

The Maldives

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Maldives	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	<p>Non - Compliance with FATF 40 + 9 Recommendations</p> <p>Weakness in Government Legislation to combat Money Laundering</p> <p>Not on EU White list equivalent jurisdictions</p> <p>Corruption Index (Transparency International & W.G.I.)</p> <p>Failed States Index (Political Issues)(Average Score)</p>
Medium Risk Areas:	World Governance Indicators (Average Score)
<p>Major Investment Areas:</p> <p>Agriculture - products:</p> <p>coconuts, corn, sweet potatoes; fish</p> <p>Industries:</p> <p>tourism, fish processing, shipping, boat building, coconut processing, woven mats, rope, handicrafts, coral and sand mining</p> <p>Exports - commodities:</p> <p>fish</p> <p>Exports - partners:</p> <p>France 18.6%, Thailand 15.5%, UK 11.2%, Sri Lanka 10%, US 9.2%, Italy 8%, Germany 6.3% (2012)</p> <p>Imports - commodities:</p> <p>petroleum products, clothing, intermediate and capital goods</p> <p>Imports - partners:</p> <p>Singapore 21.4%, UAE 20.3%, India 9.5%, Malaysia 7.5%, China 5.9%, Thailand 5.6%, Sri Lanka 5.1% (2012)</p>	

Investment Restrictions:

Foreign investments in Maldives have primarily involved resort management, but also include telecommunications, accounting, banking, insurance, air transport, courier services, and some manufacturing.

The Investment Registration Unit of the Ministry of Economic Development screens and reviews internally all foreign investment proposals.

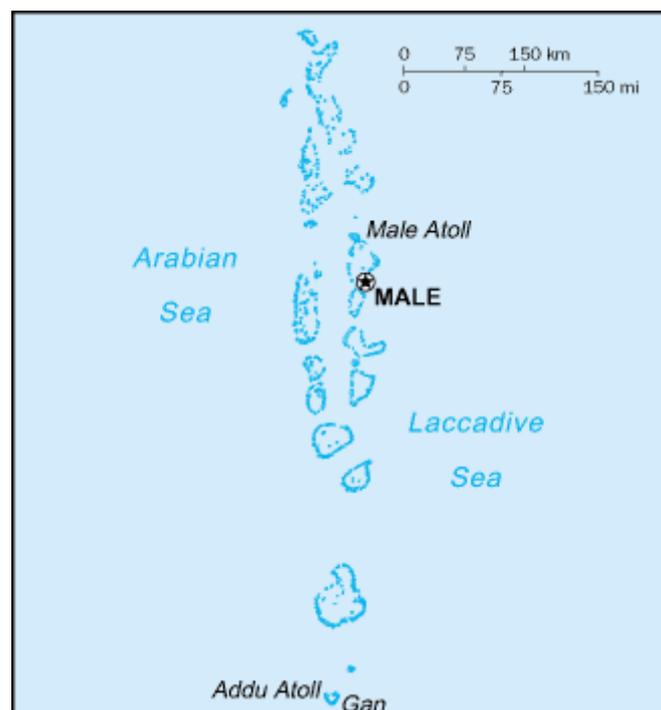
The Ministry of Economic Development encourages investment projects that: (1) establish and enhance the delivery of basic services required to be provided by the State; (2) promote economic diversification and demonstrate potential to structurally reduce the country's current dependence on the tourism sector; (3) expand the export base of the economy and support import substitution; (4) enhance the human capital development and employment opportunities for Maldivians on a significant scale; (5) promote innovative product development and new markets for the tourism sector; (6) bring enhanced improvements to the health and education sectors in terms of service delivery, quality, and accessibility; (7) expand and develop sports infrastructure and services in the Maldives; (8) promote the use of renewable energy in Maldives; and (9) promote incremental social and economic benefits from the available natural resources.

Contents

Section 1 - Background	4
Section 2 - Anti – Money Laundering / Terrorist Financing	5
FATF status.....	5
Compliance with FATF Recommendations.....	5
Key Findings from latest Mutual Evaluation Report (2011):	5
US Department of State Money Laundering assessment (INCSR)	6
Reports.....	10
International Sanctions.....	14
Bribery & Corruption.....	15
Corruption and Government Transparency - Report by US State Department	15
World Governance indicators	16
Failed States Index	16
Offshore Financial Centre.....	16
Section 3 - Economy	17
Banking.....	18
Stock Exchange.....	18
Section 4 - Investment Climate	19
Section 5 - Government	35
Section 6 - Tax	36
Methodology and Sources	37

Section 1 - Background

A sultanate since the 12th century, the Maldives became a British protectorate in 1887. It became a republic in 1968, three years after independence. President Maumoon Abdul GAYOOM dominated the islands' political scene for 30 years, elected to six successive terms by single-party referendums. Following political demonstrations in the capital Male in August 2003, the president and his government pledged to embark upon democratic reforms including a more representative political system and expanded political freedoms. Progress was sluggish, however, and many promised reforms were slow to be realized. Nonetheless, political parties were legalized in 2005. In June 2008, a constituent assembly - termed the "Special Majlis" - finalized a new constitution, which was ratified by the president in August. The first-ever presidential elections under a multi-candidate, multi-party system were held in October 2008. GAYOOM was defeated in a runoff poll by Mohamed NASHEED, a political activist who had been jailed several years earlier by the former regime. President NASHEED faced a number of challenges including strengthening democracy and combating poverty and drug abuse. In early February 2012, after several weeks of street protests following his sacking of a top judge, NASHEED resigned the presidency and handed over power to Vice President Mohammed WAHEED Hassan Maniku. In mid-2012, the Commission of National Inquiry was set by the Government to probe events leading to the regime change. Though no evidence of a coup was found, the report recommended the need to strengthen the country's democratic institutions to avert similar events in the future, and to further investigate alleged police misconduct during the crisis. Maldives officials have played a prominent role in international climate change discussions (due to the islands' low elevation and the threat from sea-level rise) on the United Nations Human Rights Council, and in encouraging regional cooperation, especially between India and Pakistan.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

The Maldives is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in The Maldives was undertaken by the Financial Action Task Force (FATF) in 2011. According to that Evaluation, The Maldives was deemed Compliant for 1 and Largely Compliant for 0 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 6 of the Core Recommendations.

Key Findings from latest Mutual Evaluation Report (2011):

The financial sector of the Maldives, although small and not very developed, is susceptible to both money laundering and, to a lesser extent, terrorist financing. While the authorities do not have estimates of the size of the crime economy, anecdotal evidence suggest that trafficking in illegal drugs and corruption alone produce significant amounts of illegal funds. There are also indications that resources have been raised in the country to fund terrorists and terrorist activities abroad.

Over the last years, the Maldives has taken steps to lay down the foundations of an AML/CFT framework. Institutional measures have been taken to set up a financial intelligence unit (FIU), and laws have been passed to criminalize, albeit insufficiently, the laundering of the proceeds of drug-related offenses and impose basic AML/CFT preventive measures on banks. Regulations were adopted to address some AML/CFT aspects in the securities sector.

The current AML/CFT framework is very recent and in need of considerable improvements, both in terms of substance and implementation. Domestic inter-agency interaction relies on informal arrangements between the competent authorities rather than on formal arrangements, the criminal legal framework is minimal, and most of the measures for the private sector are issued in the form of guidance rather than mandatory requirements. At the time of the assessment, no enforceable AML/CFT obligations were in place. Shortly thereafter, the authorities passed a new Banking Act which requires banks to implement basic AML/CFT measures such as customer identification and reporting of suspicious transactions to the FIU. Intermediaries in the securities sector are required to implement limited AML/CFT measures which became enforceable in April 2011. Financial institutions other than banks and securities intermediaries, as well as designated businesses and professions (DNFBPs) active in Maldives are not subject to AML/CFT requirements.

