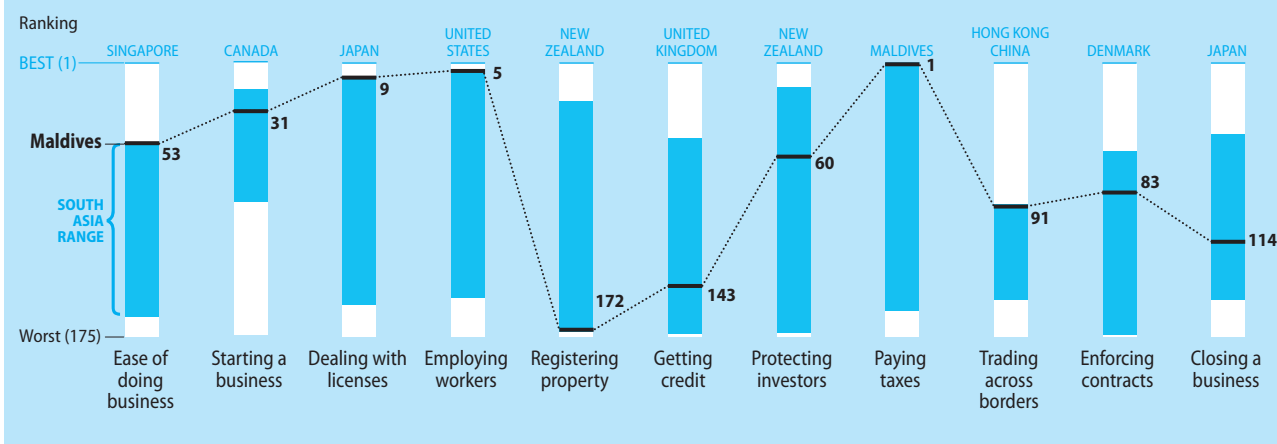


## COUNTRY PROFILE

**MALDIVES** Ranks in the top third globally and highest in the region

### Starting a business

With 5 procedures and 13 days required to open a business, the Maldives ranks 31st globally on the ease of starting a business. The Maldives is ahead of both the South Asian average and OECD averages on the time and number of procedures for business start-up. But at 18% income per capita, it ranks slightly behind Sri Lanka and Bhutan on the cost of start-up. Moreover, the Maldives is the only country in the region with a minimum capital requirement—the company law requires the entrepreneur to deposit a sum equal to 7% of the Maldives’ income per capita before starting operation.

### What to reform

The Maldives can further improve performance on the ease of starting a business by scrapping its minimum capital requirement and matching the zero minimum capital rules in all other South Asia countries. This will free up funds that can be put to better use in the business. It will also simplify the start-up process by cutting one more procedure. Capital requirements were originally designed to protect investors and creditors. Evidence shows that not only do capital requirements fail to achieve this objective, they impose significant costs by increasing entry barriers. By removing capital requirements, the Maldives would join a growing list of countries that have either eliminated or significantly reduced theirs, from China to France to Japan.

### Dealing with licenses

The Maldives ranks 9th worldwide in terms of the ease of dealing with licenses and continues to be the best performer in South Asia. To build a warehouse in the Maldives, entrepreneurs are required to follow 10 procedures that take 118 days and cost 40% of income per capita. The high ranking is due to the simplicity of the process. Only 8 countries have fewer procedures for obtaining a building license than the Maldives. Rankings on time and cost have somewhat more room for improvement. More than half of the total time is taken by two procedures—obtaining the building and occupancy permits—which together account for 86 days. The cost of utilities comprise almost 90% of total costs.

### Employing workers

The Maldives ranks 5th in the world on the ease of employing workers—and is by far the best-performing South Asian country on this indicator. With no social security taxes or payroll taxes associated with recruiting a worker, the cost of hiring is zero. Restrictions on conditions of work are minimal. Although employees are prohibited from working more than 10 hours in a day, there are no restrictions on night or holiday work and no mandated annual leave. A 2006 reform introduced a 2 month mandatory notice period which raised the firing cost to 8.7 weeks.

