

Chapter Five

TOURISM SECTOR AND ITS POTENTIAL

"Maldives is the Number-One Destination for Our Clients" - Kuoni Annual Report 2004

5.1 Background

Maldives belongs to a group of countries known as the Small Island Developing States (SIDS), some 50 island economies in the Caribbean Islands and the Indian and Pacific Oceans, which is quite active in working together on common problems (refer to chapter 1). They share similar problems, such as vulnerability due to their small size and high costs of doing business. They often have few economic opportunities, but tourism is certainly one of them. Tourism is often the only sector that offers potential for export development. Among the SIDS, Maldives has the highest ratio of international tourism receipts to GDP (49.8 percent) (see table 1 in the statistical annex).

Although Maldives' per capita income (\$ 2,514) is not as high as Seychelles (\$6,000), it clearly has achieved more than any of its South Asian neighbors in improving the welfare of its citizens, and compares favorably with countries like the Dominican Republic in the Caribbean (\$2,130 per capita) or Fiji (\$2,240) in the Pacific.

5.2 Tourism Leads Growth in the Maldives

The Maldivians have shown a remarkable capacity to adapt since tourism began in the 1970s, perhaps reflecting their exposure to trade routes for millennia. Although the contribution of tourism to GDP is estimated at 33 percent, it is commonly believed that much of the activity in the islands –as much as 70 percent– is linked to tourism. Maldives receives about 600,000 tourists a year, double its total population.

It currently has almost no corporate tax revenues from tourism; taxation is based on long-term land leases negotiated on a per-bed basis for each individual resort island. In fact, the leases amount to taxes paid in advance. In addition, each tourist pays a bednight tax of \$8 and a one-time airport tax (or user charge) of \$10. The other major source of taxation is duty on all imports (except for initial construction, which is exempt as an incentive); the impact of the import taxes is estimated at about 30 percent of sales. On this basis, the impact of the tourism industry is estimated as: (i) 44.4 percent of total taxes (land leases and bednight taxes); (ii) 33.0 percent of the GDP; (iii) 1 percent of total government expenditure; (iv) about 85 percent of total foreign exchange earnings³⁶ (2004): \$415.4 million (net of payments on service account); and (v) direct employment in resorts of 14,182, of whom half are foreign.

36 Tourist receipts as percentage of exports plus net services (2004).

5.3 Tourism Landscape in the Maldives

Natural and Cultural Assets. The Maldives represents a unique geological formation in the Indian Ocean about 500 kilometers to the west/southwest of India and Sri Lanka, the latter being the closest major landmass. Its coral reefs host the densest mass of tropical fish anywhere in the world. Annual rainfall was 2,473 millimeters in 2003; wind speeds are about 7 miles per hour, and the country is on the fringe of the two annual Indian Ocean monsoons (Southwest and Northeast). The temperature ranges between 26 and 31° C and humidity between 78 and 82 percent. Officially, the months of May to October are "sunny/rainy" and November to April are "sunny/dry"; even in the rainy season, there are long spells of sunshine.

The Maldives has 25 officially designated marine protected areas, with one combining marine and terrestrial measures for biodiversity protection. Lagoons and reefs make up 21,300 square kilometers of the Maldives and the reefs contain more than 200 coral species. Bleaching killed as much as 90 percent of the coral in 1998 as a result of *El Niño*. The coral was showing signs of recovery when the Tsunami hit in 2004; much of it is now covered with sand, which retards its growth. The overriding environmental issue that claims attention is that of global warming, as the islands are often no more than one or two meters above sea level. Many face the danger of rising seas that could submerge some of the islands. A considerable effort has been expended in *Male*, for example, to protect its coastline and there has been significant land reclamation.

Tourism has been developed on uninhabited islands, for the most part, one resort per island. Maldives is trying to nurture an environmental image, with a number of resorts having "green" endorsements.³⁷

Structure of the Industry. Maldives' accommodation capacity has grown rapidly in recent years to 87 island resorts; 8 hotels and 28 guest inns primarily in *Male*; and 113 safari vessels, with a total of about 20,000 beds. (see table 2 in the statistical annex). Many resorts are quite small (20-60 units); about 30 have 100 or more rooms, and there are a few large operations of between 200 and 400 rooms. Eleven new resorts (1,600 beds) were approved early in 2004, which will push the total number of beds over 21,000. Permission to build resorts is given by the Ministry of Tourism through a leasing system. Most lessee/owners are Maldivians and the industry remains largely in Maldivian hands, although well-known foreign hotels (e.g., Four Seasons, Hilton) are beginning to open up in

Table 5.1 : Ownership of Lodging and Travel Related Businesses

	Lodging (%)	Tour Operators & Travel Agents (%)
Ownership		
Private- Domestic	86	91
Private -Foreign	14	9
Government	0	0
	100	100
Legal status		
Publicly listed	0	0
Limited liability	83	73
Partnership	5	27
Sole proprietorship	12	0
	100	100
Age profile of firms		
Less than 2 years	2	18
2-5 years	21	45
5-10 years	29	0
More than 10 years	48	36
Total	100	100

Source: World Bank, Maldives ICA Survey, 2005

37 Green Globe or ISO 14001

Maldives (see table 3 in the statistical annex). Some groups have sprung up with multiple operations (e.g., trading, import/export, etc.), leading to horizontal integration to achieve scale and cost efficiency. Recently, operating companies, a number of them foreign, have become prevalent.

The ICA survey reviewed the ownership patterns and structure of the lodging and travel-related businesses in some detail, as shown in table 5.1. The survey covered more than 40 per cent of lodging capacity. The industry remains predominantly locally owned, and confirms a trend seen in many countries where ownership is often local but management (or leasehold) is in the hands of foreigners (see table 3 in the statistical annex). No resort, resort company, or travel company is publicly listed in the Maldives and, except for one hotel, government ownership is nonexistent.³⁸ There is separation of ownership and management, but only in the resort sector.

