THE MALDIVES
DIAGNOSTIC TRADE INTEGRATION STUDY
CONCEPT NOTE

1. Introduction

1. This Concept Note discusses the issues to be considered in the proposed Diagnostic Trade Integration Study (DTIS) for the Maldives, which is being prepared under the Integrated Framework for Trade Related Technical Assistance to Least Developed Countries (IF) [1]. The main objective of the proposed study is to ensure that trade is mainstreamed into the national economic development process based on a pro-poor strategy, relating growth to employment creation and human development. In addition, the DTIS aims to enhance the integration of the Maldivian economy into regional and global markets through the removal of supply side constraints to international competitiveness within traditional and non-traditional economic sectors, optimal international and regional trade policy strategies as well as building trade capacity at policy and institutional levels.

2. The DTIS includes a detailed analysis of policy instruments and gaps in the macro-economic framework that constitute constraints to a pro-poor trade development strategy that recognizes the contribution of trade. The Government of Maldives' long-term development vision was articulated in a 'Vision 2020' statement, which affirms Maldives' aspiration to be a top-ranking, middle-income developing country in less than 20 years.

3. Historically, trade policy has not been given much attention in the Maldives and is not mentioned as a specific policy concern in the present Sixth National Development Plan, (NDP 6). To this extent, the DTIS - the diagnosis and action matrix – will provide an important and timely input into Seventh NDP (NDP 7) presently being drafted with assistance from the ADB and UNDP. Although the mid-November 2005 deadline for finalizing the main inputs to NDP7 presents a formidable challenge in terms of getting the DTIS ready, close coordination is being maintained with the planning authorities.

4. It should however be noted that trade policy development and debate is still in its infancy and without a proper institutional framework to secure a structured consultative process within government actors and between government and non-government

---

[1] The Integrated Framework (IF) is an initiative supported by six partner agencies (IMF, ITC, UNCTAD, UNDP, World Bank, WTO)[1]

stakeholders. Recent (June 2005) reshuffling of portfolio mandates between and within ministries has resulted in the merging of economic development planning with trade to form the Ministry of Economic Development and Trade (MEDT). Though this set-up seemingly provides a solid framework with reference to the objectives of the IF, policy mandates and competencies within the new Ministry remain to be worked out. For this reason, although outside its scope, the DTIS team will extend its services to propose a viable organizational structure and competencies for the MEDT. In addition, proposals for the integration and institutionalization of a stakeholder consultative process will be made.

5. These issues were discussed during the preliminary mission in July. During this mission, a national IF Focal Point was designated and the government proposed to approach the European Commission to assume the role of IF donor facilitator. Further, it was confirmed by government that the existing inter-ministerial WTO coordinating committee will assume responsibility as IF National Steering Committee (NSC) to guide the work of the DTIS team and the IF process

2. Country Background

6. The Maldives are a low-lying archipelago located in the Indian Ocean south-west of India. Its population of around 300,000 people inhabits about 200 islands dispersed in the 20 geographical atolls. In addition, there are 87 tourist resort islands and 37 islands leased mostly for commercial agriculture. Twenty islands are used for industrial or garbage storage purposes. But the vast majority of the islands – about 1,000 – are uninhabited.

The Maldives have exclusive economic rights over some 859,000 km² of sea surrounding the islands, which contains vast fishery resources. The islands are an attractive tourist destination due to their sandy white beaches and clear lagoons, bringing more that 600,000 arrivals in 2004. However, the effect of the December 2004 tsunami has meant a loss of an estimated 35% turnover for the tourism sector.

7. Land mass is limited to 300 km² and is dispersed over an 850 km North-South fairly narrow stretch. This peculiarity of land mass and its distribution is a severe constraint to the development of local markets, increasing transport costs with implications for the competitiveness of the economy. The government owns all land and allocates it, including through leasing, for various purposes such as housing, agriculture resorts, industry etc. However, leased contracts are not considered suitable as collateral – a critical issue for commercial bank lending to the Small and Medium Enterprise (SME) sector. A new land law aimed at addressing these concerns is currently before the parliament.

