

The Maldives

RISK & COMPLIANCE REPORT

DATE: March 2018

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.

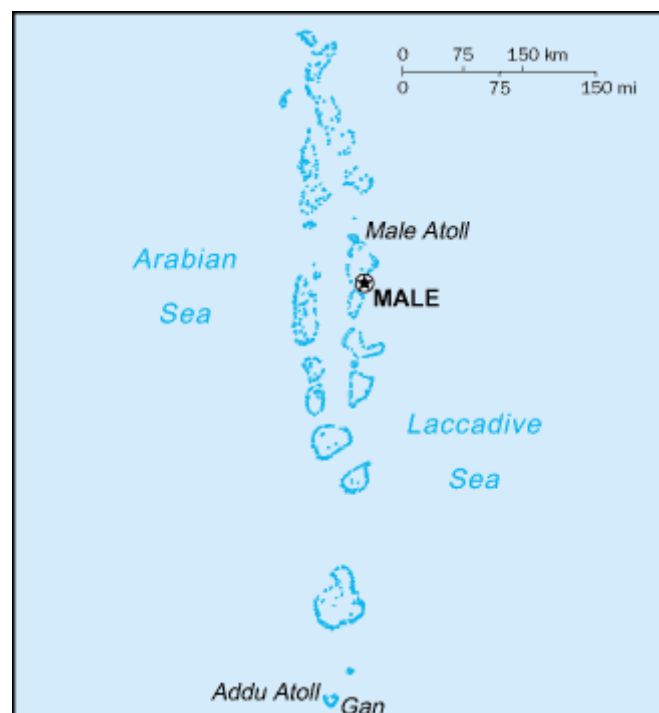
The Ministry of Economic Development encourages investment projects that: (1) establish and enhance the delivery of basic services required to be provided by the State; (2) promote economic diversification and demonstrate potential to structurally reduce the country's current dependence on the tourism 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.

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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 2016 (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 130,000 and 60,000 documented and undocumented foreign workers in Maldives, respectively—primarily Bangladeshi and Indian men in the construction and service sectors—experience indicators of forced labor, including fraudulent recruitment, confiscation of identity and travel documents, withholding or non-payment of wages, and debt bondage. Migrant workers pay approximately \$400 to \$4,000 in recruitment fees to work in Maldives, contributing to their risk of debt bondage upon arrival. In addition to Bangladeshis and Indians, some workers 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. NGOs allege officials may warn businesses in advance of planned raids for suspected trafficking offenses or other labor abuses and be involved in labor recruiting practices that can lead to trafficking. A small number of women from Asia, Eastern Europe, and former Soviet countries, as well as girls from Bangladesh and Maldives, are subjected to sex trafficking in Maldives. Maldivian children are transported to the capital, Male, 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 meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government launched its national action plan, a training curriculum on trafficking for new immigration officials, and a reporting hotline. Despite these measures, the government did not demonstrate overall increasing anti-trafficking efforts compared to the previous reporting period; therefore, Maldives is placed on Tier 2 Watch List for the second consecutive year. The government did not initiate any new prosecutions; police stated they lacked training on evidence gathering. Victim protection was inadequate and inconsistent—victims lacked regular access to medical and psycho-social support. At the end of the reporting period, the government formally adopted victim identification guidelines but had not yet adopted standard operating procedures (SOPs) for victim identification, protection, and referral, thereby preventing proactive identification of victims.

US State Dept Terrorism Report 2016

Overview: Since 2010, concerns about the activities of a small number of 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 terrorist groups. According to reporting in the Maldivian media, radical Maldivians have made connections to terrorist groups throughout the world and a small but steady stream of Maldivians have left the country to train and fight with these groups. In June, Defense Minister Adam Shareef Umar told the press approximately 50 radicalized Maldivians were fighting with terrorist organizations in Syria. The United Nations and other media reports estimated the number of Maldivians becoming foreign terrorist fighters at approximately 200. In February 2016, a family of 12 that had allegedly gone missing in India was confirmed to be in Syria.

The prosecutor general's office reported three cases of arrests for participating in a war abroad. In February, authorities arrested three Maldivian men at the Turkey-Syria border and returned them to Maldives, where they were charged with attempting to travel to Syria to fight with terrorist groups. No action was taken against a fourth man who failed in his attempt to travel to Syria. In June, Maldivian authorities said three Maldivians traveled to Syria despite having been placed on a government watchlist. Another case submitted in December is against a man who was arrested and charged with participating in a war in Pakistan. These incidents illustrated the continuing pattern of Maldivian nationals having the intent of becoming foreign terrorist fighters transiting through third countries.

