

Chapter Two

PROFILES OF THE TOURISM, MANUFACTURING, AND TRANSPORT-LOGISTICS SECTORS

2.1 A Snapshot of the Business Environment in Maldives

The enterprise landscape of the island economy of Maldives is rather narrow and limited to a few economic sectors: tourism, fisheries, manufacturing, transport, and related services. It is estimated that there are about 2,500 registered small and medium enterprises (SMEs) in the Maldives and most of them are quite small, with an average turnover of less than \$80,000 per annum.¹⁴ Most of them are located in *Male*, which accounts for about 27 percent of the total population.¹⁵ The sample frame details compiled by the ICA team comprised 1,003 business establishments operating in the manufacturing, tourism, and transport-logistics subsectors. However, the aggregate summary table prepared by the Statistical Division of the Ministry of Planning and National

Indicator	Manufacturing	Tourism	Transport-Logistics	Overall
Private limited liability (%)	78	73	66	68
Firms owned by private domestic (%)	97	87	89	91
Average age - years	12.5	11	14	12.4
Firms affected by tsunami (%)	35	36	50	41
Average number of workers - permanent	60	115	66	82
% of managers with university degree or above	36	52	41	42
Land ownership (%)	17	10	21	13
Establishments having more than one holding/factory/service outlet in Maldives (%)	88	66	91	87
Firms with a bank loan (%)	28	36	32	33
Firms willing to increase regular fulltime employees if there are no restrictions (%)	63	43	45	
Source: World Bank, Maldives ICA Survey, 2005				

Development for the Establishment Survey of 2004 had a total of only 520 establishments representing 11 ISIC subsectors at the 2-digit level and their database covered only 136 establishments.

The Maldives investment climate survey covered three major economic sectors: manufacturing, tourism, and transport-logistics (table 2.1). These sectors jointly account for about 50 percent of the GDP and 60 percent¹⁶ of the total employment. The growth performance of manufacturing, tourism, and transport-logistics over the past three years has been 8.3, 6.1, and 6.3 percent, respectively.

14 IFC, 2003. SME Sector Review and IFC Linkages Identification Assignment. Republic of Maldives. Public Enterprise Development Facility. December, 2003.

15 This is based on the estimate of 74,000 Maldivians living in Male. According to some estimates, this number is as high as 120,000, including expatriates.

16 Based on the 2000 census, manufacturing was 11,081; construction, 3,691; hotels and restaurants, 9,748; and transport 7,873, out of a total of 86,245. (Our industry categories are different than those of the census). The total of 33,765 foreign employees was added on.

Given the small size of the country, sectors were broadly defined. In the sample survey, the manufacturing sector activities include boat building, commercial fishing, fish processing, food and beverages, printing, furniture, and handicrafts, while the tourism sector covers six subsectors: guest houses, safari vessels, tour operators, travel agents, resorts, and hotels. The transport-logistics sector includes sea transport, ferry services, land transport, air travel, taxi services, retail trade, shipping, cargo handling, and freight and logistics services. Among these three major sectors, tourism demonstrates a high degree of diversity in terms of service mix, price strategy, and location-specific factors. The transport-logistics sector is considered a potential source of economic diversification, as well as providing transport services to both producer and consumer groups (refer to technical appendix 1).

Indicator	Manufacturing	Tourism	Transport & Logistics
Value added per worker- MRfs (000)	314 (31)	211 (29)	277 (16)
Average price-cost margin - (%)	32 (28)	49 (30)	47 (16)
Investment rate - (%)	74 (42)	53 (38)	66 (42)
Fixed assets per worker- MRfs (000)	153 (32)	245 (32)	220 (28)
Labor cost per worker- MRfs (000)	45 (31)	36 (35)	50 (33)
Source: World Bank, Maldives ICA Survey, 2005* Percentage of profits (after tax) reinvested in the establishment.			

The value added per worker in manufacturing, tourism, and transport-logistics ranged from MRf. 314,000 to MRf. 211,000.¹⁷ (table 2.2) The manufacturing and transport-logistics sectors purchase more than 37 percent of their material inputs and supplies from domestic sources, while for tourism, domestic sources account for only 30 percent of their material inputs and supplies. The enterprises engaged in commercial fishery and fish processing are highly export-oriented, accounting for more than 97 percent of the total sales. More than 65 percent of the firms in all three sectors reported having holdings/factories or service outlets in Maldives. About 17 percent of firms in the transport-logistics sector also reported having holdings/factories or service outlets in other countries. In 2004, the capacity utilization of business enterprises in Maldives was about 76 percent. Interestingly, only about one-third of business enterprises use bank loans as a source of finance. The status of land ownership clearly indicates the presence of a serious constraint to growth and development in the business sector enterprises. Only 10 percent of entrepreneurs in tourism claim to have land ownership, while that figure was about 18 and 25 percent in manufacturing and transport-logistics sectors.