8. Maldives is an independent sovereign nation governed under an executive-style system. The president, also head of state and government, and lawmakers are elected according to universally accepted democratic principles, once every five years. Each atoll is represented in country's legislature. Over the years, Maldives has been relatively politically stable. Recent reforms include the introduction of a multiparty system. Civil society structures exist, but the organizations are weak and do not routinely participate in the policy consultative processes.

Macro-economic context

9. Though liberalization of the economy is advanced and economic growth rates are nominally high, there is an intriguing phenomenon of jobless growth. *The persistent un- and underemployment will be the first key issue to be addressed by the DTIS in the analysis of policy instruments and gaps in the macro-economic framework*. This fundamental problem of jobless growth will be examined in detail at sector level. In addition, there is relatively limited economic diversification with hardly any intra- and inter-sectoral linkages. The situation has been aggravated by the tsunami and has led to loss of income and jobs in the traditional sectors, mostly in rural areas. Further, employment opportunities in the atolls outside the traditional fisheries, agriculture and tourism sectors are scarce and have caused migration trends towards Male', the capital, resulting in congestion.

10. Buoyant GDP growth of up to 6 - 8% per year with negative or very low levels of inflation has characterized the economy. Prudent macroeconomic and public investment policies as well as a largely favorable external environment have facilitated this progress, lifting the Maldives from being one of the 20 poorest countries in the 1970s to one that shares many of the characteristics of a lower middle-income country today. The GDP per capita was USD 2,261 in 2003. As a result, Maldives' graduation from the LDC status is a real possibility. However, the government would prefer to delay of graduation so as not to lose certain concessions that would enhance economic recovery after the devastating tsunami. It is understood that the United Nations ECOSOC is sensitive to this view. Flexibility in macro-economic policy is somewhat limited as the country's currency, the Rufiyaa, is pegged to the US dollar. The level of pegging also largely determines interest rates.

11. The cost of the tsunami disaster is estimated at USD 475 million. Among the worst hit sectors were tourism and agriculture, the latter in terms of an immediate loss of field and horticulture crops and a medium term loss due to the intrusion of salt water into the water table. It is expected that the Maldives will remain a net food importing country for some time to come reinforcing the situation before the tsunami crisis.

Human development and poverty

12. The Maldives have achieved significant progress on human, social development and gender equalization over the past two decades. The Human Development Index (HDI) ranked the Maldives at 84 in 2004, a ranking that dropped to 96 in 2005, due to the effects of the tsunami. [2] Social indicators have improved steadily, reflected in a falling infant mortality rate, expanding school enrolments, and rising literacy rates. The intensive proliferation of primary school education on the islands has resulted in a 95% literacy rate.

13. The incidence of poverty is low in the sense that the 85% of the population has income levels well above the US dollar 1.00 per day threshold. However, vulnerability analyses suggest that incidences of poverty are related closely to level of education, skill and are more frequent in the outer islands. Poverty is best classified in terms of less direct access to services (health, education) that are more costly to deliver to remote islands.

14. As far as gender is concerned, there is equal access to education, but in reality tradition play an important role in determining who gets access to tertiary level education. Similarly, access to jobs is equal by law further supported by an equal job opportunity policy. But despite marked progress over time, most jobs at senior level positions in government are still filled by males. There remain some socio-cultural cleavages that prevent women from accepting work in certain parts of the resort based tourism industry, and traditional customs causes women to look after children and carry other family related duties.

15. In summary, the Maldives still face a range of development constraints typical to small islands states. These include a small domestic market, narrow and fragile resource base, a shortage of skilled workforce, difficult inter and intra-island transportation, high unit costs of educational, social, health and economic infrastructure provision and high vulnerability to external and natural disasters. The DTIS will analyze the impact of these characteristics on competitiveness, trade development, and employment creation within the main economic sectors and their clusters.