Maldives usually Offers Additional Services and Recreation Facilities. The resorts in the Maldives offer their own excursions for snorkeling, fishing, and speedboating. They also tend to outsource such services (e.g., submarine reef trips). The larger hotels outsource them to their main tour operators by permitting them to offer excursions for pre-sale in their brochures and set up desks in resort lobbies for on-the-spot sales. In fact, these constitute a significant aspect of their business for many resorts. They would include arrival/departure from the airport (\$75-200 per trip); a day or half-day trip to *Male* for sightseeing and shopping; fishing, snorkeling, scuba diving, surfing trips, picnics to uninhabited islands, island-hopping tours, and other tours by water. Spa operations are also offered by concessions, affiliated companies, and independent concessionaires (e.g., Clarins). There is a fair range of handicrafts available in *Male*, much of it imported from India, Indonesia, and Sri Lanka, but there is an emerging Maldivian industry in handicrafts and painting.

Channels of Distribution. Maldives has developed an impressive supply chain over the past 30 years. There are about 100 intermediaries operating in the Maldives. Most of the world's key tour operators and travel agents offer Maldives in their brochures, and they have their own offices or agents locally providing ground handling and transfer services. There are also well-established Maldivian tour operators and travel agents handling both inbound and outbound travel. There are more than 100 travel service organizations in the Maldives, including international tour operators, travel agents, and ground handling services. About 40 of the well-known international tour operators (Kuoni, Elegant Resorts, etc.) have offices in the country; they usually contract with one of the 60 local companies to handle passengers on arrival, from planeside to the ferry jetties or air taxi services. There is a large fleet of 140 local ferries (*dhonis*), but these are relatively slow. About 80 percent of visitors arrive via a tour operator on a package tour on a charter flight.

Air Transport. The main entry point for tourists is the international airport on Hulhulé Island,³⁹ a 10-minute ferry ride away from the capital of *Male*. It has a runway of 3,200 meters, which can accept all planes with the exception of the largest Boeing 747s. It is constrained, since the main

38 The government owns interest in the Nasundara Hotel in *Male*.

39 The main international air port is run by the Maldives Airport Company, a public enterprise that derives its revenues from sale of jet fuel, concessional fees in the airport, landing and navigation fees, and a passenger tax or user charge of \$14 per tourist. It is profitable and transfers 75 percent of its profits as a "dividend" to government. A key issue is whether the airport tax is a tax or a user fee-and hence revenue for MAC or a tax to government.

runway is also used for taxiing and apron space is very tight. The airport also has a water runway in the airport, handling transfers to the resorts. While adequate for the most part, the terminal facilities are stretched beyond capacity at peak times. The ferry jetty adjoins the air terminal.

The country is expected to open an international airport in Gan, in the southern part of the country, with a runway of 2,600 meters, and there are plans for six regional airports to improve commuting between the atolls and the capital. There are about 30 carriers serving the Maldives. Access to all islands is tightly controlled through transfers to resorts (by speedboats owned by the resorts themselves or under contract with the two seaplane taxi services). For domestic flights, there are two sea-taxi services (Transmaldivian and Maldives Air Taxi), with a total of 31 Twin Otters and an airline serving the country's network of airports (Island Airways). Total international arrivals at Maldives airports reached 630,000 in 2004 and show a significant growth trend for the past ten years.

Environment.⁴⁰ The relationship between tourism and the environment is important, both for conservation and for sustaining the quality of tourism. The harsher forms of degradation due to coral and sand mining, dragnet fishing, and poisoning and dynamiting fish have all been outlawed in the Maldives and protection measures are in place for the resort islands. The main areas of concern are marine biodiversity and coastal-zone management, including natural barriers (fringing coral reefs); shoreline and beach planning; coastal land forms; coastal vegetation, such as sea grass (important for green turtles); forests; and the extent to which exotics are invasive. While the government is aware of all these areas, more needs to be done to better understand these environmental issues and to develop indicators for benchmarking.⁴¹

5.4 Impact of the Tsunami

The Tsunami (2004) did not affect the country badly regarding the loss of life, as in other countries, and was protected by both India and Sri Lanka. However, the economic impact has been tremendous. According to the survey findings (table 5.2) half of the resorts and almost all of the travel companies expect the recovery from the Tsunami to be slow. However, indications are that for the current winter (Europe) season, resort reservations are very strong.

	Lodging	Tour Operators & Travel Agents
1. Firms interviewed affected by Tsunami:		
Lodging %	36	
Tour Operators %		36
2. Estimated Total Cost per firm (MRF/firm)	13.3	0.37
3. Average estimated revenue loss (MRF/firm)	20.0	0.22
4. Recovery predictions:		
Quick recovery %	36	9
Slow recovery %	55	91
Don't know %	10	0
Total sample	100	100
Source: World Bank, Maldives ICA Survey, 2005		

40 The environment is the responsibility of the Ministry of Environment and, in the case of tourism, the Ministry of Tourism. Physical planning has focused on housing but there is a case for better physical planning for tourism-the government's new land use plan is to include tourism. The mission acknowledges the following information sources: UNEP: Maldives Post Tsunami Environmental Assessment, June 2005, www.unep.org/tsunami/ and UNDP/WTO Social, Economic, and Environmental Impacts of Tourism, Madrid, 2000. www.world-tourism.org.

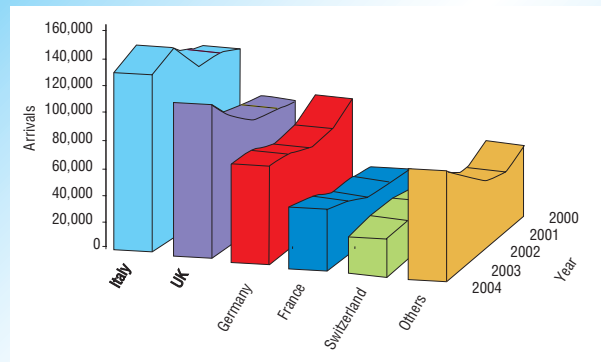
41 For information on benchmarking, contact www.UNEP.org or the Global Environment Fund, www.GEF.org.

