.

"We focus on four key areas," says Mohamed Saiman, managing director of the HDC. "These are: residential solutions with different types of housing including social, mid-range, and luxury; creating employment opportunities of up to 90,000 jobs; providing open space averaging at least 2.5 square metres per person [about three times that of Malé]; and the concept of 'play', where people can enjoy themselves in green spaces, parks and sports facilities. And we are trying to provide enough investment opportunities to give young entrepreneurs successful business prospects within Hulhumalé."

Mr Saiman adds: "The Maldives is known for its tourism business, but now we are trying to offer something different. We have a wide range of products that includes everything you can see in a developing city. For Hulhumalé phase two, investment opportunities include

planned developments in hospitality, education, business parks, hotels and shopping malls."

FDI requirements

The state is providing the infrastructure and utilities for FDI to come and develop commercial facilities, according to Mr Saiman. Over the past month alone, the HDC has been negotiating about \$1.2bn in investments, primarily in real estate, and it calculates the total amount of FDI needed to complete phase two may exceed \$10bn over the next decade.

Diversification is a key target in the city's projects. In addition to a new yacht marina and cruiseliner terminal widening tourism opportunities, Hulhumalé already hosts a completed industrial processing zone, now the site of a significant portion of the country's fish and agriculture product exports.

"We are targeting value creation," says Mr Saiman. "For the purpose of special economic zones [SEZs], we are planning at least three zones: an IT park, a knowledge park and a financial centre. Each zone



THE SOCIAL HOUSING PROJECTS COMPLETED OR NEARING COMPLETION ARE DIRECTLY FUNDED BY FOREIGN GOVERNMENTS, MAINLY CHINESE



should [provide] 10,000 to 12,000 jobs.” In addition to pre-designated zones, Maldivian law allows the creation of SEZs in many sectors where a foreign investment exceeds \$150m.

“We want to make the Maldives a hub for offshore financial services,” says Ahmed Munawar, the country’s minister of finance. “We already have the necessary infrastructure and a highly educated young workforce that can be trained.” Attracting banks and other firms would create high-value jobs to further incentivise migration to the new city, he adds.

Housing hopes

When it comes to housing on Hulhumalé, minister of housing Mohamed Muizzu says: “We need to rely on FDI for a large chunk of all the infrastructure and housing projects we carry out. The social housing projects now completed or nearing completion are directly funded by foreign governments, mainly Chinese.”

More than 2000 social housing units have been completed, with several thousand more in the pipeline through a concession loan from the Export-Import Bank of China. The free and subsidised housing offers rent-to-own programmes, aimed at incentivising people from more remote islands to move to Hulhumalé. An additional 15,000 housing units were signed with companies from China, South Korea and Sri Lanka, among others.

“So there is huge foreign involvement,” says Mr Muizzu, “which is very important because at the moment that’s the only way we can go ahead.”

Mr Saiman adds: “We have investors from India and Singapore as well.

They come as contractors or develop their property and they sell it on their own. They take their own rates. With government-supported housing, they bring their own finance, develop it and then sell it to the government.”

Just 15 minutes from Ibrahim Nasir International airport, a 20-minute boat ride to most of the country’s top resorts and strategically located along busy Indian Ocean trade routes, the budding city is well connected for regional business. Already the State Bank of India and Qatari telecoms giant Ooredoo are planning their Maldivian headquarters in Hulhumalé. Further investor benefits include zero income tax, extended lease and investment recovery grace periods, and access to a young, educated and English-speaking population.

In better health

While basic healthcare is provided in the Maldives, for more complicated procedures, including major surgery and cancer treatment, locals currently travel to Sri Lanka or Malaysia. Private investor Tree Top Investments, a collaboration of four Maldivian companies predominantly rooted in tourism, is now developing the first hospital of its kind in the Maldives, in Hulhumalé.

“If you look at the statistics of this country, there is so much foreign currency outflow and the major reason is healthcare,” says Adam Saleem, director of Tree Top Investments. “What we are trying to do is allow Maldivians to access top-quality healthcare in their own backyard. We want to bring a service orientation to healthcare, one that

I don’t believe exists here.”

This means incorporating the customer-centric service integral to the country’s tourism industry. When completed in September 2017, Tree Top Hospital’s services will include cardiothoracic surgery, oncology, a 24/7 service and a fully fledged catheterisation laboratory.