Legislation, Law Enforcement, and Border Security: The 2015 Prevention of Terrorism Act (PTA) 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 PTA's other provisions criminalized committing terrorist acts or joining or fighting in a conflict abroad; 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 transpired or may occur." A monitoring and control order permitted 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/her telecommunications; and impose a travel ban. The PTA had originally required the president to publicly release a list of designated terrorist groups, but the parliament amended the provision in March to allow the list to remain secret. The government continued to use the PTA to arrest and prosecute political opponents and restrict political and media activity unrelated to terrorism.

Maldives continued to participate in the Department of State's Antiterrorism Assistance program, which provided trainings on fraudulent document recognition, protecting soft targets, and airport security management. Numerous other western countries provided training in a variety of aspects of police work related to counterterrorism, including a table top exercise on soft targets. The leadership of the Maldivian Police Service (MPS) recognized the need for improvement and made requests for assistance to bring its abilities up to international standards.

Maldives established a National Counterterrorism Center (NCTC) in 2016 with the mandate to coordinate interagency efforts on counterterrorism and to liaise with international security partners. The NCTC was led by the Maldivian National Defense Force (MNDF) with participation from the MPS, customs and border protection, immigration, and other agencies. Responsibility for counterterrorism efforts was divided among the MPS and MNDF, the latter of which has navy, marines, and coast guard branches. In 2016, information sharing among the agencies was limited.

The Maldivian government has installed the Personal Identification Secure Comparison and Evaluation System (PISCES) at Maldives' main international airport and at Male seaport, and in December agreed to an upgrade of the system. In an effort to stem the number of Maldivians traveling to Iraq and Syria to join terrorist groups, the MPS began randomly questioning Maldivian citizens traveling by air to Turkey.

Maldivian officials worked with U.S. government personnel to develop and implement programs designed to counter radicalization, improve counterterrorism capability, and enhance the operational effectiveness of the MNDF.

The prosecutor general's office reported approximately 21 people were charged in 2016 under the Counterterrorism Act.

Countering the Financing of Terrorism: Maldives is a member of the Asia/Pacific Group on Money Laundering, a Financial Action Task Force (FATF)-style regional body. In 2016, the Maldives Monetary Authority (MMA), the country's central bank, suspected that funds were being raised domestically to support terrorism abroad since a large percentage of suspicious transaction reports received by the MMA were connected to Maldivian citizens. It reported that funds were transferred through informal money transfer networks (*hawala*) between the islands, although the extent to which these systems were employed to transfer illicit funds was unclear. The MMA also lacked reliable information regarding amounts involved.

In June, Maldives passed the Prevention of Money Laundering and Terrorist Financing Act, which criminalized money laundering and terrorist financing. Maldives prosecuted no cases under the Act in 2016, but the Maldivian prosecutor general's office was confident the law would enable police and prosecutors to better identify links between suspected terrorists and their finance networks based upon the very wide investigatory powers authorized by the Act.

The Maldivian government monitored banks, the insurance sector, money remittance institutions and finance companies, and required the collection of data for wire transfers. Financial institutions other than banks and intermediaries in the securities sector, however, were not subject to 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 operated outside of the AML/CFT framework. The MMA had earlier established a financial intelligence unit, the Capital Market Development Authority, which lacked the technical capacity to analyze vast amounts of new data on financial transactions. In 2016, a former manager at the Bank of Maldives presented evidence that indicated state institutions were allegedly being used in money laundering.

The Maldivian government implemented the UN Security Council ISIL (Da'esh) and al-Qa'ida sanctions regime, and monitored and regulated alternative remittance services. The Maldivian government did not report any efforts to seize terrorist assets in 2016.

International Sanctions

None Applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	33
World Governance Indicator – Control of Corruption	29

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

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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

Maldives has rapidly grown into a middle-income country, driven by tourism development. In 2015, the economy's growth slowed to 4.8%, mainly due to lower tourism sector growth as tourist arrivals from China declined. However, the slowdown is expected to reverse in 2016. Tourism, construction, transport, and the communications sector accounted for 50% of the output on average. Tourism-related tax receipts increased by 13% in 2015 due to higher tax rates. This increase in dollar tax receipts directly led to higher usable reserves in 2015. The current account deficit widened to \$400 million in 2015 due to increases in construction related imports. A large and growing fiscal deficit remains an ongoing economic challenge.