5.5 Growth of Tourism in the Maldives

Maldives has an impressive record of growth, while at the same time rapidly expanding its lodging capacity. There are major factors that have clearly contributed to this phenomenal growth. The remote island nature of the Maldives has been nurtured, even if guests fly in Boeing Triple Sevens and other large aircraft. The expansion of capacity has been handled quite judiciously through the leasing of islands on a periodic basis. Many countries (e.g., Mallorca in the past or Bulgaria currently) flounder on growth and get into a series of boom-and-bust scenarios. Growth is seductive and has to be managed in terms of quantity, quality, and location. The Maldives has the advantage of a land structure that lends itself to incremental expansion but there are also bottlenecks, notably access, both international and domestic. It is to the country's credit that the process has been handled effectively to date, though problems are emerging.

Tourism grew at a rate of 11.6 percent between 1972 and 2005; 26.5 percent between 1972 and 1982; and 6.7 percent since 1982. These rates are well above regional or global growth rates, as might be expected for a successful emerging market. Total bednights exceeded 5 million for the first time in 2004 and the Maldives has shown steady growth since the late 1980s (see table 4 in the statistical annex). The three key original markets were Germany, Italy, and the United Kingdom and these continue to be the core of the Maldives travel industry. However, new markets are also emerging regularly, as shown

Figure 5.1
Maldives: Growth of Six Main Markets



Source: Ministry of Tourism - Maldives 2004

in figure 5.2. While recent growth has been noted in markets such as Russia, China, Japan, and Australia, Europe still accounts for 80 percent of Maldivian tourism and Asia for 10 percent.

Maldives' tourism is growing at an average of 7 percent, in excess of the current global rate of 5 percent. The public sector has confidence in the future of tourism; this is also reinforced by tourist operators. Almost all banks have more than half of their lending portfolios in tourism. Many of the big companies in Maldives are diversified and resorts represent only a fraction of their total business, thus hedging the risks. Kuoni, a leading international tour operator, reports that its clients rated Maldives as their number-one destination in the world.

Tourists to the Maldives have tended to be couples in recent years. The honeymoon market has been strong, but there are signs that family travel, in spite of the cost, is becoming more frequent. Originally, Maldives was a diving destination –and still is– but now many travel simply for the "sea and sand" and the opportunity to unwind. In response, many resorts now have spas offering a broad range of services. The main activity is scuba diving and the country has some of the best diving sites in the world, although 90 percent of its coral was blanched due to *El Niño* in 1998. Other popular sports are snorkeling and game fishing in the open sea. Surfing has caught on and the Maldives is currently a stop on the professional surfing circuit. Most resorts also offer excursions to *Male*, island hopping, picnicking, and night fishing, and there is a submarine service that attracts a significant number of tourists.

Historically, the Maldives' market has been 80 percent tour-operator driven and 20 percent individual clients, and this has served the country well. However, the newer resorts seem to be more and more geared to the individual client at a very upscale level, and international chain operators are entering the market, with their own inhouse marketing capability. This could change the mix of resorts and the demand for the country and will require improvement in some services, notably international access via scheduled service.

Occupancy and Capacity. Occupancy has continued to rise in the face of expanding capacity, showing the strength of the market and Maldives' image in the marketplace (figure 5.3). In 2004, the national annual occupancy rate was about 84 percent, up from 77 percent in 2003 and rates in the 60s following 9/11. This is very high compared to competitor countries like Seychelles (54 percent), Jamaica (55.5 percent), or Bali (47.8 percent) (see table 5 in the statistical annex). Typically, the Maldives is a winter destination with a peak market from November through March/April. In recent years, however, it has also developed as a summer market from June to September. In fact, in 2004, there was little marked seasonality, with resorts busy year-round.

Length of Stay and Daily Expenditure. While occupancies and capacity have continued to grow, the average length of stay has remained relatively stable at just over 8 days-reflecting a blend of one-, two-, and three-week stays that are typical for Europeans in the Maldives. Asians typically stay 3-5 days. Tables 6-12 in the statistical annex show tourist expenditure and arrival data. The average daily expenditure was estimated at \$156 in surveys in 2001 and 2002. With inflation in the Maldives close to zero or negative until recent times, these prices are still fairly good estimates for 2005.⁴² However, with the economic setback in 2005, there can be an adverse impact with high inflation.

5.6 Maldivian Competitiveness in the Tourism Sector

To assess the Maldivian tourism sector with other comparable countries, three sets of data were assembled based on SID countries in different parts of the world (the Pacific and Indian Oceans and the Caribbean Islands). Bali (Indonesia) was also included, as it is an island, albeit in a far larger country, and it shares many of the characteristics of a SID country.

In terms of international arrivals, most of the islands cited have larger markets than Maldives (see table 5 in the statistical annex). This is the case in the Caribbean, in particular, which is close to the North American market and competes with Maldives for the European market. Bali attracts a large part of the Australian and Asian markets, which are also competitors for the Maldives. Japan is a significant player in all of these markets. The only island with smaller demand than Maldives is Seychelles, but its propinquity to Maldives makes it a direct competitor. All of the comparators except Jamaica have growth rates in excess of the world rates (approximately 5 percent per annum). In terms of tourist expenditures, Maldives (\$166 per day) fares better than any of the comparators, except for Seychelles (estimated at \$200 per day). Room capacities are much higher in the Dominican Republic, Jamaica, and Bali but room occupancies are much more robust in Maldives.

42 Evidently there are some contradictions in the data, reflecting the different sample sizes and timing of the surveys. However, as noted below, there is a healthy debate on tourist expenditures in Maldives and a sense that overall tourist expenditures are being systematically underestimated.

All, save Bali, have average lengths of stay of more than a week (8 to 10 days). Overall, the countries earn between \$0.4 and \$2.0 billion (Seychelles is an exception, with about \$40 million).