[2] UNDP Human Development Report 2005,

3. The Key Constraints on Maldivian Trade

Investment Policy and Business Support

16. Though the government has adopted a liberal foreign investment climate the result has been meager in the sense that most foreign direct investment (FDI) is tied to the tourism sector. Only very little FDI is seen in other sectors. Part of the explanation is lack of domestic market opportunities, given the limitations of a population of 300,000. FDI has therefore been geared towards sectors reaching international markets, tourism being the best example. The investment regime allows free currency exchange and repatriation of profits and capital assets. There is no corporate tax, except for the financial sector where a 30% profit tax is collected.

17. Within government, there is an unhealthy practice of mixing investment promotion and regulation as both roles are assigned to the Foreign Investment Services Bureau (FISB) of the Ministry of Economic Development and Trade (MEDT). The legal framework needs reviewing as the existing law is from 1979 and insufficient to provide a dynamic investment climate and policy. FISB also handles and registers foreign investment in all sectors except tourism, which is the responsibility of the Ministry of Tourism. Other foreign investment has been related mostly to project activities funded by donors. There is a need to revise and modernize the legal framework for FDI to become more conducive to smaller scale investment. Foreign investment guidelines exist but are old and would need up-dating.

18. The financial sector is still in its infancy. Though five international banks operate in Male', these are but branch offices of their parent organizations, and engage only in financing of commerce. At present there is no investment bank; however, the Maldives Finance Leasing Company is a notable exception that provides capital financing, only finances leasing of equipment targeting small and medium scale operators. The Bank of the Maldives has a development cell with branches in 12 atolls and two dhonis (or speed boats) provide mobile (floating) outlets to the remaining atolls. A key issue is to encourage easier access to capital especially for local SME-level investment, which under the present financing regime could require collateral of up to 200%.

19. Capital market development is necessary to enable the establishment of institutions or mechanisms to turn local savings into productive investment. An issue to be addressed in the short to medium term is the development of an effective capital market and easing of access to investment funding both in terms of equity and loans. Passing of the Securities Act, now in parliament, may spur the elaboration of the simple stock exchange that currently has three listings all of which are majority state owned enterprises with limited number of shares floated. However, the ability to use Multi Stakeholder Partnerships (MSP) is limited as e.g. cooperative structures are not accepted as legal entities, making local community based participation difficult.

20. The business enabling and support environment is weak and mostly centered in Malé. Regional level support facilities for Small and Medium Enterprise (SME) owners (or newcomers) are non-existent, a situation that is further aggravated by the difficulties in accessing credit. The aspects related to technical assistance and training needed to be provided for potential SME operators in the islands are key issues for the DTIS, as is the role of on-going and planned donor support to the SME sector

21. Trade promotion services are limited. The government is only involved in the tourism sector through the Maldives Tourism Promotion Board marketing the Maldives as a tourism destination. Other economic sectors have no government support mechanism, except for the state owned Maldives Industrial Fisheries Corporation that participates in trade fairs etc. Civil society organizations such as the Maldives Chamber of Commerce and Industry representing mostly trading companies, the Association of Construction Industry, and the Fishermen's Association are all weakly founded and act mostly as informal discussion and lobbying partners with very little capacity for gathering and disseminating international marketing intelligence and extend services. The DTIS will analyze the need for strengthening / building capacity within the civil society organizations for these to assume the role of viable partners in the policy debate and to act as advisors regionally.

22. There is a need to build capacity for investment and trade information services, which can be extended to all economic sectors and to the regions. The DTIS will investigate how such a service will be able to act as a partner / promoter of a consultative process with the private sector and civil society stakeholders including the policy makers, which at the moment is not institutionalized.