The authorities are working on a draft AML/CFT law which would impose more comprehensive AML/CFT preventive measures on financial institutions and DNFBPs, strengthen key agencies such as the FIU, and enhance domestic cooperation and coordination.

US Department of State Money Laundering assessment (INCSR)

The Maldives was deemed a 'Monitored' Jurisdiction by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Maldives is comprised of a series of atolls in the Indian Ocean and is bisected by a number of international sea lanes. Authorities have expressed concern the islands are being used as a transit point for money laundering, narcotics trafficking, and illegal immigration to Europe. The country has a small financial market but is susceptible to money laundering and terrorist financing due to limited oversight capacity.

No official figures are available, but anecdotal evidence suggests illegal drug trafficking, a large black market for the purchase of dollars, and corruption produce significant amounts of illicit funds. Criminal proceeds reportedly come mainly from domestic sources. Drug trafficking is noted as one of the most frequent asset-generating crimes. Other offenses include human trafficking, piracy, and offenses committed by gangs. Even though the number of corruption cases is low, only a small percentage is prosecuted. Reports indicate the sums involved can be significant. There are indications funds raised in the country have been used to finance terrorism activities abroad.

Informal value transfer systems, such as hawala, are being used to transfer funds between the islands. The extent to which these systems are used to launder money is unclear.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: Mixed approach
Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES KYC covered entities: Banks; money transfer services; stock exchange and securities dealers; insurance industry; investment funds, advisors, and companies

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 14 in 2015

Number of CTRs received and time frame: 365,348 in 2015

STR covered entities: Banks; money transfer services; the stock exchange and securities dealers; insurance industry; investment funds, advisors, and companies

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 1 in 2015

Convictions: 0 in 2015

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: NO

With other governments/jurisdictions: YES

Maldives is a member of the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Maldives passed the Prevention of Money Laundering and Financing of Terrorism Act (PMLFTA) in April 2014, and the law became operational on October 12, 2014. The primary purpose of this act is to criminalize money laundering and terrorist financing in the Maldives. The PMLFTA criminalizes money laundering beyond drug-related offenses, but questions remain regarding its enforcement. The PMLFTA lists eight predicate offenses: terrorism, terrorism financing, illicit trafficking in narcotic drugs and psychotropic substances, human trafficking, illicit arms trafficking, counterfeiting currency, insider trading, corruption, and crimes committed through an organized criminal group. In addition, any offense prescribed as a serious offense under any other legislation, or aiding, abetting, or participating in the commission of an offense listed above, is also a predicate offense.

The PMLFTA also provides preventative measures to combat money laundering and terrorist financing and establishes the financial intelligence unit (FIU) as the central national agency to receive, analyze, and disseminate financial transaction information. The law includes asset forfeiture provisions with respect to money laundering and financing of terrorism.

Several pieces of new legislation came into effect in 2015 to strengthen the AML/CFT regime, including the Mutual Legal Assistance in Criminal Matters Act in July and the Extradition Act in April. In addition, the Prevention of Terrorism Act of October 2015 provides for comprehensive mechanisms to monitor and gather evidence against those suspected of being involved in terrorism financing.

The Government of Maldives' priorities in 2015 are to issue relevant implementing regulations for the PMLFTA and to train reporting agencies. In January 2015, the Maldives Monetary Authority (MMA) issued implementing regulations to the banking sector, life insurance and family takaful institutions, and money remittance and foreign exchange institutions. In March 2015, the Maldives Customs Service issued a regulation on cross border currency declaration and the MMA issued a regulation for the designation of a threshold for cross border currency declarations, setting a reporting threshold of \$30,000 or equivalent foreign currency.

Efforts to provide adequate supervision of the financial sector and enforce the laws are still in the initial stages. In 2015, the FIU started conducting onsite inspection of banks as required by the AML/CFT regulations and conducted training on AML/CFT compliance for banks and money remittance institutions. The FIU meets with compliance officers of the banks on a regular basis to give information and guidance and to obtain feedback on the challenges the banks face when complying with the AML/CFT regulations.

Several key institutions suffer from inadequate resources, including the FIU, financial sector supervisors, prosecutorial and investigative authorities, and judicial authorities. The FIU is seeking data analysis assistance from international donors and regional partners. The FIU is operating under an interim director deputed by the MMA.

Authorities should take steps to improve compliance and understanding of AML/CFT requirements and should expand KYC and reporting requirements to include all types of financial institutions and designated non-financial businesses and professions noted in the international standards and active in the country. Maldives plans to set up tax free Special Economic Zones (SEZs). The Maldives should establish supervisory, reporting, and AML/CFT standards equivalent to onshore standards for financial institutions that may operate in SEZs.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, The Maldives does not conform with regard to the following government legislation: -

Criminalised Beyond Drugs - The jurisdiction has extended anti-money laundering statutes and regulations to include nondrug-related money laundering.

Record Large Transactions - By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.

Maintain Records over time - By law or regulation, banks are required to keep records, especially of large or unusual transactions, for a specified period of time, e.g., five years

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

International Transportation of Currency - By law or regulation, the jurisdiction, in cooperation with banks, controls or monitors the flow of currency and monetary

Ability to freeze assets without delay - The government has an independent national system and mechanism for freezing terrorist assets in a timely manner (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, and/or other property belonging to terrorists or terrorist organizations)

Disclosure Protection - "Safe Harbour" - By law, the jurisdiction provides a "safe harbour" defence to banks or other financial institutions and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.

Criminalised Tipping Off - By law, disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party, is a criminal offense.

States Party to United Nations Transnational Organised Crime Convention - States party to the United Nations Convention against Transnational Organized Crime (UNTOC), or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

EU White list of Equivalent Jurisdictions

The Maldives is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Maldives is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report

No report available

US State Dept Trafficking in Persons Report 2014 (introduction):

The Maldives is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Maldives is a destination country for men, women, and children subjected to forced labor and sex trafficking, and a source country for women and children subjected to labor and sex trafficking. An unknown number of the approximately 200,000 documented and undocumented foreign workers in Maldives—primarily Bangladeshi and Indian men in the construction and service sectors—experience forced labor, including fraudulent recruitment, confiscation of identity and travel documents, withholding or nonpayment of wages, and debt bondage. Migrant workers pay the equivalent of approximately \$1,000 to \$4,000 in recruitment fees to migrate to Maldives, contributing to their risk of debt bondage after arrival. In addition to Bangladeshis and Indians, some migrants from Sri Lanka, Pakistan, and Nepal reportedly experience recruitment fraud before arriving in Maldives. Recruitment agents in source countries collude with employers and agents in Maldives to facilitate fraudulent recruitment and forced labor of migrant workers. A small number of women from Sri Lanka, Thailand, India, China, the Philippines, Eastern Europe, and former Soviet countries, as well as some girls from Bangladesh and Maldives, are subjected to sex trafficking in Maldives. Some Maldivian children are transported to the capital, Malé, from other islands for domestic service; some of these children are also reportedly subjected to sexual abuse and may be victims of forced labor. Maldivian women may be subjected to sex trafficking in Sri Lanka.

The Government of Maldives does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. During the reporting period, the government passed its first anti-trafficking law, opened its first shelter for trafficking victims, distributed pamphlets about rights to migrant workers in a number of other languages, blacklisted some companies for fraudulent recruitment practices, and convicted a trafficker, reportedly the first such conviction in Maldives. However, serious problems in anti-trafficking law enforcement and victim protection remained. The government did not adequately train police and other officials on trafficking, nor did it provide authorities with procedures to identify victims among vulnerable populations and refer those victims to protective services. Consequently, the government penalized some victims for offenses committed as a result of being trafficked and also deported thousands of migrants without adequately screening for indications of forced labor. As in previous years, authorities did not criminally prosecute any labor recruitment agents or firms for fraudulent practices. Passport confiscation was a rampant practice by private employers and government ministries, who withheld the passports of foreign employees and victim witnesses in trafficking prosecutions; the government did not prosecute any employers or officials for this offense.