## Registering property

Due to the legal uncertainty on whether land transfers between companies are permissible, the Maldives receives a ‘no practice’ score for the *Doing Business* registering property indicators, the lowest ranking. Until 2002, when the Land Act was approved, land could not be transferred freely. Traditionally, the government issues time-bound leases to tourism resorts and allocates an indefinite lease over land to individuals. Leases for individuals can be transferred upon death to their heirs in joint ownership. No cadastral survey exists to identify property boundaries. With the new 2002 Land Act and the initiation of the Hulumale Development project on reclaimed land, the government is taking steps to create a land market by selling the land and conducting a cadastral survey. However, it still remains uncertain whether land can be transferred between companies. The lack of clarity on property rights is a significant constraint to accessing finance, as lenders are unwilling to take land as collateral if they are unable to sell it freely upon the borrower’s default. It also discourages investment in property.

### What to reform

Clarifying property rights is an urgently needed reform in the Maldives. In particular, companies need the express right to transfer land without restriction, as in all other South Asian countries and almost all countries in the world. Allowing for full title to land is preferable to a system of government leasing. What is most important is to provide businesses with the unrestricted right to sell, lease, bequeath, mortgage and improve land. Entrepreneurs will invest and trade in property if these rights are secure. The government can provide this security by more clearly defining property rights in land laws, as well as by completing the cadastral survey and creating a unified cadastre and property registry that keeps accurate records of who owns what. Allowing for a simple, fast and cheap process for transferring land will further reinforce the security of property rights.

## Getting credit

The Maldives ranks 143rd worldwide on the ease of getting credit indicators, well below all other South Asian countries except for Bhutan and Afghanistan. No change has occurred in 2005-06. The poor ranking is driven by modest performance in the legal rights index—where the Maldives scores 4 out of a possible 10—as well as weak

performance in the credit information index—where the Maldives scores 0 out of a possible 6 because there is no public or private credit registry to facilitate the exchange of credit information amongst lenders.

The legal rights granted borrowers and lenders in the Maldives are deficient in most respects. Laws require a specific description of the assets in the security agreement. As a result, it is impractical to use a changing pool of assets (such as in an inventory or accounts receivable) as security for a loan. The secured lender has no priority right to the collateral either in or outside bankruptcy, reducing the chances of loan recovery. If a borrower defaults, creditors are required to go through a lengthy court enforcement process rather than enforce their security privately. The lack of a bankruptcy law further reduces the chances of loan recovery in the event a borrower becomes insolvent. All this makes security agreements in the Maldives less safe, more costly and difficult to enforce.

### What to reform

Improving credit institutions is a priority reform for the Maldives. Lenders are more likely to extend loans if they are able to assess a borrower’s credit history and when they can take and enforce security effectively. The government can facilitate access to credit by, first, supporting the development of a credit bureau. The bureau will be most effective if it distributes a broad range of information on past defaults and repayment patterns and collects and makes information available electronically. The Maldivian authorities are planning to set up a Credit Information Bureau with the assistance of the International Finance Corporation. In addition, the Bank of Maldives is planning to introduce mobile phone banking which will improve outreach. Second, the government can make loans more accessible by putting in place a new secured transactions system that will reduce the cost, time and uncertainty surrounding security enforcement. The new regime should allow all assets to be used as collateral and allow for out-of-court and summary enforcement proceedings.

## Protecting investors

The Maldives ranks 60th worldwide on the protecting investors index, falling in the middle of South Asian countries along with Nepal and Sri Lanka and slightly below the OECD average. It has slipped from 58th place in 2005. Performance across the three sub-indices is mixed. The Maldives ranks lowest on the disclosure

index, scoring 0 out of a possible 10. There is no requirement that a manager disclose conflicts of interest, and a manager may approve transactions with a conflict of interest. Scores on the director liability as well as shareholder suits indices are significantly higher at 8 out of 10, and better than both the regional and OECD averages.