The tourism sector represents a much larger segment of business enterprises than its counterparts in manufacturing and transport-logistics. The business activities in all three sectors are highly concentrated in *Male* Atoll. Only in the case of tourism does it expand into other atolls, as can be seen in table 2.3.

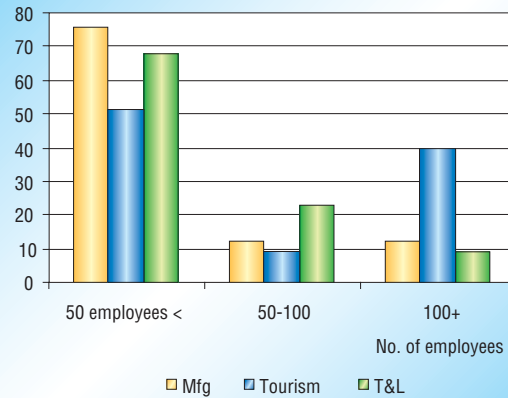
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Location	Manufacturing	Tourism	Transport & Logistics
Male'	(53) 100	(30) 60	(43) 98
Male Atoll	0	(8) 15	(1) 2
Other Atolls	0	(13) 25	0
Total	(53) 100	(51) 100	(44) 100
Source: World Bank, Maldives ICA Survey, 2005			

17 It is important to note, however, the estimated value-added figures are based on a small number of responses with high degree of variation. As an alternative measure, median value added per worker was also computed and the figures stand at Rfs. 114,750, MRf. 180,000 and MRfs. 175,833 for the manufacturing, tourism and transport, and logistics subsectors, respectively.

The majority of business enterprises in the Maldives are private limited liability companies and, in the case of tourism, that figure is about 81 percent, and the majority are owned by the Maldivians. In tourism the share of foreign ownership was about 13 percent, while it was as low as 8 percent in the other two sectors. The age profile of the business enterprises is quite mature. About 44 percent of business enterprises report more than 10 years of business experience, while another 22 percent report 5 to 10 years, indicating the stability of business sector activities in the country. The presence of oligopolistic and monopolistic competitive market conditions can also be observed in several industry groups.

Figure 2.1
Size Distribution of Firms

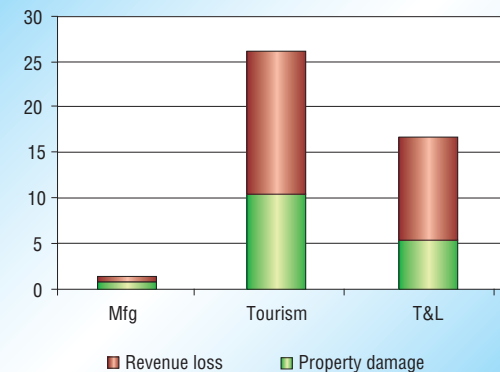


Source: World Bank, Maldives, ICA, 2005

The median number of workers employed in manufacturing enterprises was approximately 63 (figure 2.1). This was much higher in tourism and transport-logistics, indicating an average employment of 117 and 72 workers per enterprise, respectively. The tourism sector tends to operate with relatively smaller number of temporary workers. It was observed that the majority of firms in the manufacturing and transport-logistics sectors employ less than 50 employees, respectively. In tourism only about 40 percent of entrepreneurs employ more than 100 workers. Females account for about 11 percent of permanent employees, while they represent about 2 percent among temporary employees.

A significant number of firms had been affected by the Tsunami. The proportion of firms affected was about 35 percent in manufacturing and 36 and 50 percent in tourism and transport-logistics sectors, respectively. On average, the estimated property damage was in the region of MRfs. 5.8 million per firm and the estimated revenue loss was in the region of MRfs. 11.3 million per enterprise. As shown in figure 2.2, tourism sector enterprises appear to have incurred heavy losses compared with their counterparts in the manufacturing and transport-logistics sectors. About 62 percent of respondents expect a slow recovery of business activities during the post-Tsunami period.