US State Dept Terrorism Report 2015

Overview: Since 2010, concerns about a small number of local extremists, who support violence and are involved with transnational terrorist groups, have increased. Young Maldivians, especially those within the penal system and otherwise marginalized members of society, are at risk of becoming radicalized and some have already joined violent extremist groups. Media reports from January 2015 cited then Maldivian Police Service (MPS) Chief Hussein Waheed, who estimated that at least 50 Maldivians had opted to become foreign terrorist fighters, while the opposition Maldivian Democratic Party placed the figure as high as 200. Waheed's comments followed reports in early January of at least 13 Maldivians traveling abroad with the intent of becoming foreign terrorist fighters. In late January, four Maldivians reputed to be members of Male's Kuda Henveiru gang were arrested in Malaysia under suspicion of attempting to travel to Syria to fight with terrorist groups. The incident illustrated a pattern of Maldivian nationals having the intent of becoming foreign terrorist fighters transiting through third countries.

Legislation, Law Enforcement, and Border Security: President Yameen Abdul Gayoom signed a new "Prevention of Money Laundering and Financing of Terrorism Act" (PMLFT), which repealed the Anti-terrorism Act of 1990, on October 28. The PMLFT defined acts of terrorism and set forth penalties of between seven to 25 years imprisonment for those convicted of these acts or inciting others to do so. The Act's other provisions extended the state's writ to hold accountable those who may have perpetrated such acts outside Maldivian territory; called upon the president to publish a list of proscribed terrorist organizations or persons; granted the government permission to suspend certain constitutionally guaranteed rights for persons detained or arrested on suspicion of committing acts of terrorism; established legal procedures for handling terrorism-related cases; and granted permission for the issuance of a monitoring and control order by court order upon reasonable suspicion, which was defined as the Minister's belief based on logical or reasonable evidence or reasoning that one or many of the acts transpire or may occur. A monitoring and control order would permit the government to determine a suspect's place of residence; search him/her and his/her residence; disclose, inspect, and seize a suspect's assets; monitor his or her telecommunications; and impose a travel ban. As of the end of the year, President Yameen had not yet published the mandatory list of terrorist entities, as required by the legislation.

The government also used the PMLFT to arrest political opponents and restrict political and media activity unrelated to terrorism. The government's Human Rights Commission issued a statement on October 29 calling for the PMLFT to be reviewed due to its narrowing constitutionally guaranteed fundamental rights.

The Maldivian Parliament (Majlis) passed a new penal code in April 2014, which was implemented in April 2015. Neither Maldivian law nor the penal code permitted restrictions on the travel of would-be foreign terrorist fighters or the detention of those who have been turned back on suspicion that they were headed to a war zone, both of which were gaps the PMLFT was designed to address.

Maldives uses the Terrorist Interdiction Program's Personal Identification Secure Comparison and Evaluation System (PISCES) to provide traveler screening and screening list capability.

Maldives continued to participate in the Department of State's Antiterrorism Assistance program, which provided training to the MPS, Maldivian Coast Guard, and port and border control officers. The Department of State also supported capacity building for Maldivian investigators and prosecutors, improving their understanding of techniques to handle counterterrorism cases. Training in all aspects of police work related to counterterrorism was also provided to officers by numerous other Western countries. The leadership of the MPS recognized the need for improvement and continuously sought assistance to bring its abilities up to international standards.

Responsibility for Maldivian counterterrorism efforts is divided among the MPS and National Defense Force (MNDF), the latter of which has Navy, Marines, and Coast Guard branches. Information sharing among the agencies is limited. In April, the MPS began randomly questioning Maldivian citizens traveling by air to Turkey as to their reasons for flying and planned dates of return. This effort represented the government's attempt to stem the number of citizens traveling to Iraq and Syria with the goal of joining violent extremist groups to fight.

Maldives participated in a regional conference (May 26-29) in New Delhi, co-sponsored by the U.S. Department of Justice's Office of Prosecutorial Development, Assistance and Training (OPDAT); the Federal Bureau of Investigation; and the Department of State in cooperation with the Government of India's National Investigation Agency. The program invited police, prosecutors, members of the judiciary and civil society to share expertise and experience on how best to address issues generated by foreign terrorist fighters including on the effectiveness of terrorism and border security legislation.

Personnel from the Financial Intelligence Unit, MNDF, MPS, and the Prosecutor General's Office participated in a series of trainings led by DOJ/OPDAT from May 31 to June 4. Topics included the effective investigation and prosecution of terrorism cases, terrorism financing, and money laundering.

Countering the Financing of Terrorism: Maldives is a member of the Asia/Pacific Group on Money Laundering, a Financial Action Task Force-style regional body. Maldivian authorities believe funds were being raised in Maldives to support terrorism abroad, but lacked reliable information regarding amounts involved. The Maldivian Central Bank believes criminal proceeds mainly come from domestic sources, since a large percentage of suspicious transaction reports the Central Bank receives are connected to Maldivians. The Maldives Monetary Authority (MMA) reported informal money transfer networks (hawala) are used to transfer funds between the islands, although the extent to which these systems are employed to launder money is unclear. While the new PMLFT legislation passed in October did not contain provisions specifically targeting terrorism financing, the Maldivian Prosecutor General's Office was confident it would enable police and prosecutors to better identify links between suspected extremists and their finance networks based upon the very wide investigatory powers authorized by the PMLFT.

The Maldivian government monitors banks, the insurance sector, money remittance institutions, and finance companies, and requires the collection of data for wire transfers. Financial institutions other than banks and intermediaries in the securities sector, however, are not subject to current anti-money laundering/countering the financing of terrorism (AML/CFT) obligations. Insurance companies and intermediaries, finance companies, money

remittance service providers, foreign exchange businesses, and credit card companies therefore operate outside the AML/CFT framework. The MMA had earlier established an FIU, which lacked the technical capacity to analyze vast amounts of new data flowing in on financial transactions. The FIU's director position was vacant as of June; it is operating under an interim director deputed by the MMA until a new one is appointed. For the period of October 2014 to April 2015, the FIU reported receiving six STRs, of which five were analyzed and closed. Insurance companies and intermediaries, finance companies, money remittance service providers, foreign exchange businesses, and credit card companies therefore operate outside the AML/CFT framework.

The Maldivian government implements relevant UN Security Council Resolutions, and monitors and regulates alternative remittance services, despite the fact that they lie outside the AML/CFT framework. The Maldivian government did not report any efforts to seize terrorist assets in 2015.

According to the Maldivian government, capacity building of relevant supervisory and regulatory authorities such as the MMA and the Capital Market Development Authority, the MMA's FIU, law enforcement authorities (the Anti-Corruption Commission, Department of Immigration and Emigration, Maldives Customs Service, and MPS), and the judiciary is needed to properly counter money laundering and terrorism financing.

Countering Violent Extremism: The Maldivian government continued to recognize that counter-radicalization efforts are a critical component to long-term success against violent extremism. Since 2011, the government has sought to counter the influence of extremist ideology by actively intervening in religious life. These interventions include mandating persons wanting to serve as mosque leaders (imams) to undergo a six-month state-approved training, as well as disseminating government-approved sermons, which the imams are required to use for Friday prayers. A government-sponsored Islamic university in the capital city of Male opened in the last quarter of 2015. The university's key objective will be to promote the academic study of religion and "moderate Islam" as a counterweight to extremist discourses and messaging. The Fiqh Academy, a group of religious scholars under the government's Ministry of Islamic Affairs, issued a *fatwa* on August 25 which proclaimed participation in foreign wars is not a religious obligation for all adult Muslims.