According to the World Travel and Tourism Competitive (WTTC) Index,⁴³ while a number of the sources are directly related to tourism, many reflect a country's general competitiveness as much as its tourism sector (table 5.3). One of the main indicators is a blend of incoming and outgoing tourism designed to show participation rates for both residents and foreigners: both Maldives and Seychelles score higher than the other comparators and are first and second in the world. All islands in the sample score in the midrange for infrastructure, and all save Bali are in the top 25 percent of the 212 countries. None scores well on the environment,⁴⁴ all being in the lower half.

Factor	Maldives	Seychelles	Jamaica
Price	n/a	n/a	109
Human tourism	1	2	n/a
Infrastructure	53	n/a	39
Environment	153	133	164
Technology	99	47	64
Human resources	43	50	90
Openness	61	9	17
Social	99	81	53

Source: World Travel and Tourism Council (www.wttc.org) in cooperation with Christel DeHaan Tourism and Travel Research Institute at the University of Nottingham, England)

Seychelles scores relatively well on technology (ranking in the top 25 percent), while the others all fall in the middle range. Maldives and Seychelles both score better than the other countries on human resource development, ranking 43rd and 50th, respectively. Only Seychelles and Jamaica are in the top half of the distribution on social issues (UN Human Development Index) and access to media and computers.

The third comparator is the Doing Business Indicator, which has been discussed in detail in chapters 3 and 4.

5.7 Linkages with the Rest of the Economy

Several factors militate against greater inclusion of the population in the benefits of tourism. Access between atolls and islands is quite limited. Access to land requires considerable financial and administrative skills. Employment in tourism, especially by women, is still viewed with some

43 **Description of assumptions in WTTC Competitiveness Index: Price competitiveness** is based on Hotel Price index (HPI) <http://www.placestostay.com>. **Purchasing power parity:** WB World Development Indicators, 2004. **Taxes on goods and services:** WB World Development Indicators, 2004. **Human tourism** is based on Tourism Participation Index, Tourism Impact Index, arrivals/departures, employment, etc. and others (WB Development Indicators, 2004; WTTC studies). **Infrastructure** is based on WB Development Indicators (2004) for roads, drinking water, sanitation, and railways. **Environment** is based on population densities, CO2 emissions from WB Development Indicators (2004), and ratification of environmental treaties (UN). **Technology** is based on WB Development Indicators (2004) for Internet use, telephone connections, high tech exports, etc. **Human resources** is based on WB Development Indicators (2004) for life expectancy, various school enrollment indicators, employment and unemployment and gender indicators, and WTTC studies on employment. **Openness** is based on WB Development Indicators (2004) for visa requirements, tourism openness, trade openness, and trade taxes. **Social** is based on UN data on Human Development Index and Crime and WB Development Indicators (2004) on access to newspapers, radio, television, and computers.

44 The index is based on population densities, CO2 emissions, and adherence to environmental treaties—a matter of some concern for many countries.

skepticism by Maldivians. The construction industry is made up of many small firms who act independently and do not have common working conditions and practices, and linkages between agricultural production and tourism is yet to be developed.

Difficulty in Domestic Mobility. The first tourism master plan suggested a national system of local transportation by boat; however, this proved difficult at the implementation stage. The main mode of commuting between airports and *Male* and the resorts is by launches owned by the resorts themselves, who restrict their use to clients and staff. There is a fleet of *dhonis* that transports both passengers and goods, but they are slow and infrequent. While *Male* remains the indubitable center of the nation, Gan (with a new international airport) is proposed as a center for the south. There are plans for a transshipment center in the North that could also become another center. If the proposed regional development proceeds as planned –with two major centers in North and South– a national high-speed connection (by hovercraft or hydrofoil) might be feasible, with a network of feeder lines using more traditional craft.

Leasing of Islands. The land-lease process is perceived as less transparent and has led to a major debate between government and the private sector. Nonetheless, the government has tried to make the process more transparent and objective. Extension of the leases to 50 years or more would mitigate private sector complaints. However, the long-term land lease is an important instrument for government revenue, especially in the absence of a corporate tax system (refer to annex 5).

Tourism generates about 30 percent of total government revenues and land rents are equivalent to about 66 percent of tourism revenue (see tables 13 and 14 in the statistical annex). Land leases therefore generate roughly 19 percent of total government revenue –a significant amount. The government rightly wishes to optimize its revenue over time and the private sector also has to see the opportunity for making reasonable profits, given the high risks. Although the system of leasing islands for tourism has been an effective way of expanding tourism in a reasonable regulatory context, it would be advisable to revisit this policy.

The leasing model consists of auctioning off uninhabited islands in a bidding process with criteria published in advance and evaluated by independent persons who have no vested interest in the proceedings. The land leases currently vary from 25-50 years depending on the ownership and listing on the stock market. However, the long-term leases (up to 99 years) would allow better business planning.

The survey showed that most lodging facilities are in fact leased, as shown in table 5.4. There are a few hotel properties (as distinct from resorts), primarily on *Male*, where the land and buildings are private. Beyond that, resort properties are on land leased from the government on long-term leases, based on the terms shown above. Similarly, most travel companies operate in leased buildings.

In the 2004-5 bidding process, 11 were islands approved (out of more than 200 applications); very high land rents were proposed, with land rent weighted at 50 percent. Although this does not seem surprising, it is likely to result in a bubble and push up room rates or result in bankruptcy. Some accepted rents were as high as \$45,000 per bed per year *after 10 years*. This translates into ground rent of \$150-200 per occupied bed (\$300-400 per room). This condemns the property to the highest strata of room rents, for which the market may be rarified; it will certainly change the profile of the Maldives over time. Typically, hoteliers suggest that resorts are unlikely to be

profitable if land rents are above \$3-5,000 per bed- or \$18-20 per occupied bed.⁴⁵

The government wishes to refine the process to ensure a more efficient and equitable system that protects the rights of all parties. This report would propose the following: first, ways should be found to delink the rent from bid evaluations. In addition, the emphasis on land rent imposed by the system forces more attention to lease payments than to the rest of the investment proposals, such as concept drawings, business plans, and proposed physical works. More attention needs to be paid to these elements. Recently constructed resorts have increased the level of engineering going into landscaping and beautification not directly related to the resort. Some have construction costs estimated as high as \$1 million per room.