The six-floor facility will be joined by an administrative building and will ultimately hire 900 staff, at a total investment of about \$110m. Tree Top Investments has also signed a management contract with Australian-Malaysian joint venture Ramsay Sime Darby Health Care to provide the necessary doctors and specialists. “The Maldives needs this project in order to grow tourism,” says Mr Saleem. In [tourism-reliant] countries around the world, invariably you have good, patient-centric health infrastructure. We can provide that.”

Hulhumalé is critical to attempts to centralise the Maldives’ highly dispersed population, which is scattered across more than 185 islands, and for whom providing public services is a massive drain on state resources. Roughly half of the inhabited islands lack proper sewage systems, and many face coastal erosion.

“For the past several years we have added land to these identified urban islands with the hope of inviting smaller islands to move, so that they can access better housing, quality healthcare, education and jobs,” says Mr Muizzu. “We never move by force, we just give incentives. It’s a long process but a very important target to achieve, because only then can we achieve sustainable development in the country.” ■

A sustainability push

ENVIRONMENTAL ISSUES ARE A PRIME CONCERN FOR THE MALDIVES, AS RISING SEA LEVELS THREATEN ITS TWIN INDUSTRIES OF TOURISM AND FISHING. BESIDES LOBBYING ON INTERNATIONAL MEASURES TO MITIGATE CLIMATE CHANGE, THE GOVERNMENT IS FOCUSING ON MANAGING SANITATION AND PROMOTING RENEWABLE ENERGY LOCALLY, AS NATASHA TURAK DISCOVERS

Few countries are more starkly aware of environmental issues than the Maldives. With no island measuring more than 1.8 metres above sea level, the country is the lowest on earth and thus among those most vulnerable to the effects of climate change and rising sea levels.

“[The reason] why tourists come to Maldives is our environment, so issues concerning the environment will affect our tourism as well as our fishing,” says minister of environment Thoriq Ibrahim, referencing the country’s two main industries.

“The Maldives has always been at the forefront of advocating climate change issues and taking them up to the international level,” he adds. Indeed, before the UN Framework Convention on Climate Change (UNFCCC) existed, the country held the first conference concerned with rising sea levels in Malé in 1989. Shortly thereafter, in 1992, the UNFCCC was formed.

Rising tides

The stretch of 26 atolls in the Indian Ocean faces a number of environmental challenges. “For any project we do on the islands and sea, we do a very rigorous environmental assessment to see what the damages could be and how we can mitigate a devastating impact,” says Mr Ibrahim. One pressing concern is beach erosion. “Our islands are very small and due to the effects of climate change, the oceans start eating away at the shoreline. Erosion is happening on a lot of islands,” he adds.

This is of utmost concern to the country. In the latest International Panel on Climate Change (IPCC) report, scientists wrote that 75% of the Maldives could be underwater by 2100. “We as a government have already invested a lot of money into more than 17 kilometres of coastal protection to make sure that the islands are secure, the investments are secure, and people are safe from the effects



At risk: scientists have warned that 75% of the Maldives could be underwater by 2100

of climate change,” says Mr Ibrahim.

While efforts to attract more tourists and build more resorts may seem contrary to sustainability goals, Shiham Adam, head of the government’s Marine Research Centre, says this is not necessarily the case. “The Maldives needs money to survive. Resorts are very positive for the environment,” he told the *Guardian* newspaper in March. “They offer better protection than community islands because they must protect at least 700 metres all around them. They become mini marine reserves.”

A further issue is water contamination. Of the country’s 186 inhabited islands, until recently only 31 had proper sewage and water treatment systems, covering 37% of the population. “Over the past three years we have completed 18 more islands, meaning we have now covered nearly 50% of the population,” says Mr Ibrahim. This is a significant stride towards the government’s 75% target.

Renewable thinking

The Maldives aims to be a low-carbon economy, and the government is now targeting that 30% of daytime electricity demand on all the islands be from renewable energy. Only since 2014

have all 186 inhabited islands achieved 24-hour electricity, and bigger islands, such as Addu in the south, have already reached the 30% mark.

“This is an area of possible investment opportunities,” says Mr Ibrahim, noting the world’s first 100% solar powered resort, Gasfinolu, was built in the Maldives. Government incentives include customs-free imports for equipment involved in renewable energy projects.

“We also have net metering regulation now, which means individuals can have their own solar panels and feed any extra power back to the grid for credit,” says Mr Ibrahim. The Ministry of Environment also launches yearly awareness campaigns, such as ‘LED Saves’ and this year’s ‘My Solar’, to encourage better energy consumption habits.