International and Regional Cooperation: Maldives is a member of the South Asian Association for Regional Cooperation (SAARC), and is a party of the SAARC regional convention on the suppression of terrorism. Topics discussed included security force capacity building and increasing cooperation in maritime domain awareness. The MNDF and Indian military completed an annual joint training exercise in August and September designed to improve cooperation and inter-operability between the two countries' armed forces.

International Sanctions

None Applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	36
World Governance Indicator – Control of Corruption	50

Corruption and Government Transparency - Report by US State Department

Legal Framework and the Anti-Corruption Commission

The law on prevention and punishment of corruption (2000) defines bribery and improper pecuniary advantage and prescribes punishments. The law also outlines procedures for the confiscation of property and funds obtained through commission of the included offenses. Penalties range from 6 months to 10 years banishment, or jail terms. The Maldives acceded to the United Nations Convention against Corruption in March 2007, and under the new 2008 Constitution, an independent Anti-Corruption Commission was established in December 2008. The responsibilities of the Commission include inquiring into and investigating all allegations of corruption; recommending further inquiries and investigations by other investigatory bodies; and recommending prosecution of alleged offenses to the Prosecutor General, where warranted. The Anti-Corruption Commission is empowered to handle cases of corruption of members of parliament. It cannot, however, investigate corruption in the private sector. The Commission also cites limitations in the 2000 Anti-Corruption Act that restrict its investigative and enforcement powers. Corruption is seen to be most prevalent in government procurement.

Corruption Allegations in the Tourism Industry

Tourism is the largest industry in the Maldives, and local contacts confirm that resort owners and tourism operators control all aspects of the Maldivian economy. All the government treasury bills, when opened to the private sector in August 2012, were purchased by one prominent resort owner; transportation networks between the widely-scattered islands are controlled by two groups of resort owners; and a resort owner and wealthy businessman also sits on the JSC, which appoints and oversees the appointment of judges. A number of prominent resort owners are in the Parliament, and a few have served as Ministers in all administrations. Nepotism and cronyism are also hallmarks in all areas, from the Judiciary, and the Executive to the private sector.

OECD Ant bribery Convention

The Maldives is not a party to the OECD Convention.

UN Convention

The UN Anticorruption Convention entered into force on December 14, 2005. The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The Maldives is a party to the UN Convention.

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

The Maldives is not considered to be an Offshore Financial Centre

Section 3 - Economy

Tourism, Maldives' largest economic activity, accounts for nearly 30% of GDP and more than 60% of foreign exchange receipts. Fishing is the second leading sector, but the fish catch has dropped sharply in recent years. Agriculture and manufacturing continue to play a lesser role in the economy, constrained by the limited availability of cultivable land and the shortage of domestic labor. Lower than expected tourist arrivals and fish exports, combined with high government spending on social needs, subsidies, and civil servant salaries contributed to a balance of payments crisis, which was temporarily eased with a \$79.3 million IMF Stand-By agreement. However, after the first two disbursements, the IMF withheld subsequent disbursements due to concerns over Maldives' growing budget deficit, and the government has been seeking other sources of budgetary support ever since. A new Goods and Services Tax (GST) on tourism introduced in January 2011, on general goods and services in October 2011, and a new Business Profit Tax introduced in July 2011 have provided a boost to revenue. In recent years, gross foreign reserves have hovered around \$300 million, sufficient to finance about two to three months of imports. Diversifying the economy beyond tourism and fishing, reforming public finance, increasing employment opportunities, and combating corruption, cronyism, and a growing drug problem are other near-term challenges facing the government. Over the longer term Maldivian authorities worry about the impact of erosion and possible global warming on their low-lying country; 80% of the area is 1 meter or less above sea level.

Agriculture - products:

coconuts, corn, sweet potatoes; fish

Industries:

tourism, fish processing, shipping, boat building, coconut processing, woven mats, rope, handicrafts, coral and sand mining

Exports - commodities:

fish

Exports - partners:

France 18.6%, Thailand 15.5%, UK 11.2%, Sri Lanka 10%, US 9.2%, Italy 8%, Germany 6.3% (2012)

Imports - commodities:

petroleum products, clothing, intermediate and capital goods

Imports - partners:

Singapore 21.4%, UAE 20.3%, India 9.5%, Malaysia 7.5%, China 5.9%, Thailand 5.6%, Sri Lanka 5.1% (2012)

Banking

Banking is regulated by the Maldives Monetary Authority, which acts as the Central Bank. Five commercial banks operate in the Maldives, including HSBC. These banks follow normal international banking practices and offer LC facilities and other financing, primarily serving the tourism sector and import-export trade. Long-term domestic financing is a problem.

As of mid 2010, banks were highly liquid in Maldives Rufiyaa. However, bank asset quality and provisioning were low. Private sector credit expansion was low in 2010 as banks tend to be risk averse. The banks have shifted a large portion of their assets to government securities.

Stock Exchange

The Maldives Stock Exchange (MSE), first opened in 2002 as a small securities trading floor, was licensed as a private stock exchange in 2008. The legislature passed a Securities Act in January 2006 and the government created a Capital Market Development Authority (CMDA) to regulate the capital market. The MSE functions under the CMDA. At present, the only investment opportunity available to the public is a limited number of shares in the Bank of Maldives and three other state-owned public companies.

Executive Summary

The Republic of Maldives comprises 1,190 islands in 20 atolls spread over 900 km in the Indian Ocean. The Maldives attracts a million tourists annually, and tourism is the growth engine for the economy and accounts for about 70% of GDP. (Contribution is split 30% direct and 70% indirect via transportation, communication, and construction sectors.)

Maldives is a multi-party constitutional democracy. In 2008 Parliament ratified a new constitution that provided for the first multi-party presidential elections. In 2012, the first democratically-elected President, Mohamed Nasheed, stepped down, and Vice President Mohamed Waheed became the head of state. In September 7, 2013, Maldives held presidential elections, which international monitors commented as transparent, fair and credible. In a run-off election on November 16, 2014, Abdulla Yameen Abdul Gayoom was elected the new President.

Economic growth is projected around 4% in 2014. Maldives faces significant fiscal and balance of payment (BOP) problems. The Maldives Monetary Authority's (Central Bank) recent projections estimate that the country's current account deficit will widen to about \$270 million in 2014 or 11% of GDP. The International Monetary Fund (IMF) has been surprised by the Maldives economic resilience despite long standing economic problems. In December 2009, the IMF approved a \$93 million loan for the country. After the first two disbursements, the IMF withheld subsequent disbursements due to concerns that the budget deficit must be further reduced.

Maldives economic growth has been mainly powered by tourism. Many international resort operators own and operate resort islands in Maldives; tourism will likely remain the engine of the economy. The government of the Maldives is aggressively promoting building new island resorts.

Maldives will remain a small market with limited investment and business opportunities for U.S. companies. Although trade and investment have been liberalized, the Maldivian business community is small and close-knit, so new market entrants may find it difficult to make contacts. Businesses report that foreign exchange shortages are affecting business, and a vibrant black market for foreign exchange is reported.

Maldives became a member of the International Labor Organization in 2009. The law provides for the right of workers to form and join independent unions, but it does not protect against antiunion discrimination. The Freedom of Peaceful Assembly Act effectively prohibits strikes by workers in the resort sector, the country's largest money earner.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude Toward FDI

Maldives began opening up to foreign investment in the late 1980s. Foreign investments in Maldives have primarily involved resort management, but also include telecommunications, accounting, banking, insurance, air transport, courier services, and some manufacturing. In

April 2014, the Government of Maldives held an investor forum in Singapore and invited foreign investors to invest in five large infrastructure development projects including an integrated atoll, expansion of the airport in capital Male, reclaimed city, new port, and oil and gas exploration. The Government is in the process of submitting a Special Economic Zones Bill to the Parliament to facilitate foreign investment projects of strategic significance.