Several additional elements that might contribute to a solution in the short term include: (i) separating the technical and financial proposals; (ii) establishing an index for land rent to be applied across the board; (iii) seeking bids by resort category;⁴⁶ (iv) reducing the weighting of rent if it stays part of the equation; (v) extending the same leasing options to all bidders, foreign and domestic; and (vi) considering the introduction of a "second price auction."⁴⁷

In the longer term, more modest land rents and introduction of a corporate tax and/or a property tax would likely be more efficient. The property tax would reflect the value of the business as a going concern, and the corporate tax would reflect efficiency and profitability, not estimates of future results as the land rent now does. The survey confirmed that there is already a small, active market in the resale of leases and the vacating lessee can participate in the new bid. The current evaluation process is a deterrent to long-term investment, as shown in table 5.4. This is especially true at a time when many of the original leases (1975-85) are coming to term and have to be renegotiated.

	Lodging (%)	Tour Operators & Travel Agents (%)
Land ownership		
Land owned	10	5
Under management	0	9
Rented/leased	90	77
Building ownership		
Buildings owned	35	5
Under management	2	9
Rented/leased	63	86
Average length of lease (years)		
Land	17	3.6
Buildings	14	3.3
Renewable		
Land	82	89
Buildings	79	91
Frequency of review (months)	51	16
Rent (number of firms)		
Based on rental value	85	91
Other	12	0
Source : World Bank, Maldives ICA Survey, 2005		

45 Thinking of this payment as a tax, or government revenue, it is equivalent to 10 percent of a tourist's daily expenditure (@ \$200/day), or 20 percent (@\$100/day).

46 Whereas Maldives does not rate hotels, tour operators do, and there appears to be a common understanding of different categories.

47 See Vickrey quoted in John Kay, Culture and Prosperity, Harper Collins, New York, 2005, p. 101. Under this technique, the two highest bidders are retained. The contract is given to the highest bidder but at the price offered by the second-highest bidder-this in an attempt to reduce if not eliminate gamesmanship. Bidders have an incentive to offer a price reflecting their best judgment of the proposed contract's value.

Late in 2005 and early in 2006, the government offered an additional batch of 35 islands for leasing. This amounts to a fundamental change in policy and one that has made many operators concerned. They have done 98 (87 plus 11) resorts in 30 years and now propose to add an additional third over the next couple of years. Some likely impacts are that access capacity will be strained, and the basic model will undergo modification. While these impacts are not necessarily for the worse, there does seem to be little research information available on the impact of accelerating growth. A new public-management enterprise is proposed to manage at least 50 percent of the new resorts and it is not clear how it will achieve its stated objective of encouraging wider Maldivian participation in resort ownership (see annex 5).

High Contribution to Employment. Overall, direct employment in resorts and hotels is reported by government at 14,182, compared to total beds of 16,858 (2004), or a ratio of 0.72 employees per bed or 1.44 per room (see table 5 for comparators, and table 17 in the statistical annex for similar island economies in the Pacific and Indian Oceans, as well as the Caribbean). For example, the Dominican Republic (a Caribbean competitor with more mass market) has 0.8 employees per room. These numbers do not include the overall "tourism" sector, for example, which employs more than 9,200 foreign employees alone.⁴⁸ Assuming that there is one foreigner per national in tourism (the government target ratio is 50/50), then close to 20,000 people would work in tourism alone in addition to plus hotel and resort staff. It seems safe to suggest that resorts and transport together employ about 35,000 employees, half of them foreign.

The survey highlighted some interesting features of the workforce in the Maldives, as shown in table 5.5. The average workforce size for the sample is 137 staff⁴⁹ for resorts and 34 in tourism-related businesses, with a profile of 20 professional staff and the balance in skilled or semiskilled positions in a single enterprise. Forty percent work in enterprises with 50 or fewer employees, 10 percent in enterprises with 50-100 employees, and the other half work in enterprises with more

	Lodging	Tour operators & Travel Agents
Average no. of permanent workers	137	34
Professionals	20	4
Skilled	56	8
Unskilled	61	1
Average no. of temporary workers	2	1
Percentage employees by enterprise size:		
Less than 5	41 %	91 %
0 employees		
50 -100 employees	10 %	0
More than 100 employees	49 %	9
Percentage employees by education level:		
University or higher	9 %	15 %
Completed secondary	56 %	45 %
Incomplete secondary	17 %	25 %
Completed primary	16 %	10 %
Did not complete primary	2 %	5 %
Turnover in staff		
Number dismissed or laid off	3	0
Sickness or death	2	0
Other reasons	16	1
Absenteeism		
Average days lost	0	0
Source : World Bank, Maldives ICA Survey, 2005		

48 Maldives: Summary Statistics, 2004

49 The size of resorts varies greatly in Maldives but the overall (national) average is 96 rooms; if the average (ICA sample) staffing is 137, then staffing for the survey (1.42) is about the same as the national average of 1.44.

than 100 employees. More than half have a secondary education and another third have at least completed primary education. This is probably a higher level of education than in many developing countries, although comparative data is hard to find. Turnover is about 12 percent initiated by staff and a further 3 percent due to dismissal or for health reasons. This is in direct contrast to many countries, where staff turnover can be a multiple of these levels. In Tanzania, for example, most employees leave after eight months and find work in other hotels or industries (That is linked to social security and other benefits which accrue to permanent employees).