Trade Policy, Facilitation, and Custom Services

23. A comprehensive assessment of Maldives' trade policy in the context of multilateral obligations was recently completed by the WTO through the Trade Policy Review Mechanism. This will form the basis for further analysis of trade policy options, both in terms of international and regional integration and with a particular focus on pro-poor trade strategies. In terms of market access, the effect of a South Asia Free Trade Agreement (SAFTA) will be assessed, as well as the value of other preferential regimes in operation. This assessment will include fiscal effects of revenue loss

24. The margin of preference under existing regimes, however, is not deemed to be sufficient to offset the other costs that Maldivian exporters incur in accessing world markets relative to competitors in other countries. Further, the rules of origin governing preferences, when defined as a value-added requirement are particularly difficult to satisfy for a country such as Maldives facing extremely high priced imported inputs and with limited comparative advantage on labour costs.

25. The Maldives will face key market access issues at the regional level and in future bilateral trade relations with the EU[3] if it graduates as an LDC. Under the present ALA agreement the Maldives would face a steep 24% increase in custom duties on their main export product to the EU canned tuna.

26. More specifically, regional integration initiatives will be of particular value to The Maldives if they help to leverage action on the key issues affecting trade, including the cost of transport and customs clearance issues, the availability and cost of finance and energy, the latter is important as the Maldives import all raw energy needs. Regional institutions could also play a useful role in the development of a system of standardization in Maldives, with the cooperation among certification bodies on TBT and SPS agreement issues. The DTIS will assess the possibilities and options.

27. The study will also seek to highlight the interests of the Maldives in, the Doha Development Round. In this context the impact of the dramatic end of the garment sector, resulting from the ending of the Multi Fibre Agreement (MFA) will be assessed.

28. The Maldives Customs Service under the Ministry of Finance and Treasury administers the tariff regime, including customs procedures and rules of origin. The importance to the economy is substantial as customs duties are a major source of government revenue contributing 33% of total revenues, and 68% of tax revenue. The service functions fairly efficiently and is structured towards client based services and trade facilitation. The ASYCUDA system has been introduced as has the harmonized system of codification. Potentially electronic handling of clearance and other paperwork is possible, however, the infrastructure available is poor and there is lack of basic equipment such as mobile x-ray at the port and other detection equipment. The computer network facilities are insufficient. Therefore, the customs service is much in need of technological upgrading.

29. Despite the advantage of geography, only Malé sea port and the airport serve as the main entry points for cargo and passengers leaving or entering the country. Port and airport are equipped with staff and facilities for customs clearance and quarantine services. However, the sea port is small and the capacity to handle containers is limited to twenty feet equivalent units (TEU). This situation creates congestion especially in the port area where vessels anchor in the waiting area some times for weeks.

---

[3] The Maldives presently enjoys EU assistance through the ALA agreement with access to the European Development Fund (EDF). Membership of the Cotonou agreement seems not to be an option at the moment, but is definitely an interesting avenue.

30. Focusing customs procedures in the Malé area creates additional north to centre and south to centre (and visa versa) domestic transport patterns and constitutes a constraint to trade facilitation. In addition, there are important incremental cost incurred for part of the cargo and passengers that travel long distances. In order to contribute towards the ‘Vision 2020’ on further development of the atolls, and thereby increase the potential to create additional employment in the regions, the option to decentralize and de-concentrate the service will be assessed.

31. In terms of compliance with the WTO Agreement on Customs Valuation the service applies the ASYCUDA systems with the Harmonized System of Classifications. The law on customs valuation complying with GATT Article VII, is being developed and will be passed though Parliament (this is reportedly a straight-forward process). Training on procedures is being undertaken. and will be assessed particularly as regards valuation methods, capacity building for risk management and application of the ASYCUDA World software.

32. Enforcement is the responsibility of the Coast Guard, where actual inspection capacity is limited to five vessels that also have responsibilities within fisheries inspection. There is an obvious need for up-grading and expansion of the capacity of the Coat Guard.