Laws/Regulations of FDI

The Ministry of Economic Development is tasked with promoting and regulating foreign investments in all sectors, except for the tourism sector. The Ministry of Tourism (www.tourism.gov.mv) is in charge of setting policy and developing the tourism sector, while the Maldives Tourism Promotion Board (www.visitmaldives.com) promotes the Maldives as a destination. The Ministry of Economic Development reviews all proposed investments prior to granting licenses.

The ongoing political instability has led to increased uncertainty among foreign investors as both the former Waheed government and the current government cancelled or re-opened provisions of at least two foreign development agreements committed to by previous governments. In December 2012, the Maldivian government took over operation of the Male' International Airport from GMR, an Indian company, after the Maldivian government repudiated the 2012 contract. While a Singaporean Court allowed the takeover, subject to adequate compensation to GMR per the contract, many business contacts consider the government's move tantamount to expropriation. The \$1.4 billion sought by GMR for the termination exceeds the annual government budget and would increase the national debt to MVR 31 billion (\$2 billion) in 2014 if awarded. Initially, the Government indicated it would not compensate GMR, and the matter entered an arbitration process. In April 2014, the Yameen Government reversed itself and said it would compensate GMR appropriately, although it is not known how much will be paid or when. In addition, at least one resort developer has been told that the terms of its signed agreement will not be respected.

Foreign investment in Maldives is governed by Law No. 25/79, governing agreements between the Government and investors. A separate law (No. 4/79) governs business and trading activities by foreign nationals, while the Business Profit Tax Act (No. 5/11) governs taxation. A new Partnership Act was also introduced in 2011. Foreign investments are currently approved for an initial period of one year, with the option to renew. Banking licenses are issued by the Maldives Monetary Authority, and governed under the Banking Act (No. 24/2010), while the tourism sector falls under the Tourism Act (No. 2/99). The Ministry of Economic Development offers "one-stop shop" services to investors and incentives include import duty concessions, 100% foreign ownership, and no restrictions on repatriation of earnings or profits. Foreign investments were earlier required to pay annual royalty fees to the Government at 3% of gross income or 15% of profits, whichever is greater, for majority foreign-owned companies. However, with the Business Profit Tax becoming effective from July 18, 2011, foreign investors are now exempt from royalty fees. Maldives currently does not have personal income taxes. In addition, a goods and services tax on the tourism sector, and a general services tax on all goods and services supplied in the Maldives came into effect in 2011. International arbitration is available for dispute settlement. Foreign investments within the tourism sector – such as resorts – are registered with the Ministry of Tourism.

Investment Approval Process

The Investment Registration Unit of the Ministry of Economic Development screens and reviews internally all foreign investment proposals. The process includes standard due diligence efforts such as a local police screening of all investors, determining the financial standing of the proposed shareholders through a bank reference, as well as performing a background check on the investors involved. The opinion of the related sector is also sought. Each case is reviewed based on its merits and other factors such as the number of existing investors in the area, and the employment and technology transfer potential demonstrated. A final decision is made by the Ministry of Economic Development. This has been a fairly transparent process to date.

Privatization Program

A new Privatization Act was introduced in January 2013, which will govern all future privatization and corporatization efforts by the Government. A Privatization and Corporatization Board has been established under the Act, tasked with planning, implementing, administering and monitoring the Government's privatization and corporatization efforts.

In 2009, the Government leased public primary school Ghiyaasuddin School to Indian Company ShriEducare under a 15-year contract, sold 20% of the Maldives Water and Sanitation Company (MWSC) to Japanese Company Hitachi Plant Technology in January, 2010, and did an IPO of telecommunications company Dhiraagu in October 2011.

Competition Law

Maldives does not have a competition law as yet, and hence there is currently no legal mechanism to review transactions for competition-related complaints. There are no laws or regulations in place that limit or prohibit foreign investment, participation, or control.

The Ministry of Economic Development encourages investment projects that: (1) establish and enhance the delivery of basic services required to be provided by the State; (2) promote economic diversification and demonstrate potential to structurally reduce the country's current dependence on the tourism sector; (3) expand the export base of the economy and support import substitution; (4) enhance the human capital development and employment opportunities for Maldivians on a significant scale; (5) promote innovative product development and new markets for the tourism sector; (6) bring enhanced improvements to the health and education sectors in terms of service delivery, quality, and accessibility; (7) expand and develop sports infrastructure and services in the Maldives; (8) promote the use of renewable energy in Maldives; and (9) promote incremental social and economic benefits from the available natural resources.

Sectors With Investment Potential

The following industries offer good potential for foreign investors:

Tourism: Opportunities exist in the entire range of services, including development and management of resorts, tourist activities, and land and sea transportation. New resorts require a range of equipment and products. The political and economic situation in Maldives, as serious as it is, has little impact on the tourism sector, since tourists only transit briefly through the Male' Airport and go directly to the resort islands. The resorts themselves

are largely self-sufficient and source almost all of their food, fuel, and labor from outside Maldives. Most tourism bookings, in fact, do not come through Maldivian banks, but are handled at the point of sale in Europe, China, or elsewhere. Given the geographic distance between the atolls themselves as well, conflict in Male or an inhabited island may have little to no repercussions on a resort island.

Financial, banking, accounting, and management consulting: Maldives' financial sector consists mainly of banks, one of which is partially state-owned, and four branches of foreign-owned banks, and a partly state-owned bank providing sharia-compliant banking services. The lack of adequate banking laws had deterred entry, although a new Banking Act was introduced in December 2010. Financial services consulting and management services are also areas that offer potential. The Maldives Stock Exchange (MSE) (<http://www.mse.com.mv/>) is functional and has plans to expand. Currently six companies are listed on the MSE, including one foreign company.

Transportation and Shipping: The transport sector is dominated by maritime and air transportation, but additional transportation could be provided. There is potential to develop air and sea transport including inter-atoll transport services, bunkering, transshipment, and passenger cruises.

Telecommunications and information technology: There are currently three licensed operators in the telecommunication sector. The telecommunications sector offers good potential for equipment and technology input suppliers. The 2013 budget included a \$57 million IT infrastructure development project, with assistance from China, to establish a technology center and a unified communication system. The communication system aims to establish a hi-definition video-conferencing system across the nation, with 100 video-conferencing facilities and 10 tele-presence facilities.

Power: Virtually all electricity is provided by diesel generators. Tourist resorts consume about 60% of electricity used in Maldives. There is scope to provide renewable sources such as solar, wind, and biomass for energy needs. Studies have revealed good potential for wind energy-based power generation, with some pilot projects underway

Maldives has announced its objective of being the first carbon-neutral nation by 2020, which would provide extensive opportunities for renewable power suppliers. At the 2012 Rio Summit, Maldives also announced its objective of establishing the entire country as a biosphere reserve by 2017.

Retail trading, agriculture, and the fisheries industry are closed to foreign investment, although there are no limits on foreign ownership in other sectors. The production of any items that are illegal to import into Maldives is prohibited. Foreigners may engage in trading of products which are not offered by local traders with the approval from the Ministry of Economic Development.

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	Not listed	http://cpi.transparency.org/cpi2013/results
Heritage Foundation's Economic Freedom index	2013	145 of 177	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	95 of 189	http://doingbusiness.org/rankings
Global Innovation Index	2013	Not listed	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	\$5,750	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Maldives maintained a fixed peg of 12.85 Maldivian Rufiyaa (MVR) to the dollar since 2001, but moved to a managed float on April 10, 2011. The exchange rate is now set at a 20% range around the previously fixed MVR 12.85 exchange, or between MVR 10.28 and MVR 15.42. The move to a float was essentially a devaluation of the rufiyaa, since the rufiyaa has moved to the top of the range (MVR 15.42). The Maldivian currency is non-convertible, and its true value cannot be determined. The heavy dependence on imports is a constraint for exchange rate management, although historically tourism receipts helped maintain hard currency liquidity.