Despite Maldivians' reported reluctance to work in tourism, Maldivian workers follow extensive training programs, since there is a perception that quality of service is important. The industry is addressing quality in several ways. First, the Faculty of Hospitality and Tourism Studies in the Maldives College of Higher Education, in partnership with the Birmingham College of Food, Tourism and Creative Studies, is working hard to improve training for the industry (on a limited budget). In turn, standards are approved by the EdExcel Foundation in the United Kingdom. In addition, as noted above, the industry can employ up to 50 percent of their staff, presumably highly trained, from overseas.⁵⁰

The resort chains in Maldives are also sponsoring training at the Faculty as well as overseas. Human-resource development is considered critical by the companies. The survey gives some indication of the levels of training in the tourism industry, as shown in table 5.6. There is a high level of training, with more than half of the staff having received training on the job. External training is particularly high and, indeed, many firms do send their employees overseas for training (often to Singapore). Unskilled employees, however, receive less training and this is probably where more emphasis should be given. More than half of senior managers have a university or postgraduate degree in both the lodging and travel-related sectors.

Utilities and Infrastructure. The main issues for the tourism infrastructure are water supply, sanitation, solid waste, and telecommunications, as shown in table 5.7. In fact, Maldives has had to accept some relatively high-cost solutions for infrastructure. Electricity is almost all generated by onsite generators, except on *Male* and Hulhulé islands. The water supply is almost all provided by desalination (reverse osmosis process), certainly in *Male* and the resort islands, and is well

	Lodging (%)	Tour Operators & Travel Agents (%)
Employees receiving training:		
Overall		
Internal training	63	46
External training	43	55
Overseas training	31	27
Per firm:		
Skilled	56	37
Unskilled	29	2
Highest level of education of senior managers:		
Did not complete secondary school	2	0
Secondary school	14	27
Vocational training	12	9
Some university training	19	9
Graduate degree	38	27
Post graduate degree	14	27
Source : World Bank, Maldives ICA Survey, 2005		

50 There has been talk of a new hotel school for about ten years but in spite of a little discussion recently, it has not yet appeared. This is a critical problem but the industry can provide career paths for individuals.

managed for the most part. Groundwater has been contaminated by fecal material and the intrusion of saltwater. In the early days of Maldives' tourism, planes carrying tourists also carried out solid wastes generated by the tourists. Now Maldives has allocated three islands (Thilafushi, Kalhufahalafushi, and Hurasdoo) as solid waste dumps, but management of the landfills is quite poor. Resorts often incinerate solid wastes, which can release noxious gases. Little sorting is taking place and biodegradables are either composted (for conditioning soils) or dumped far offshore in the ocean. Sewage treatment is now mandated to be via sanitation treatment plants for resorts (depending on the size of the island), but some of the older resorts still rely on septic tanks with soak pits or ocean outfalls-and are only as safe as the quality of the effluents. The government is well aware of these

practices and progress is being made in improving the situation, but such systems are clearly part of the quality of the Maldivian experience and need to be addressed as a matter of urgency.

Nonetheless, interruption of utility service occurs for many firms in the sample, as shown in table 5.7. All of the tour operators and travel agents experience interrupted service, located as they are on *Male* or Hulhulé; interestingly, telecommunications is also a problem for all of the resorts in the sample. Table 5.8 provides some

comparative data from East Africa. By and large, firms on the mainland have access to power from the national grid, but it does not seem to reduce dependency on stand-by generators.

The lesson from the Maldives experience with utilities is that they have found ways to provide water, sanitation, and electricity using alternative technologies. While these may have higher overall (capital and operating) costs, they have shown that it is possible to run profitable operations using these sophisticated technologies (such as large desalinization plants from Japan; turnkey sanitary treatment plants from Italy and elsewhere).

Construction Industry. The construction industry in Maldives has grown, primarily due to tourism. It is unique in the sense that practically all building materials have to be imported in bulk, broken down into lots, and shipped from the port to the islands. There is little storage space available and construction is a hostage to importation. Earlier, the construction industry used coral rock for building. Coral dredging is now outlawed, as is mining of sand. Sand and aggregates for construction are imported from India. Construction costs have become exorbitant in the past few

Table 5.7 : Utility Service Interruptions		
	Lodging	Tour Operators & Travel Agents
Firms reporting service interruption (% of firms):		
Power	43	100
Water	43	100
Telecommunications	100	100
Frequency of interruption (times per year):		
Power	3	1
Water	0	0
Telecommunications	2	1
Service interruptions (hours lost):		
Power	143	16
Water	0	0
Telecommunications	119	27
Source : World Bank, Maldives ICA Survey, 2005		

Table 5.8 : Power Outages-Comparative Data				
	Kenya	Tanzania	Uganda	Maldives
Outages (days)	82.9	91.85	-	3
Duration of Outages (hours)	31	4.55	-	143
Firms with Generator (%)	88.89	74.24	60.71	83
Share of Electricity from Generator (%)	17.54	35.33	3.26	96
Source : World Bank, Maldives ICA Survey, 2005				

years, with some recent resorts reputedly costing as much as \$800,000-\$1,000,000 per room; one resort's cost of upgrading is estimated at \$300,000-400,000 per room. While these are private decisions, such levels of construction impact the environment in terms of soil and beach engineering, land reclamation, and landscaping. There is scope for recycling building and demolition waste. There do not appear to be construction-industry indices against which to benchmark. Nor do construction/building inspection and control seem to be exercised sufficiently. The following are measures recommended to address these issues: (i) development of indices of construction, such as costs per square meter or per room; and, (ii) better supervision of construction, possibly using specialized firms (refer to annex 2 of the construction industry profile).

Food and Beverages. Many of the hotel companies grew out of other activities. The large hotel chains primarily started business as importers of various commodities. Tourism appeared as a natural extension of their other activities, notably shipping and commerce. Most of the food for the tourism industry is imported from Colombo and Dubai primarily, but also from India. At the same time, most resorts have gardens and produce many of their fresh foods and vegetables on site, some in very sophisticated environments, including hothouses, hydroponics, etc. Additionally, there is some trade between the islands in tropical fruits and poultry, but shipping remains the weak link between islands. The farmers complain that they cannot get their produce to market (refer annex 4 for details about the agricultural sector).