33. During recent years local investment has been made in a number of fiber glass ship yards that produce more efficient speed boats with a capacity of 24 passengers and a speed of 35 knots. This is welcome progress is made in terms of maritime sector infrastructure and vessel efficiency.

Maritime transport

34. Maritime transport is provided through the private sector. However, the publicly owned ‘Maldives Transport and Construction Company’ is an important player in domestic transport services. A state owned shipping company exists as well. The direction of transport is mostly Male’ – atolls and return. There is very little transport services available for intra-atoll islands and inter-atoll centers. This limitation acts as an obstacle to local market development and the potential to establish sectoral linkages. Training capacity is limited. There is a navigation school for boat drivers and seamanship.

Aviation

35. Aviation activity for Male’ is focused around servicing the tourism sector and other passenger traffic. Outside Male’ only Gan airport has capacity for international long range aircraft. Aside from the Island Aviation Services, the sector is privatized. Four companies are engaged in passenger transport but only very small volumes of cargo are transported by air. There is no estimate of local employment in aviation; reportedly

mostly foreigners are employed. There is no training facility for aviation technology or engineering. The future role of aviation in domestic cargo transport will be investigated.

Fisheries Sector

36. Total employment in the fisheries sector is around 35,000, counting all up and down stream linkages. Of this 14,900 are fishermen. The socio-economic importance therefore is substantial with a multiplier of more than 2.0. However, there is a declining trend in that younger people do not find fisheries an attractive career opportunity given conditions on board and in the factories (except in the case of a few more modern plants). The DTIS will focus on the identification of ways to make the sector more attractive through diversification, modernization and skills development.

37. Geography makes characteristics make marine resources the most important natural endowment. Only little is known about the fish stock. The Marine Research Centre (MRC*)* carries out research in the marine environment and fish stocks based on data supplied externally. Human resources are limited to four scientists, and there is a need to investigate ways in which the knowledge on fish stocks can be enhanced.

38. Approximately 94% of all catch in the Maldives is accounted for by local fishermen using pole and line to catch mostly skipjack tuna. Exports of fish products make up 99.5% of all exports in value terms, tuna products constitute 86%. This focus on a single species makes the sector economy vulnerable to external shocks. In addition, the catch effort for local fishermen (near coast fisheries) is almost exclusively skipjack tuna, which is a low value species. This species is mostly used for dried tuna exported to Sri Lanka or processing into loins for canning – another low value product.

39. High sea EEZ fisheries are licensed to 43 international fishing companies mostly applying long line technology. Regulation is done by catch quotas and allows only long lining and pole and line methods. Application of these sustainable methods makes Maldives fisheries extremely ecological. It is worthy to consider the registration of the label ‘Maldivian Fish’ as a geographical indicator under TRIPS, to capitalize on this environmentally friendly management of the resource. The potential for diversification into other marine catch or aquaculture products will be investigated based on a demand driven (market demand) approach. The DTIS analysis will include linkages to the tourism sector..

40. The Ministry of Fisheries, Agriculture and Marine Resources (MoFAMR), keeps a vessel registry, but it is generally acknowledged that this may exclude information on some smaller vessel types During recent years investment has been made into ship building activities of more efficient fiber glass vessels. This has led to less operating costs with higher catch per trip and the landings have increased to 155,400 ton per year.

41. The government is presently developing a fishery sector policy, but important management tools as a master plan and a fisheries co-management plan are not yet available. The World Bank is involved in a Fisheries Master Plan initiative, which will also cover enforcement measures. The Coast Guard holds responsibility for Monitoring Surveillance and Control (MSC) as well as enforcement activities, but with only five vessels very little MSC and enforcement is carried out, and it is generally recognized that illegal fisheries take place.