Figure 2.2
Impact of Tsunami on Business Activities per Enterprise (Rf millions)



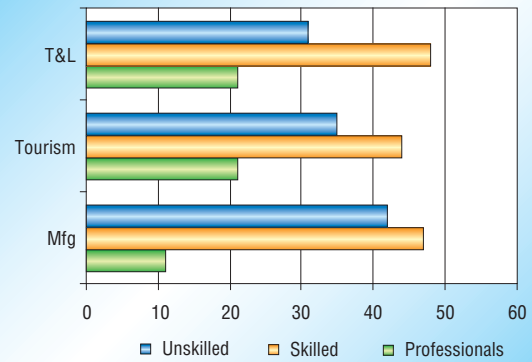
Source: World Bank, Maldives, ICA, 2005

2.2 Skills Mix of Workers

In Maldives, the enterprises have acquired professional and skilled workers and also have focused on the continued enhancement of skills. About one-fifth of the employees in the tourism and transport-logistics sectors are professionals, while they account for about 11 percent in the manufacturing sector (figure 2.3). Skilled workers in all three sectors comprise more than 44 percent of the

employees. In overall terms, about 5 percent of employees in manufacturing have acquired a degree or higher-level qualifications, while that figure was 9 and 15 percent in tourism and transport and logistics, respectively. More than 43 percent of the employees in all three sectors have completed secondary level education and the proportion of employees with incomplete secondary education was about 25, 17, and 25 percent in the manufacturing, tourism, and transport-logistics sectors, respectively. Among the top managers, more than 50 percent had acquired a university degree or higher-level training, but only the tourism sector has provided overseas training for its employees (22%). Given the competitive nature of business, Maldivian enterprises have focused on capacity building. More than 50 percent of the permanent employees in manufacturing and transport-logistics have received internal training, while that number was about 44 percent in tourism. This empirical evidence clearly indicates the potential to improve labor productivity and competitiveness through further increases in human resource development and the introduction of new technology.

Figure 2.3
Skills Mix of Employees (%)

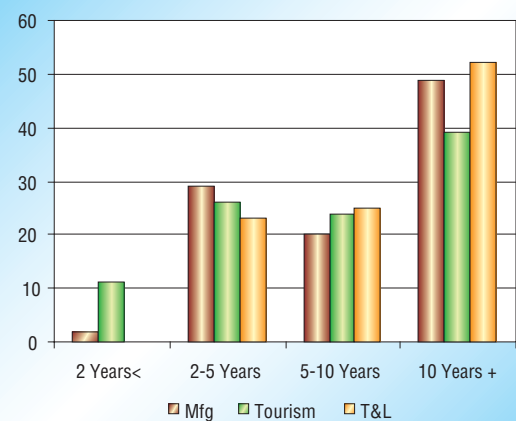


Source: World Bank, Maldives, ICA, 2005

2.3 Stability and Longevity

The majority of the enterprises in the major economic sectors have been in operation for more than 10 years, demonstrating the favorable business environment (figure 2.4). Transport-logistics-sector enterprises tend to be older than tourism and manufacturing enterprises, given the early origin of that sector. The average age of transport-logistics sector firms is 14 years, compared with 11 and 12 years in the tourism and manufacturing sectors, respectively. Within manufacturing, enterprises in the fisheries subsector recorded on average 8 years of business experience, whereas enterprises in boat building display an older profile-ranging from 10 to 12 years-since this was a traditional industry in Maldives. Within the transport-logistics sector, transport-service providers tend to be older, ranging from 5 to 40 years, while the enterprises operating in the logistics and distribution subsector were in the range of 5 to 30 years.

Figure 2.4
Age Profile of Firms



Source: World Bank, Maldives, ICA, 2005

2.4 Ease of Entry and Barriers to Exit

The Maldives has made progress in reducing the administrative burden for startups. Fewer than 2 percent of manufacturing firms, 6 percent of tourism enterprises, and 9 percent of transport-

logistics enterprises reported that business licensing and operating permits are major or severe obstacles. According to DBI 2006, entrepreneurs wishing to register a limited-liability company in the Maldives had to go through 6 different procedures taking a total of at least 12 days and incurring a cost of \$331, equivalent to 12.4 percent of per capita GNI. This is on par with many of the developed countries, which provide an enabling environment conducive for promoting businesses. In terms of closing a business, the Maldives is far behind relative to its counterparts in the South and East Asian economies and there is certainly room for further efficiency gains. The bankruptcy process takes on average 6.7 years.

Business registration in the Maldives is simple and straightforward. The owners are simply required to register the name of the business with the Ministry of Trade, a procedure that only needs to be complied with once in a lifetime of the enterprise. In the absence of a corporate tax system, business registration is only a formality and registration fees have been linked to authorized capital of an enterprise. Once a business is registered, the owners are required to obtain licenses for employing foreign labor, imports, etc. Licensing agencies vary in each case, e.g., the Ministry of Employment grants permits for employing expatriate labor, the Department of Customs for import licenses, and the Ministry of Tourism for operating permits for the hotels subsector.