Due to a foreign exchange shortage, the Maldives Monetary Authority (MMA) started rationing foreign exchange supplied to the banking system in 2009. This has led to restrictions on foreign exchange, and some current international transactions are conducted on the black market. Repatriation of funds and profits is allowed after local debts are settled. Local sources, however, confirm that dollar demand is met in the black market, although at higher premiums (5-7%).

Major international currencies can be bought and sold at banks and authorized moneychangers. Hotels and banks accept major credit cards and travelers' checks. Foreign currency accounts are available through banks. The U.S. dollar is the most widely-used foreign currency and is accepted by small shops and taxi drivers in Male'.

Gross foreign reserves at the end of December 2013 were approximately \$368 million, compared with \$304 in 2012, and were sufficient to finance 2.5 months of imports.

3. Expropriation and Compensation

According to the Law on Foreign Investment (No. 25/79), the Government may, with or without notice, suspend an investment, either where the investor indulges in an act detrimental to the security of the country or where temporary closure is necessary for national security. If, after due investigation, it cannot be concluded within 60 days of the temporary closure that the foreign investor had indulged in an activity detrimental to the security of Maldives, then the Government will pay compensation. Capital belonging to an investment that is closed for these reasons may be taken out of the country in a mutually agreed manner. The Act also requires Maldivian nationals to be employed, except in cases where the employment of foreigners is a necessity. This policy, however, is not enforced strictly in practice.

In December 2012, the Maldivian government took over operation of the Male' International Airport from GMR, an Indian-based company, after the Maldivian government repudiated the contract. While a Singaporean Court allowed the takeover, subject to adequate compensation to GMR per the contract, many business contacts consider the government's move tantamount to expropriation. GMR is claiming \$1.4 billion compensation from the Maldivian government.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The sources of law in Maldives are its constitution, Islamic Sharia law, regulations, Presidential decrees, international law, and English common law, with the latter being more influential in commercial matters. The Judicial Services Commission (JSC) is responsible for nominating, dismissing, and examining the conduct of all judges.

Lack of Judicial Qualification and Training

A Supreme Court was established for the first time in 2008 under the new Maldives Constitution. The Supreme Court is the highest judicial authority in Maldives. In addition to the Supreme Court, there are six courts in Male': a High Court; civil court; criminal court; family court; juvenile court; and a drug court. There are approximately 200 magistrate courts, one in each inhabited island. The Supreme Court and the High Court serve as courts of appeal. There are no jury trials. Though legal procedures are adequate, the judicial process is slow. In August 2010, the JSC reappointed – and confirmed for life – 191 of the 200 existing judges. Many of these judges held only a certificate in sharia, not a law degree. Court rulings are now made available to the public through the relevant court's website, increasing the transparency of the judicial system.

Pursuant to the Constitution, a Prosecutor General was appointed in September 2008. The Prosecutor General is tasked with the prosecution of criminal offences. The Attorney General acts as the legal advisor to the Government and represents the Government in all courts except on criminal proceedings represented by the Prosecutor General.

Legal Framework

The law on foreign investments guarantees the security of investments. Maldives has no laws pertaining to arbitration, but one was debated in Parliament in April 2012. Judgments of foreign courts are generally accepted and enforced by local courts. Maldives is not a member of the International Center for the Settlement of Investment Disputes (ICSID).

The Government of former President Nasheed initiated a broad program of economic reform, recognizing the underdeveloped legal and commercial framework. Under the program, the Government proposed legislation on new taxes, sole proprietorships, business registration, partnerships, mortgages, a mercantile court, and amendments to the Companies Act. The Partnership Act was ratified in December 2011, and the taxation bills were passed and ratified into law in 2011 and 2012.

Investment Disputes

GMR: The former Nasheed Administration awarded the build-and-operate contract for the Male International Airport (MIA) to GMR Male International Airport Holdings (GMR), a consortium of Indian and Malaysian companies in July 2010. The International Finance Corporation (IFC) supervised the bidding process for the whole contract. Political opponents in 2011 successfully contested the airport development charge (ADC) included in the contract, although the Government then allowed the consortium to deduct the ADC from concession fees. The contract was terminated by the later Waheed Administration through a cabinet decision with 7 days' notice, amid political protests and maneuvering, citing national interest concerns and bidding irregularities. A Singapore appellate court upheld the Government action. GMR has filed for compensation of \$1.4 billion for "wrongful termination" before an arbitration court in Singapore.

Tatva: The Waheed Government also renegotiated a Male' waste management project signed between the Nasheed Government and India-based Tatva Global Renewable Energy.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Maldives became an original member of the WTO on 31 May 1995. Maldives has not been involved in any disputes under the WTO Dispute Settlement Mechanism

Investment Incentives

The Ministry of Economic Development offers "one-stop shop" services to investors and incentives include import duty concessions, 100% foreign ownership, and no restrictions on repatriation of earnings or profits. Foreign investments were earlier required to pay annual royalty fees to the Government at 3% of gross income or 15% of profits, whichever is greater,

for majority foreign-owned companies. However, with the Business Profit Tax becoming effective from July 18, 2011, foreign investors are now exempt from royalty fees.

6. Right to Private Ownership and Establishment

There is little private ownership of land, and foreign investors cannot own land. The Nasheed Administration drafted new legislation on land reform that could result in more trade and private ownership of property, but the bill is pending in Parliament.

An amendment to the Tourism Act passed in 2010 allows investors to lease an island for 50 years in general, and 99 years if the company: 1) is registered in Maldives; 2) floats at least 55% of the company's shares on the Maldives stock market; and 3) has development of tourist resorts listed as an objective in the company registration. Leases can be renewed at the end of their terms, but the formula for assessing compensation value of a resort at the end of a lease has not yet been developed. All other land may be leased for maximum periods ranging from 10 to 15 years, depending on the purpose for which the land was initially allocated.

Currently there are no property and real estate laws or a mechanism to allow foreign persons to hold title to land. As a result, Maldives ranks 151 on ease of registering property in the World Bank's 2013 Ease of Doing Business Report. Locals, however, can hold title to land.

7. Protection of Property Rights

Real Property

Secured interests in property, movable and real, are recognized and enforced under the 2002 Land Act, and registries are maintained by the councils on each island.

Intellectual Property Rights

The Parliament passed a copyright law that came into effect in April 2011 which was developed with assistance from the World Intellectual Property Organization WIPO to comply with the TRIPS agreement. The government then embarked on the process of only using authentic software within government offices, entering an agreement with Microsoft. The government also sought to build public awareness of the copyright law through TV and radio appearances, government announcements, school events, and meetings with relevant media and entertainment sector associations.

The Maldives government (GOM) is currently working on bills regarding Trademarks and Geographical Indicators, again with the assistance from WIPO. The GOM recently established an IPR unit within the Ministry of Economic Development, but has not yet signed international agreements or conventions on intellectual property rights. The Ministry states that it has conducted IPR training for the judiciary, but the results remain to be seen, as it appears individuals still prefer not to defer to courts on IPR issues.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: George Chane, ChaneGW@state.gov

Local lawyers list: <http://srilanka.usembassy.gov/service/legal-resources-in-sri-lanka.html>

8. Transparency of the Regulatory System

The Government initiated a new public accounting system in 2009, part of which has now been successfully implemented. A new Public Finance Law, an Audit Law, and a Civil Service Law came into force in 2006-2007, and the Maldives Financial Transactions Reporting regulation came into effect in July 2011. Existing legislation in Maldives does not criminalize money laundering, apart from a small provision in the Drugs Act. Maldives has established a small financial intelligence unit to combat money laundering and terrorist financing.

Contract law and financial sector regulations are weak and several major contracts have been cancelled.