In July 2015, Maldives' Parliament passed a constitutional amendment legalizing foreign ownership of land; foreign land-buyers must reclaim at least 70% of the desired land from the ocean and invest at least \$1 billion in a construction project approved by Parliament.

Diversifying the economy beyond tourism and fishing, reforming public finance, increasing employment opportunities, and combating corruption, cronyism, and a growing drug problem are 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:

Thailand 18%, France 12.1%, Germany 10.7%, US 9.6%, Italy 6.8%, UK 6.4%, Sri Lanka 5.9%, Japan 4.6% (2015)

Imports - commodities:

petroleum products, clothing, intermediate and capital goods

Imports - partners:

UAE 18.4%, Singapore 13.8%, China 10.6%, India 10.4%, Malaysia 7%, Sri Lanka 5.6%, Thailand 5% (2015)

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 sq. km in the Indian Ocean. Maldives attracts over 1.2 million tourists annually. Tourism is the growth engine for the economy and accounts for approximately 70 percent of gross domestic product (GDP). The tourism sector's contribution to the economy is split between direct (30 percent) and indirect (70 percent) via transportation, communication, and construction sectors. Tourism will likely continue to drive the economy with the government of Maldives promoting the construction of new island resorts.

Maldives is a multi-party constitutional democracy, but the transition to democracy has been a challenge. Parliament ratified a new constitution in 2008 that provided 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. The current president, Abdulla Yameen Abdul Gayoom, was elected in 2013, and his administration has turned increasingly autocratic. In March 2015, former President Nasheed was jailed for a 13-year term on contentious terrorism charges. The former defense minister and several other political dissidents have been imprisoned as well, and the Maldives Bar Association has been dissolved.

Total GDP is approximately USD 3 billion. GDP growth averaged six percent during the past decade and has helped lift Maldives to middle income country status. However, in 2015 the GDP growth rate slowed to 1.5 percent according to the World Bank. (Maldives government claims a 2015 growth rate of 4.8 percent; however, the government has not provided documentation on its methodology for determining this rate.) Tourism contracted as the growth in tourist visits fell and average stays decreased. Per capita GDP, estimated at over USD 8,000, is the highest in South Asia. However, there is significant income disparity as many Maldivians do not benefit from the revenue generated by the tourism industry and have few job opportunities.

The World Bank projects economic growth will rise to 3.5 percent in 2016, but Maldives faces significant fiscal problems. Public debt remains very high and the International Monetary Fund (IMF) has recommended Maldives undertake fiscal consolidation through expenditure control. In 2010, the IMF withheld a loan facility due to Maldives' failure to take sufficient steps to reduce the deficit. According to the Maldives Monetary Authority (MMA), the external current account deficit widened to about USD 400 million in 2015, or 13 percent of GDP. The IMF says tourism revenues may be underreported, suggesting the current account deficit may be overstated.

Maldives welcomes foreign investment, although the ambiguity of codified law acts as a deterrent. Historically, Maldives has been 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. Companies report that foreign exchange shortages are affecting business, but the black market premium has narrowed due to an increased supply of foreign exchange.

Maldives became a member of the International Labor Organization in 2009. The U.S. government restored GSP trade status in December 2009 after Maldives passed the Employment Act. This law provides for the right of workers to form and join independent unions, but does not protect against anti-union discrimination. The Freedom of Peaceful Assembly Act effectively prohibits strikes by workers in the resort sector, the country's largest source of foreign currency. The government of Maldives has threatened to revoke visas of Bangladeshi workers if they protested. Bangladeshis work throughout the tourism sector and in private business.

There is limited foreign portfolio investment other than holdings of hotel brands operating in Maldives. The Special Economic Zones Act, enacted in 2014 with the goal of facilitating strategic development projects, has yet to bring in any major investment. In May 2015, the Maldives Ministry of Tourism announced plans to build Chinese-friendly hotels and resorts in Maldives to cater to increasing tourist arrivals from China. One such project authorizes leasing the island of Kalhufahalufushi in Thaa Atoll for resort development to the China Machinery Engineering Corporation (CMEC). This global engineering contractor is set to become the first Chinese company to invest in Maldives. The number of Chinese tourists visiting Maldives more than tripled from about 100,000 in 2010 to a total of 359, 514 arrivals in 2015. Chinese tourists accounted for nearly one-third of arrivals with a 30 percent market share, representing the single biggest source of tourists to Maldives.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Maldives began opening up to foreign investment in the late 1980s and currently pursues an open policy for foreign investments, although the weak and in some cases arcane system of laws and regulations discourage investment.