5.8 Other Important Policy Issues

Tourism is not really a sector but rather an agglomeration of cross-cutting sectors. One of its appealing factors is its linkages to other sectors and activities. In Maldives, tourism presents a number of priority issues: institutions and regulation; private partnership; finance, incentives and taxation; small- and medium-sized enterprises; culture and sustainable development; statistics and information technology; and monitoring and evaluation. These have the possibility of creating synergy, building bridges, and, more important, producing value added and wealth. Performing public institutions are at the heart of a modern economy; key policies determine whether the private sector can expand in creative areas or must languish in traditional ones, and there must be measurement and monitoring criteria as benchmarks for success.

Institutions. The Ministry of Tourism and Civil Aviation (MTCA) is responsible for planning, developing policy, and implementing certain functions, such as marketing.⁵¹ The ministry has grown in stature and has used international advice effectively under two tourism master plans. The First Tourism Master Plan covered the period 1983-1990 and set a ceiling of 12,000 beds. The plan was successful in that it recognized Maldivians' entrepreneurial spirit and built on that while at the same time channeling growth away from a *laissez faire* model that threatened the future of tourism.⁵² It also developed the concept of *Male* as the center of an industry with growth poles to be selected where they were needed regionally, as described above. Some failures were recorded, notably the

51 Through the Maldives Tourism Promotion Board and the Government Tourism Information Office in Germany, both dependent agencies of the Ministry.

52 Much of the information in this section is derived from "Strategic Directions for the Maldives Tourism Industry," Maldives Association of Tourism Industry, January 2005. See page 11.

attempt to provide a local transport system between the atolls. The Second Tourism Master Plan covers the period 1995-2005; it recognizes the preeminent role of the private sector in resort development and underscores the government's role "of facilitating the business environment whereby the private sector can operate efficiently," rather than providing infrastructure. In a nutshell, while the first tourism plan focused on growth, the second emphasizes the quality of growth, especially its distribution, human resource development, the environment, institutions, and finally marketing and promotion. The government is now recruiting consultants to work on a third tourism development plan.

Tourism Regulation. The Maldivian Government has been quite efficient in leaving the private sector to proceed with business. Control over the sector is exercised through a deliberate regulatory process. Tourism has been developed on uninhabited islands, for the most part as one resort per island. Access to the islands in the atolls is controlled through the land-leasing process in the first place and through tight control of air and maritime access on the other, as noted above. Each island has to be autonomous in terms of provision of water and sanitation, garbage treatment and disposal, and electricity and telecoms, with clear development standards. The government has developed standards for carrying capacity and construction on the islands. New projects must have an environmental impact assessment and mitigation plan and certain standards (such as 40-meter setbacks from the high-water mark; maximum ground coverage ratios of 20 percent; building heights limited to treetop level) are prescribed. Last, developers have the right to pierce the coral protecting the island if necessary, to build a small harbor for transfers/excursions/and supplies and to combat the effects of sand erosion and accretion.⁵³ Maldives is trying to nurture an environmental image, with a number of resorts having "green" endorsements (from Green Globe, for example). There are weaknesses in the area of inspections on the part of the Ministry of Tourism but, by and large, resorts respect the regulatory framework.

Beyond that, the government has tried to be a catalyst for investment. It also has an inspection department in place. The private sector, for its part, has been responsible in building attractive properties. Together, they have built a modern tourism sector that is the envy of many countries. One useful idea for the proposed new public enterprise would be to focus on regulation and quality enhancement-physical and human resource standards-provided it has a stature of autonomy (see annex 5).

Public-private Partnership. The private sector is represented by the Maldives Association of Tourism Industry (MATI), representing the resort industry (it also has a few members from travel intermediaries, transporters, and linked services such as shopping). Much of its agenda has been focused on the process of leasing islands, particularly the length of the leases and the process of awarding leases.

Views on the relationship between government and industry are mixed. Many in the travel industry (tour operators and travel agents) do not see the need for a trade association. On the other hand, there is fairly strong discontent with (some) government policies (including leasing, quality of marketing, human-resource development, the business environment), all of which would benefit from a space for frank, professional discussion.

53 This was certainly one factor leading to damage during the Tsunami, but it is a question of finding better solutions rather than prohibiting marine access.

A partnership arrangement between the stakeholders (government, industry, and civil society, including local communities and NGOs) could be effective in moving the agenda along, and securing action. It might include the Ministry of Tourism and those ministries directly involved in tourism; MATI; the resort operators; as well as the tour operators and travel agents not currently have formal representation. Ideally, such a program could be channelled to the highest levels through a business council or a committee working on the National Development Plan.

Finance, Incentives, and Taxation. Financial markets are quite shallow in the Maldives (as discussed in chapter 3.) Tourism features importantly in the loan portfolios of several banks –as high as 75 percent in one case. This lack of diversification could pose a problem in terms of risk sharing were the tourism industry to show signs of strain. Most banks appear optimistic that the industry will absorb the shock of the Tsunami and that recovery will be quick, in spite of a very poor first-half performance. Some banks postponed payment of principal on loans following the Tsunami to mitigate the impact on the resorts' finances (occupancies dropped to about 20 percent in many cases at that time). From a tourist's point of view, the banks offer good transfer and payments systems service (SWIFT and ISBS), and easy access to cash via ATMs.

With the 11 new resorts approved in March 2005, there is a debt-financing requirement of \$400 million or more-50 percent of that as debt. This seems beyond the banks' current funding capacity and in fact forces investors to finance offshore. If some of the financing could be raised on local markets –equity and bond– tourism could contribute to deepening the financial sector and at the same time opening up investment to a broader range of Maldivians.

A typical financing plan for a resort is likely to be 30 percent equity for well-established customers and as much as 50 percent for others. In the past, the tour operators also provided some of the equity financing, but established entrepreneurs now use retained earnings and profits from non-tourism activities. Typically, several entrepreneurs become partners in a single deal-thus, there are many cross-holdings in tourism. For the 70 percent debt, loans are usually 5-7 years (plus a grace period up to 18 months) but can be stretched to 10 years for good customers. They can be denominated in dollars or rufiyaa –with most tourism business being conducted in dollars, loans are often tied to LIBOR.