9. Efficient Capital Markets and Portfolio Investment

Money and Banking System

The Maldives financial sector is narrow and dominated by the banking sector. The banking sector consists of one publicly-owned commercial bank – the Bank of Maldives – and branches of four foreign-owned commercial banks. The Maldives Islamic Bank, established through a partnership between the GOM and the Islamic Corporation for the Development of the Private Sector (ICD), commenced operations in March 2011, offering Islamic Sharia-compliant products. HSBC, the only global bank present, set up operations in 2002. The banking sector's total assets were slightly in excess of \$2 billion at the end of 2012. Non-bank financial institutions in the country consist of two insurance companies, a pension fund, and a finance leasing company.

All financial institutions currently operate under the supervision of the Maldives Monetary Authority, the central bank. The Maldives Monetary Authority Act was amended in 2007 to ensure independence of the Authority. Banking supervision has recently been upgraded, moving toward international best practices. A comprehensive banking act was enacted in December 2010 covering financial, prudential, supervisory matters, conservatorship, liquidation, and receivership.

Most lending usually comes through the parent banks of international commercial banks, and most foreign currency loans are made to foreign currency-earning tourist enterprises. Local sources of finance are limited in scope due to the small size of the capital market and the lack of instruments that are available in more developed nations. The Government commenced Treasury bill auctions in 2006. In a bid to fund large fiscal gaps, the Government also opened up the sale of Treasury bills to the private sector in August 2012. Local sources confirm that the bills during that auction were bought by a prominent businessman in the tourism sector, signaling the deep influence of that sector in all aspects of the Maldivian economy. No other financial instruments are offered to the public. The commercial banks provide short- and long-term credit to the private sector. No specialized financial institution exists to meet the investment needs of tourism, agriculture, and fisheries.

Foreign Exchange Shortage Leading To Black Market Transactions

Due to the foreign exchange shortage, the Maldives Monetary Authority started rationing foreign exchange supplied to the banking system in 2009. As a result, a black market has emerged with a premium over the official exchange rates.

Maldives Stock Exchange

The Maldives Stock Exchange (MSE), which first opened in 2002 as a small securities trading floor, was licensed as a private stock exchange in 2008. The legislature passed a Securities Act in January 2006, and the Government created a Capital Market Development Authority (CMDA) to regulate the capital market. The MSE functions under the CMDA. At present, the only investment opportunity available to the public is a limited number of shares in the Bank of Maldives, four state-owned public companies, and a foreign insurance company. The market capitalization of all companies listed on the exchange was MVR 7.5 billion (\$480 million) at the end of 2012.

A leasing company, Maldives Finance Leasing Company (Pvt) Ltd (MFLC), was established in May 2002 as a collaborative venture between five domestic public and private sector entities and two international parties, including the World Bank's International Finance Corporation (IFC). The MFLC aims to address the demand for long-term equipment financing from all sectors of the economy.

The Housing Development Finance Corporation is a Government company designed to provide housing loans with long repayment terms at favorable interest rates.

10. Competition from State-Owned Enterprises

At the end of 2012, 69 companies were either fully or partly Government-owned. Major operational companies within the 69 include the State Trading Organization, Dhiraagu (a telecom provider), and Maldives Water and Sewerage Company. There are no laws that ensure a primary role for SOEs in any specific sectors.

SOEs operate under the Companies Act with little Government influence. The Government appoints the board members of SOEs in proportion to the GOM ownership in the SOEs, and hence political affiliation has mattered in certain cases. However, these Boards and SOEs do not report to line ministers. All companies with capital over Rf.1 million, whether public or private, must submit to an independent audit. The larger SOEs make their audit reports available to the public.

Currently, Maldives does not have a sovereign wealth fund. Given its fiscal situation, it is unlikely that such a fund may be established in the near-term.

11. Corporate Social Responsibility

There is limited but growing awareness of corporate social responsibility among the business elite. There are no non-governmental organizations that promote or monitor CSR in the country.

12. Political Violence

Maldives has a homogeneous society of one culture, one religion (Sunni Islam), and one language (Dhivehi). In 2008, Maldives held its first multi-party Presidential elections, following

a multi-year effort for constitutional reforms. President Nasheed took office in November 2008, but resigned in February 2012, amidst growing opposition. Although at the time the country saw violent demonstrations the week after Nasheed's resignation, subsequent demonstrations were relatively peaceful and infrequent.

On October 1, 2012, Afrasheem Ali, a Member of Parliament and vocal supporter of moderate Islam, was found stabbed to death in the stairwell of his apartment building. This was the first murder of a Maldivian official in recent history, although police investigations have not yet confirmed a political or religious motive behind the murder.

In June 2013, unknown assailants attacked local reporter and journalist Ismail Hilath Rasheed and slashed his throat. Rasheed survived and has since fled the country. Previously, he had been attacked in December 2011 by ten unknown men after he had organized a peaceful demonstration in support of religious tolerance in Male. He suffered a fractured skull in that incident. No arrests were made after either attack, which Rasheed alleges were arranged by religious extremists. The Ministry of Islamic Affairs, since November 2011, also continues to ban Rasheed's blog.

13. Corruption

Legal Framework and the Anti-Corruption Commission

The law on prevention and punishment of corruption (2000) defines bribery and improper pecuniary advantage and prescribes punishments. The law also outlines procedures for the confiscation of property and funds obtained through commission of the included offenses. Penalties range from 6 months to 10 years banishment, or jail terms. The Maldives acceded to the United Nations Convention against Corruption in March 2007, and under the new 2008 Constitution, an independent Anti-Corruption Commission was established in December 2008. The responsibilities of the Commission include inquiring into and investigating all allegations of corruption; recommending further inquiries and investigations by other investigatory bodies; and recommending prosecution of alleged offenses to the Prosecutor General, where warranted. The Anti-Corruption Commission is empowered to handle cases of corruption of members of parliament. It cannot, however, investigate corruption in the private sector. The Commission also cites limitations in the 2000 Anti-Corruption Act that restrict its investigative and enforcement powers. Corruption is seen to be most prevalent in government procurement.

Corruption Allegations in the Tourism Industry

Tourism is the largest industry in the Maldives, and local contacts confirm that resort owners and tourism operators control all aspects of the Maldivian economy. All the government treasury bills, when opened to the private sector in August 2012, were purchased by one prominent resort owner; transportation networks between the widely-scattered islands are controlled by two groups of resort owners; and a resort owner and wealthy businessman also sits on the JSC, which appoints and oversees the appointment of judges. A number of prominent resort owners are in the Parliament, and a few have served as Ministers in all administrations. Nepotism and cronyism are also hallmarks in all areas, from the Judiciary, and the Executive to the private sector.

OECD Ant bribery Convention

The Maldives is not a party to the OECD Convention.

UN Convention

The UN Anticorruption Convention entered into force on December 14, 2005. The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The Maldives is a party to the UN Convention.

14. Bilateral Investment Agreements

The United States has not signed a bilateral investment or a double tax avoidance treaty with the Maldives. In 2009, the United States signed a Trade and Investment Framework Agreement (TIFA) with Maldives for the two countries to examine ways to enhance bilateral trade and investment.

Bilateral Taxation Treaties

Maldives currently does not have personal income taxes, although bank profits and business profits are taxed. In addition, a goods and services tax on the tourism sector, and a general goods and services tax came into effect in 2011.

Maldives has signed only one double taxation avoidance treaty which is a limited multilateral agreement between members of the South Asian Association for Regional Cooperation (SAARC) for avoidance of double taxation and mutual assistance in tax matters. The agreement was signed on 13 November 2005. Maldives is negotiating an agreement for exchange of information relating to tax matters with India.

Under the Business Profit Tax Act of 2011, a non-resident owner or charterer of a ship or aircraft may be exempt from the tax if the Commissioner General of Taxation of Maldives is satisfied that a reciprocal treatment for business profit tax or any other similar tax is granted by the taxpayer's country of residence to a Maldivian-resident taxpayer.

15. OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) began operations in Maldives in 2011, but no projects have yet been identified. Maldives became the 165th member of the Multilateral Investment Guarantee Agency of the World Bank Group, on May 20, 2005.

16. Labor

Skilled and unskilled labor is scarce, and expatriate labor is allowed into Maldives to meet shortages. The Department of Immigration and Emigration (DIE) reported 111,579 registered expatriate workers in the country, mostly in tourism, construction, and personal services. There were also a reported 40,000 to 50,000 unregistered expatriate migrant workers. Expatriate labor is of equal cost or more expensive than local labor. Even when salaries are set lower, travel and other benefits typically make it more expensive overall to hire expatriates. However expatriate labor is still necessary; Young Maldivians from higher income families often travel abroad for education and expect higher salaries when they return to the Maldives.

Notwithstanding the labor shortage, unemployment in the Maldives is also high, as many youth leaving lower secondary school have few in-country avenues to pursue higher secondary education. The net enrollment rate for lower secondary education is 83.6% while the net enrollment rate for higher secondary is at 17%, leaving a large contingent of youth idle. Although resorts may offer employment opportunities, locals are less likely to take advantage of these jobs as the Maldivian resort structure requires employees to live and work on the island for long stretches of time, away from family. Religious and cultural reasons may also prevent youths from seeking employment on islands where alcohol is served.

Legal Framework

The laws covering labor were overhauled in 2008 with the enactment of the 2008 Maldives Constitution, the new Employment Act, and a subsequent amendment to the Employment Act. For the first time, the Constitution recognizes workers' right to strike and establish trade unions. Maldives plans to enact a separate trade union law providing rules for formation of trade unions and collective bargaining. Maldives also needs to enact regulations further defining the right to association.

The Employment Act provides for the establishment of a minimum wage, maximum hours of work, overtime, annual and sick leave, maternity leave, and work place safety. The Employment Act created a 48-hour/week with a compulsory 24-hour break after six days of continuous work. Resort workers may accumulate the weekly rest day. Overtime is available. Workers in tourist resorts may work an additional two hours a day and are paid a higher overtime rate. Employees are usually authorized 30 days of annual leave, 30 days of medical leave, 65 days of maternity leave, and 10 days of special annual leave to "attend important obligations." Either parent of a newborn child is entitled to one year's unpaid annual leave after the expiry of the maternity leave period. Employers are also required to provide a safe workplace. The law provides for agreements between the employer and the employee to guarantee the rights specified in the law.

In August 2011, Maldives published a strike regulation under the Employment Act. The regulation requires employees to negotiate with the employer first, and if this is unsuccessful, then the employees must file advance notice prior to a strike. There are six employees' associations, and collective bargaining involving employees' associations in the tourism sector began within days of the new constitution taking effect. Labor disputes arose in some resorts when employees' associations presented demands for wage increases and improvements in the conditions of work and stopped work.

Traditionally, wages in the private sector have been set by a contract between employers and employees and were based on rates for similar work in the public sector. The new employment law established a Pay Advisory Board to advise the Minister of Human Resources, Youth, and Employment on setting a minimum wage for the country.

The Employment Act granted workers the right to compensation if fired without cause. The Government has established a Labor Relations Authority to implement the new employment law. The law requires the Ministry of Human Resources to issue specific rules for employment of foreign workers. The Labor Relations Authority has also been established to check for workplace safety and health compliance. The Employment Act also makes provision for an Employment Tribunal, with the mandate of adjudicating employment matters.

The Employment Act does not cover emergency workers, air and sea crews, executive staff of any company and persons on on-call duty.

Membership in International Labor Organizations and Adherence to Labor Conventions

In December 2008, following the enactment of the new Employment Act, Maldives became a member of the International Labor Organization. In December 2009, the United States restored tariff preferences under the U.S. Generalized System of Preferences (GSP). The GSP facility to the Maldives was suspended in 1995 because Maldives did not have a mechanism to afford internationally recognized worker rights. Maldives is also eligible for Overseas Private Investment Credits (OPIC).

On January 6, 2013, the Maldives ratified the following core ILO Conventions: Convention 29 – Forced Labor (1930); Convention 87 – Freedom of Association and Protection of the Right to Organized Convention (1948); Convention 98 – Right to Organize and Collective Bargaining (1949); Convention 100 – Equal Remuneration (1951); Convention 105 – Abolition of Forced Labor (1957); Convention 111 – Discrimination (Employment and Occupation) (1958); Convention 138 – Minimum Age (1973); and Convention 182 – Worst Forms of Child Labor (1999).

17. Foreign Trade Zones and Free Ports

Section not provided.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Maldives Monetary Authority		USG or international statistical source		USG or international Source of data
Economic Data	Year	Amount	Year	Amount	
Gross Domestic Product (GDP) (Millions U.S. Dollars)	2013	\$2,291	2012 2013	\$2,222 \$2,276	http://www.worldbank.org/en/country http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx
Per capita income (U.S. Dollars)	2013	\$5,274	2013	\$6,764	http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx

Population	2013	336,000	2012	338,400	http://www.worldbank.org/en/country
Tourist Arrivals	2013	1,125,000	2012	Not available	
Exports (Millions U.S. Dollars)	2013	\$388	2012 (proj)	\$204	http://www.worldbank.org/en/country
Imports (Millions U.S. Dollars)	2013	\$2,022	2012 (proj)	\$1,291	http://www.worldbank.org/en/country
External Debt (Millions U.S. Dollars)	2013	\$800	2012	Not available	
Current Account (Millions U.S. Dollars)	2013	\$562	2013	\$469	http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source	USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other	
U.S. FDI in Maldives (Millions U.S. Dollars, stock positions)	2013	Not Available	2012	\$1	BEA

Maldives FDI in the United States (Millions U.S. Dollars, stock positions)	2013	Not Available	2012	0	BEA
Total inbound stock of FDI as % Maldives GDP	2013	Not Available	2012	-	

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

Islamic religious legal system with English common law influences, primarily in commercial matters

International organization participation:

ADB, AOSIS, C, CP, FAO, G-77, IBRD, ICAO, ICC (NGOs), IDA, IDB, IFAD, IFC, IFRC, ILO, IMF, IMO, Interpol, IOC, IOM, IPU, ITU, MIGA, NAM, OIC, OPCW, SAARC, SACEP, UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

There is no exchange control legislation in Maldives

Treaty and non-treaty withholding tax rates

For further information - www.mira.gov.mv/Tax_Treaties.aspx

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

DISCLAIMER

Part of this report contains material sourced from third party websites. This material could include technical inaccuracies or typographical errors. The materials in this report are provided "as is" and without warranties of any kind either expressed or implied, to the fullest extent permissible pursuant to applicable law. Neither are any warranties or representations made regarding the use of or the result of the use of the material in the report in terms of their correctness, accuracy, reliability, or otherwise. Materials in this report do not constitute financial or other professional advice.

We disclaim any responsibility for the content available on any other site reached by links to or from the website.

RESTRICTION OF LIABILITY

Although full endeavours are made to ensure that the material in this report is correct, no liability will be accepted for any damages or injury caused by, including but not limited to, inaccuracies or typographical errors within the material, Neither will liability be accepted for any damages or injury, including but not limited to, special or consequential damages that result from the use of, or the inability to use, the materials in this report. Total liability to you for all losses, damages, and causes of action (in contract, tort (including without limitation, negligence), or otherwise) will not be greater than the amount you paid for the report.

RESTRICTIONS ON USE

All Country Reports accessed and/or downloaded and/or printed from the website may not be distributed, republished, uploaded, posted, or transmitted in any way outside of your organization, without our prior consent. Restrictions in force by the websites of source information will also apply.

We prohibit caching and the framing of any Content available on the website without prior written consent.

Any questions or queries should be addressed to: -

Gary Youinou

Via our [Contact Page](#) at KnowYourCountry.com