42. Within the market access area the facilities for Sanitary and Phyto-Sanitary (SPS) compliance are vested with the Public Health Laboratory (PHL), which is also the EU competent authority. Reportedly the PHL is in the process of moving to new facilities, where additional test laboratories will be made available and new equipment installed. The PHL carries out spot checking of fish products for export but appears to be understaffed. Further capacity building needs will be investigated.

43. Marketing effort is left to the exporting companies. The Maldives Industrial Fishing Company (MIFCO), a state owned enterprise, participates in international trade fairs and other marketing efforts. The professional 'Fishermen's Association' is weakly organized. A formal mandate exist for it to be engaged in policy debate, however actual consultative processes with the government are haphazard. Ways in which the consultative process could be enhanced and institutionalized will be investigated.

Tourism Sector

44. Total employment in the tourism sector is approximately 14,000 but less than half of these jobs are held by Maldivian. The local employment issue is related partially to costs (Maldivian staff attracts higher salaries), human development and the availability of and needs for different skills. This contributes to the phenomenon of jobless growth that has been observed in the Maldives. The DTIS will analyze the employment structure of the sector and the potential to increase local job numbers and level of competences through human resource development and training initiatives.

45. Having adopted a strategy of tourism development centered on the high end of the market, beds are limited in numbers. A new element in the strategy is to bring this important engine of economic growth to the atolls more distant from Male', with an additional 11 islands to be tendered there in 2005. Occupancy rates have shown an increasing trend during the last decade and average 62% a year. However, a dramatic drop of 30% is expected for the 2005 season due to the tsunami effect.

46. The Maldives has a unique marine environment created by the 20 coral atolls sitting on top of a submarine mountain ridge. The government devised policies to protect this important resource and has thereby created the foundation for a unique setting for tourism development. The sector is buoyant and contributes 33% of GDP. Resorts are leased to the operators and revenue contribution of the sector to the government is

composed of the lease fees for a 25 to 35 year lease period. In addition the government collects a bed tax of USD 8 per night.

47. The main training and capacity building facility is the Faculty of Hospitality and Tourism Studies (FHTS) which provides training to Bachelor level degrees, and provides a range of targeted vocational training courses including demand driven activities. Lower levels of training are also offered in two regional departments. In general, the turnout of candidates is not sufficient to meet industry requirements, and the industry has initiated on-the-job-training, which also involves overseas stages.

48. Marketing of the Maldives as a destination sector is the responsibility of the Maldives Tourism Promotion Board (MTPB) that has two offices in Europe, but generally acts in rather passive fashion. Maldives Association of Tourism Industry (MATI) acts as a lobby organization for the hotel resorts, and has substantial resources and capacity. The tourism industry has quite specific marketing needs and organizes itself accordingly. Most resorts finance construction costs by pre-selling the beds through financial arrangements with international tour operators. Thus there is a foreign exchange leakage out of the country in terms of financing. The very high occupancy rates, however, reflect inelasticity in demand rather than efficient marketing efforts. Despite these positive trends the socio-economic impact is limited and there is a need to identify ways of increasing local participation in tourism development.

Knowledge Services

49. The peculiarities of geography with widely dispersed and often thinly populated islands have enhanced the implementation of wireless telecommunication infrastructure. It is now extended to cover virtually all 200 inhabited islands through a combination of microwave and satellite technology; only Male’, Hulhumale’, and Vilingili islands are equipped with cabled communication technology. For this reason mobile communication has exploded. The overall service capacity and quality is expected to be vastly improved with the arrival of the international broadband cable from India, expected for 2006.

50. Knowledge services, which encompass Information Communication Technology (ICT), IT, and financial off shore services, are a relatively new phenomenon for the Maldives. There is no Government regulatory body for the ICT/IT sector. The development activities are the responsibility of the National Information Technology Centre (NITC) and as a result of the recent GOM restructuring it is not yet decided which ministry NITC will belong to. These aspects of overall administrative responsibility, law making and regulation need to be solved.