### What to reform

The Maldives can encourage equity investment and open additional lines of finance for entrepreneurs by enhancing disclosure provisions in corporate governance laws. Investors need to know what stakes directors have in proposed deals so they can stop those deals through a vote or sue for damages if shareholder interests would be hurt. In cases where there are conflicts of interest, laws should require immediate public disclosure of transactions and the conflicts of interest, full disclosure of all material facts to the board of directors and regular disclosure in periodic filings. The Maldives can further increase shareholder protections by requiring shareholder approval for large transactions involving company insiders and permitting shareholders to sue directors and managers for damage caused by inside dealings.

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### Paying taxes

The Maldives ranks 1st worldwide on the ease of paying taxes. Entrepreneurs there are required to make only 1 payment per year, equivalent to 9.3% of commercial profit. In the Maldives a domestic company operating in the manufacturing sector is exempt from profit, consumption and labor taxes. The Maldives is well ahead of other countries in South Asia, where businesses on average must make 30 payments a year and pay 45% of commercial profit.

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### Trading across borders

The Maldives ranks 91st globally on the ease of trading across borders. As a small country, delays for inland transportation are rare. Time in customs is saved by allowing documents to be prepared and filed in advance anytime before the ship docks. Although the Maldives is considerably ahead of other South Asian countries, there is still room for improvement in the time it takes to export (15 days) and import (21 days).

### What to reform

Delays in trading can be cut by creating a single access point at the customs authority. An entrepreneur could then complete all requirements at customs rather than having to visit each agency separately. A single access point is under discussion in the Maldives. An ongoing project to link different government ministries electronically will help facilitate the single access point, but there are questions on whether the customs authority has the legal authority to forward the document to another agency. In the meantime, allowing the trader to file documents electronically would speed the process.

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### Enforcing contracts

The Maldives ranks 83rd on the ease of enforcing contracts. The relatively high ranking is attributable to the low cost of enforcing a contract. At 16% of the value of the claim, the Maldives has the lowest costs in South Asia. But while costs are reasonable in the Maldives, delays are prohibitive. It takes 665 days to enforce a contract, which is less than regional average but almost double that of the OECD (351 days). The bulk of delays are in the time it takes to execute judgments—485 days. The time taken to give a judgment is 165 days.

### What to reform

To reduce the time it takes to enforce a contract the government can first and foremost start collecting judicial statistics, as this will allow for a clearer diagnosis of the problems. Secondly, recovery can be sped by allowing competition in enforcing judgments. By scrapping the public monopoly on executing judges' rulings, countries like Colombia, Hungary, the Netherlands and Slovakia have cut several months from the time of enforcement. Licensed private enforcement agents quickly moved into the business. This saves time for claimants, and also saves money from the judicial budget for the government.

## Closing a business

The Maldives ranks 114th on closing a business, broadly in line with the South Asian average. In the Maldives there is no bankruptcy law and the company law does not provide for any reorganization procedure. An insolvent company will simply go through a foreclosure process, which is the basis for the closing a business figures reported in *Doing Business* for the Maldives. Foreclosure is slow, taking almost 7 years, but relatively cheap at 4% of the value of the mortgaged asset (table 2.5). At the end of the process only 18.2 cents on the dollar are recovered. Because of the low recovery rates, banks are less likely to lend.

### What to reform

The government can speed the foreclosure process by introducing summary judgment proceedings and private enforcement. By introducing a bankruptcy law, the government will provide more efficient solutions for complex insolvencies with multiple creditors and other claimants. Bankruptcy procedures should be expeditious and allow creditors the choice between reorganization and liquidation, whichever of the two they value most. Qualified insolvency managers should have incentives to promptly follow the most efficient procedure. Regardless of whether a firm enters liquidation or reorganization, the insolvency administrator should be able to sell the business as a going concern so that the new owners keep the intrinsic value of the operating business and not just the assets.

TABLE 2.5

### Closing a business in the Maldives— long delays and low recovery

	Maldives	Region	OECD
Time (years)	6.7	3.6	1.4
Cost (% of estate)	4.0	6.3	7.1
Recovery rate (cents on the dollar)	18.2	19.5	74.0

Source: *Doing Business* database.