2.5 Weak Supply-side Linkages with the Domestic Sector

% of firms that purchase their material inputs & supplies from:	Manufacturing	Tourism	Transport & Logistics
Domestic sources	37	30	41
Purchased through direct imports	51	27	53
Purchased through indirect imports	13	43	7

Source: World Bank, Maldives ICA Survey, 2005

Empirical evidence from the ICA survey indicates that linkages between industry and the domestic economy are relatively weak. For example, tourism sector enterprises purchase only 30 percent of their material inputs and supplies from domestic sources, while that figure was slightly higher in manufacturing (37%)

and transport-logistics (41%) (table 2.4). More than 50 percent of the enterprises in manufacturing and transport-logistics purchase their material inputs and supplies directly from foreign sources without depending on domestic firms engaged in importing and distribution.

2.6 Dependence on Public Utilities

Sources	Manufacturing	Tourism
Public	55	19
Private	3	3
Own well/ desalination	33	77
Rain water	9	1
Total	100	100

Source: World Bank, Maldives ICA Survey, 2005

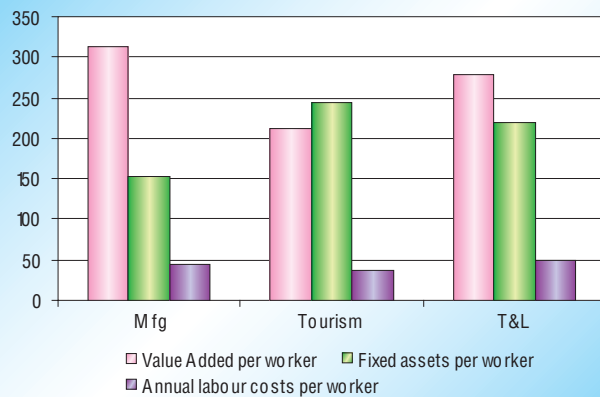
Dependence on public utilities is an important factor in analyzing the investment-climate conditions of an island economy. The majority of the business enterprises in manufacturing (80 percent) and transport-logistics (96 percent) rely on the state-run State Electricity Company (STELCO) for power. In tourism, this number is about 55 percent, as many of the business enterprises outside *Male* use their own generators for power supply. Contrary to the experience of some other countries, many of

the business enterprises in Maldives prefer to have their own generators to ensure reliable supply. In fact, the Water and Sewerage Company maintains its own power generator and intends to sell the excess supply to the national grid, while the Airports Authority provides electricity to Hulhumale Island.

Heavy dependence on public provision of the water supply can also be noticed in the manufacturing (76%), tourism (65%), and transport-logistics (84%) sectors, since access to other sources such as groundwater and rainwater is limited or nonexistent in some locations.¹⁸ In overall terms however, the tourism sector depends more on private sources for its supply of water (table 2.5) since the island resorts need to have their own desalination plants. With respect to telecommunications, almost one hundred percent of the service requirements are met by the state-run telecommunications company, Dhiraagu. The new entrant to the market, Wataniya, is yet to penetrate into different business segments of the Maldivian market.

2.7 Asset Base, Labor Productivity, and Profitability

Figure 2.5
Relatively High Productivity in Manufacturing Sector



Source: World Bank, Maldives, ICA, 2005

Evidence on industry performance indicates that Maldivian manufacturing firms are more productive than their counterparts in the tourism and transport-logistics sectors (refer to technical appendix 2 for details). Similarly, the rate of investment in manufacturing is much higher than it is for the other two sectors. Value added per worker in manufacturing is 50 percent and 13 percent higher than that in the tourism and transport-logistics sectors, respectively (figure 2.5). In terms of profitability, however, the enterprises in the tourism and transport-logistics sectors appear to be more profitable than the manufacturing

sector enterprises. The low profitability in manufacturing may be due to the presence of competition, particularly from foreign sources.

In the manufacturing sector, the fish-processing industry appears to be at the high end of labor productivity (Rfs. 638,485 VA per worker), while boat-building industries appear to be at the lower end (Rfs. 178,630 VA per worker). The former could be attributed to the resource endowments and export orientation of the sector while the latter could be attributed to the suboptimal nature of the boat-building industry. During field visits, it became evident that, in addition to a small market, high costs and the non-availability of land were major constraints affecting growth and expansion in the boat-building industry in Maldives.

18 Malé's drinking water is supplied almost entirely by desalination. Groundwater is present on Malé but is no longer used for drinking. The desalination plants are professionally managed and render 25 liters of water for 100 liters processed, but somewhat less efficient than smaller installations on resorts, which can reach 35 liters per 100 processed.