“We need more people in the Maldives to provide renewable energy services. Renewable energy can be harnessed in the Maldives at a very large scale. We just need more innovations,” says Mr Ibrahim.

“Our economy depends totally on the environment, and we need to take care of it. We are doing quite a lot of work to make sure that the islands are safe, liveable – and ready for investments.” ■

An FDI catch

FISH ARE A MAJOR NATURAL RESOURCE FOR THE MALDIVES, PROVIDING DIETARY PROTEIN AND SUPPORTING AN INDUSTRY EMPLOYING ONE-FIFTH OF THE POPULATION. NOW THE COUNTRY, WHICH IS PROUD OF ITS CREDENTIALS IN SUSTAINABILITY, IS KEEN TO DEVELOP VALUE-ADDED PRODUCTION, FISHERIES AND AGRICULTURE MINISTER MOHAMED SHAINEE TELLS NATASHA TURAK



Economies of scale: fish is both a major export and a vital source of protein for many people in the Maldives

While fisheries, the Maldives' second largest industry, comprises between five and 10% of the country's GDP, it accounts for 20% of employment and is particularly crucial to many communities of the outer islands, where tourism is not present.

Fisheries products make up more than 98% of Maldivian exports, according to the UN Food and Agriculture Organization, while fish is the basic source of protein for the vast majority of the population. And though agricultural production in the Maldives is limited because of land shortage and soil salinity, it plays an important role in rural communities' livelihoods, and presents opportunities for value addition in fruit and vegetable exports.

In tuna

"The government is working to add value to all the fish caught in this area," says minister of fisheries and agriculture Mohamed Shainee. The country previously exported skipjack and yellow fin tuna mainly in raw form to the likes of Thailand, Sri Lanka, Germany, the UK and Japan, meaning it lost out on the revenue and jobs generated by value addition. Now, following a rapid growth in production from the country's fish-canning facilities thanks to increased investment, the industry is a vehicle for socioeconomic growth.

"Fisheries and agriculture are two very important sectors to diversify the economy, but also very important when it comes to development – more than 50% of registered

farmers are women," says Mr Shainee. "In the fish processing sector, women also play a major role. So the food sector is not only providing economic diversification and jobs but also female empowerment."

The government also offers soft loans to local processors and producers at low interest rates.

"We are currently embarking on a very ambitious project of import substitution," adds Mr Shainee, describing efforts to boost production of five select fruits and vegetables widely grown by Maldivian farmers. The government has given several island communities equipment for drying and packing produce – for instance, making chillies into powder and paste – enabling them to add value and prevent waste.

Green and clean fish

The state encourages foreign investment, especially in mariculture, which is the farming of fish. "We are trying to invite foreign partners in this specific area. That and agriculture are 100% open for foreign investments," says Mr Shainee.

In 2013, the EU removed the Maldives from its Generalised Scheme of Preferences regime, which allowed discounted duty rates on exports, after the country failed to meet the EU's conditions of legalising same-sex marriage and freedom of religion. This means that Maldivian fish exports to the EU now face an export tax of up to 36%. "So we are working to make this a resilient sector, not subjected to external shocks," says Mr Shainee.

"The government has worked very hard to get recognition for our sustainable fisheries. The tagline for our tuna is 'the greenest and cleanest fish in the world'. This is because not only are we MSC [Marine Stewardship Council]-certified, we have the first products in the world that carry both the MSC and Fair Trade logo. There is a huge effort to bring more fishermen into fair trade."

Gold standard

This achievement came through a partnership with Maldivian company Horizon Fisheries as well as Fair Trade USA. Maldivian fish are caught singly with pole and line or handline, never by net, which eliminates waste and bycatching (where untargeted fish are unintentionally caught).

"We have done this to maintain a gold standard on fisheries, because that gives us a premium on the fish we sell, which helps counter the tax to the EU," says Mr Shainee. "This has strengthened the sector, and we remain competitive in Europe, still our largest export market. So though we're a small country, we have played a very big role promoting responsible and green fisheries."

The Maldives has become a regional leader in this respect. "When we talk about fisheries we are talking about livelihoods, about the community," says Mr Shainee. "For us, it's not about how much you earn, but how many jobs you create, how much protein you provide people, the social aspect. We need to sustain this for future generations, because we don't have any other choice." ■