51. There are only limited numbers of academically trained professionals available. The Faculty of Management and Computing has courses at bachelor degree level as well as short courses in computer science, mostly with a focus on business level needs in accounting and marketing. More technically advances degrees are obtained abroad,

especially in Malaysia and Australia. However, educational capacity is limited and there is a need to assess the structure of targeted training not only centrally but including also regional level training. The role of ICT / IT in regional economic development will be assessed.

Energy Sector

52. Raw energy supply to the Maldives is a major import item with a share of 13% of the total import bill of USD 475 million. Petroleum products are imported mostly to be transformed into electricity supply. All inhabited and resort islands plus a number of the uninhabited island used for agricultural and industrial purposes have one or more electricity generating units. The distribution of raw energy is a costly activity. To this extent, the cost of energy is a supply-side constraint to the competitiveness of the economy.

53. The Ministry of Environment, Energy and Water Resources (MEEWR) assumed responsibility for the energy resources in 2005 with the cabinet reshuffle. Production and distribution is the responsibility of the State Electricity Company (STELCO). In many cases, ownership and responsibility for the production and distribution of electricity in the islands have been turned over to the communities. The same is the case for the resort islands.

54. The Ministry is in the process of compiling energy balances for the years 2001-2004. An energy policy exists in draft form and will be made available to the DTIS consultant working on this sector. Small scale experiments have been carried using permanent energy sources as wind and sun, but on-going research indicates that the wind regimes prevalent for the archipelago are not favourable. Sun energy is seen to mostly useful for heating of water. No experiments have been carried on using other sources such as wave energy.

55. There is considerable scope for introducing energy efficiency measures both in the transport sector and in various industries. It is commonly recognized that for fisheries the engines are not optimized to the vessel both in terms of size and load capacity. Savings are also likely to be found in the Male’ transport system and in the consumption of electricity in offices and enterprises. A campaign has been launched to create awareness in the islands about the use of liquid gas for household consumption. The potential for enhanced energy efficiency will be assessed.

4. Approach and Methodology

56. The government, with international assistance, has drawn up some elements of a strategy to deal with some of the issues discussed above. For example, there are comprehensive strategies for the tourism sectors, and draft strategies exist for the energy and transport sectors. However, a broad trade (export and import) promotion strategy

remains to be defined. There has not been a careful analysis of the key constraints that may compromise the success of these initiatives and the linkages between trade, growth and poverty reduction.

57. The role of the DTIS will be to provide a coherent and comprehensive view of the extent to which current and planned initiatives will come together to provide a stable environment in which trade can be mainstreamed into the NDP 7 and play a major role in sustaining growth at levels which generate substantial reductions in poverty. Within this a key issue will be to carefully assess the extent of synergies between different policy interventions and an analysis of appropriate sequencing and the extent to which relevant benchmarks can be set for key deliverables.

58. The expansion of the tourism sector, one of the sectors identified as a priority for further socio-economic development in the Maldives, is likely to increase the opportunities of targeted fisheries and horticulture activities, but these opportunities are unlikely to be exploited in the absence of a system of standardization which ensures the supply of consistent, high quality products.

59. The key constraints to trade will also be carefully linked to analysis of two related issues that are crucial to development and long-run growth in the Maldives – private sector development, in particular the regional island based SMEs, and the movement of resources from the informal to the formal sector. This analysis will aim to identify whether there are additional constraints on investment and private sector activity that will compromise the ability to invest and raise capacity to exploit international market opportunities as the key trade barriers are removed. In other words the study will discuss measures that are necessary to improve the investment environment to ensure that resources are invested to take advantage of an improved environment for trade. This will include an analysis of the potential for updating the legal framework for investment. Further, it will comment on factors which discourage activities from taking place in the formal sector, the extent to which alleviating the key barriers to trade will encourage participation in the formal sector and whether additional measures are necessary and available.