It is difficult to establish the profitability of hotels in Maldives and there are no tax records to simplify the task. Most companies are private and do not publish annual reports. The following is some "impressionistic" feedback on resort operations: hotels have payback periods of 4-7 years. Some hotels break even at occupancies as low as 30 percent. Several operators reported gross operating profits in the order of 30-40 percent, and one investor suggested returns on equity in the order to 25-35 percent. While this fragmentary data suggest that the resort business is still quite profitable, it would be more useful to carry out a detailed study of the sector (see also the section below on statistics and estimation of tourism revenues and impacts). The government needs to encourage firms to list on the stock market as the country develops its capital markets, and to adopt employee stock-option plans as a way of increasing participation in ownership and broadening the stakeholder base.

Taxation. Maldives has a simplified tax system that has no income tax, property tax, sales tax or VAT, and no taxes on exports-with the exception of tourism, an invisible export, which is quite highly taxed. There are four taxes that affect tourism: (i) the \$8 bednight tax, representing 14

percent of total current government revenue; (ii) the \$10 airport tax, 2.4 percent of revenue; (iii) resort land leases, representing 20 percent of revenue; and (iv) import duties, estimated at 16 percent of total revenues from tourism. Core tourism revenues account for about half of total government revenue. Tourism taxes are therefore an important pillar of government revenue mobilization. For 2004, the total government revenue budget was MRf 3.2 billion; of this, tourism-related revenue accounted for about MRf 1.8 billion, or 56 percent.⁵⁴ (See tables 13-16 in the statistical annex).

On the other hand, public expenditure on tourism is about 1 percent of total revenues, and this was a conscious decision when it was decided that resorts would provide their own infrastructure. However, a case could be made for development of transportation, in partnership with the private sector. This could be used for opening up new areas, developing poles in the north and south, and training and destination marketing in tourism, for example. It could also be used to achieve the government's redistribution objectives, including public transport, northern and southern development poles, creating SMEs, and enhancing linkages.

Culture and Sustainable Development.⁵⁵ The Maldives has a rich historical and cultural past, some of which is inevitably being lost in the modern world. To date, the Maldives has lost its skilled masons who carved coral stone, among other trades. However, cultural activities can also include aesthetic activities, the living arts, art, theater, dance, and music, all capable of bringing social and economic benefits. To date, Maldivians have not been very active in researching their cultural past; rather, they have been active in traditional activities that lead to jobs and wealth creation. Many more cultural activities have intrinsic value for tourism, via interpretation of the traditional skills and crafts and through sale of the crafts (e.g., grass mats, coir rope, drumming and dance, and of course boat-making boats). Interpretation of these activities can create interest for tourists and at the same time preserve traditional skills. Saudi Arabia is doing this for its traditional construction industry. In Dhangethi, local people give demonstrations of traditional village activities and school children dance; however, in general there is little of this in Maldives.

With migration to urban areas, it is also important to dealing with the issues of preserving the Maldives' historical and cultural past. The next national development plan could perhaps address these issues. If so, cultural and historical activities to be included in tourism would require: (i) mutual respect for cultural diversity (certainly evident in Maldives today); (ii) a grass-roots approach; (iii) policies that are understood by the population; (iv) education and awareness programs to increase understanding and appreciation; (v) employment generation through culture-based activities and sustainable tourism; and (vi) promotion of cultural enterprises.

54 Evidently, some of these categories are not denominated as "taxes," but all may be attributed to tourism; some designated as nontax revenue could easily be considered taxes in other settings (e.g., the \$10 airport tax currently treated as Maldives Airport Company revenues).

55 Neville, Adrian, *Dhivehi Raajje: A Portrait of Maldives*, Seven Holidays Publishing for Maldives Tourism Promotion Board.

5.9 Social Impact⁵⁶

Tourism has affected individuals, families, and society in general. The vast majority of workers in tourism are male. Families have been impacted by tourism largely through employment and higher incomes. Most welcome tourism but complain that they have difficulty in marketing their produce to tourists. Lifestyle changes have included the stress of working in tourism itself, a nontraditional employment sector. Workers also feel isolated due to separation from friends and family-and this is not limited to tourism, for most of those living in *Male* are far from their home atolls.

In addition, no consultation on resort development has taken place with the adjacent islanders and the issues of reef accessibility and harvesting being lost without compensation have not been addressed. Although the participation of women is limited, they like to start small businesses for the visitors; however, they often lack access to finance. Also, there is still reluctance, particularly from their families, to have girls work in resorts. Women do not like to live in the resorts and wish to return home in the evenings. Their inability to speak English also has restricted their interactions with the tourists. In *Male*, some women work in cafes and restaurants but they are much more prevalent in government positions. Several countries face this problem and to date there is no really satisfactory answer, other than to improve working conditions and to offer careers and entrepreneurship, rather than mere jobs, as the future for young workers. Now that there are several chains with multiple outlets, career planning should be more feasible.

Since Maldivian tourism is organized on a "separate resort island" basis, adverse social impact on lifestyles seems less. The Maldives employs a large proportion of foreigners; about 50 percent of the workers in resorts are from South Asia. This practice is not sustainable, however, as Maldives needs to generate job opportunities for its young. Direct local participation in tourism is diminished due to the dominance of the foreign nationals employed in the sector. However, this could lead to resentment toward the foreign employees. Growth in employment opportunities in resorts has resulted in outmigration from outer atolls to *Male* Atoll and it has put pressure on the resources of the capital. Unlike in other countries, the social carrying capacity⁵⁷ has not been exceeded; however, the outmigration raises sustainability issues, as for example in Addu Atoll.

In addition to outmigration from atolls, an increase in use of drugs and alcohol seems to be an emerging social problem. Furthermore, the local employees believe that there is discrimination against local staff in resorts.

56 Based on Social Economic and Environmental Impacts of Tourism-Republic of Maldives-UNDP and WTO-Madrid, 2000.

57 Threshold of exposure (direct or indirect), after which the community life styles and structure change, which is unacceptable to the community. UNDP-WTO Report, 2000.