60. The team preparing the DTIS will assess the key issues discussed above, including:

- The magnitude of the problem, based on existing studies and data, field visits to islands are planned for purposes of verification;
- The extent to which strategy supporting initiatives are consistent with a pro-poor oriented trade and economic growth strategy;
- Where feasible, the potential impact on poverty of addressing these problems, and the extent to which the design of current initiatives will realize their poverty reducing potential;

- The extent to which progress is affected by, and influences, development through linkages between sectors;
- Make carefully defined proposals as to how the strategy may be refined in a context of stimulating trade through capacity building TRTA; and
- Assess the capacity for successful implementation of the various initiatives in both public and private sectors.

61. These issue-specific approaches will be supplemented by the five sector specific studies which will highlight the importance and impact of the main constraints identified in the dominant sectors in the economy. There will also be specific analysis of the possibilities of developing import substituting agriculture/horticulture and energy activities, and the major constraints to enhanced activity in these sectors. Knowledge and port and logistics services have been singled out by the GOM as key non-traditional sector elements in its longer term vision for the Maldivian economy. Yet there has been little analysis of the economic conditions and policy environment that would facilitate the development of these sectors.

62. It has to be recognized that in the short-term poverty reduction will be driven by developments affecting the traditional sectors (fishery and tourism) products currently exported, and the extent to which initiatives to increase returns to fishermen, farmers and island communities are possible. Analysis will therefore distinguish between short-term measures to improve traditional sectors and longer-term measures to support export growth, import substitution and diversification. An important issue here will be to analyze how the linkages between the identified clusters will affect the development of exports and the non-traditional selected sectors in the short and medium term.

Trade and Poverty

63. The analysis of the main constraints to trade will be brought together through an assessment of their impact on poverty in the Maldives. The analysis will be greatly assisted by the UNDP funded Vulnerability and Poverty Assessment Study that has been carried out in 1998, 2004 and post- tsunami (2005). This ground breaking work contains data based on household surveys for consecutive periods. So it is possible to calculate the possible effects of improvements in transport, customs clearance and reductions in other trade costs on the price of imported products and hence on consumption bundles. An attempt will be made to take this analysis further by considering how the nature of trade growth and diversification will affect employment and what this implies for objectives concerning growth and poverty reduction. Close coordination will be maintained with other donor funded activities such as the ADB team drafting the NDP 7, the World Bank study teams for ICA and the Fisheries Master Plan.

5. Proposed Outline for the DTIS

64. Volume I: The Summary DTIS Report will be drafted on the basis of the contributions of the individual consultants (see Volume II below). This volume is the responsibility of the team leader, Bent Larsen. The proposed outline is as follows:

i. Executive Summary (4 pages)
ii. Action Matrix (5 pages max)

1. Introduction and macro- and socio-economic context (5 pages)
2. Trade and pro-poor strategy: the key constraints to trade and their impact on poverty (6 pages),
3. Trade policy and facilitation: improving transport and customs clearance, trade promotion, pre-requisites for improved trade performance (15 pages)
4. Investment policy and business development: identification of constraints at the policy level, and supply-side constraints including service delivery to the island SMEs, and financing and credit (15 pages).
5. Developing the private sector: crucial transport infrastructure and energy (5 pages),
6. Leveraging access to global and regional markets: trade policy and regional integration (8 pages),
7. Exploring economic growth with value addition: an employment and human development focused analysis of the supply side constraints to trade based on competitiveness factors at sub-sector level and including the scope for diversification and inter- and intra-sectoral linkages (20 pages).

65. Volume 2: the chapters of the individual consultants. The detailed reports of the trade and investment framework consultants will be presented in this volume, together with sector studies which highlight the impact and importance of the key constraints to trade, and detailed analyses of sectors with greatest potential:

a. Trade policy and facilitation;
b. Investment policy and business support,
c. Customs services;
d. Tourism sector;
e. Fisheries sector;
f. Port & logistics services ;
g. Knowledge services; and
h. Energy