Foreign investments in Maldives have primarily involved resort management, but also include telecommunications, accounting, banking, insurance, air transport, courier services, and some manufacturing. In October 2015, the government of Maldives held the second annual investor forum in Beijing, China and invited foreign investors to invest in the Maldivian banking and financial sector, renewable energy, real estate, logistics, transport, healthcare, education, and construction. In 2014, the government enacted a Special Economic Zones law to facilitate foreign investment projects of strategic significance.

There are no country specific restrictions on foreign investment and Maldives allows foreign investment in all major sectors apart from the following areas, which are restricted for locals only:

- i) Wholesaling of goods
- ii) Photography and related activities
- iii) Souvenir trading and related business (wholesale and retail trade)
- iv) Inter-island passenger transfer services by sea (Foreign investors can engage in this area with 51 percent local shareholding.)
- v) Water sports and related activities (Foreign investors can engage in this area with 51 percent local shareholding)
- vi) Operation of bonded warehouses in the customs area.

- vii) Fishing within the Exclusive Economic Zone (EEZ) of Maldives
- viii) Purchasing, processing and export of Skipjack Tuna

Other Investment Policy Reviews

The most recent World Trade Organization trade policy review was conducted in March 2016: https://www.wto.org/english/tratop_e/tp_e/tp432_e.htm . In the past three years, the government of Maldives has not conducted any trade policy reviews through any other international organizations.

Laws/Regulations of Foreign Direct Investment

There are two regimes under which a foreign party can invest in the Maldives: 1) through the normal regime governed under the Foreign Investment Law; and 2) the Special Economic Zones regime governed by the Special Economic Zones (SEZ) Act. The Ministry of Economic Development published a Doing Business in the Maldives Guide in 2015 which contains details: <http://www.trade.gov.mv/dms/161/1453198480.pdf>

The Ministry of Economic Development (www.trade.gov.mv) is tasked with promoting and regulating foreign investments in all sectors, except for the tourism sector and special economic zones. The Ministry of Tourism (www.tourism.gov.mv) is in charge of setting policy and developing the tourism sector, while the Maldives Marketing and Public Relations Corporation (www.visitmaldives.com) promotes Maldives as a destination. The Ministry of Economic Development reviews all proposed investments prior to granting registration. Certain business sectors require sector level operating licenses from other ministries/agencies, including fisheries and agriculture, banking and finance, health, tourism, transport, construction, and education. Foreign investments within the tourism sector – such as resorts – are registered with the Ministry of Tourism. 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).

Foreign investment in Maldives is governed by Law No. 25/79, covering 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. The Business Registration Act (18/2014) requires every person conducting business in Maldives to register the business as a company, partnership, cooperative society or sole proprietor (the latter two are restricted to Maldivians only). The Companies Act (10/96) governs the registration as well as the regulatory and operational requirements for public and private companies. The Partnership Act of 2011 governs the formation and regulation of partnerships. Foreign investments are currently approved for an initial period of five years with an option to renew.

The Ministry of Economic Development offers one-stop services to investors. Incentives include import duty concessions, 100 percent foreign ownership (other than the restricted sectors listed above), and no restrictions on repatriation of earnings or profits. All investors – local and foreign – are required to pay 15 percent of profits in accordance with the Business Profit Tax, effective since July 2011. Maldives currently does not have personal income taxes. In addition, a Goods and Services Tax (GST) on the tourism sector and a general GST on all goods and services supplied in Maldives came into effect in 2011. The tourism GST rose to 12

percent from November 2014 onwards, whereas the general GST has remained at six percent since its imposition in 2011. International arbitration is available for dispute settlement.

The Special Economic Zones (SEZ) Act of 2014 aims to facilitate strategic development projects needed for the country, and was designed by the government to achieve its economic development agenda. The Act provides for the creation and management of special economic zones in Maldives and investments in those zones, with incentives granted to the developers and investors operating in the zones. The minimum investment for a SEZ project stands at USD 150 million and the application fee is USD 25,000. Investors are also required to provide a USD 1 million bank guarantee. The SEZ board has the powers to freeze potential investors' local assets if the permit is terminated and the investor has any outstanding debt.

A July 2015 amendment removed the constitutional restriction on foreign freehold land ownership. Foreign parties willing to invest USD 1 billion in connection with large scale development projects can now own land in Maldives, provided 70 percent of the land is reclaimed.

The Maldivian judiciary is not completely independent and impartial and is subject to executive branch influence. There are numerous allegations of judicial impropriety and abuse of power. The Office of the High Commissioner for Human Rights in 2015 stated the judicial system was perceived as politicized, inadequate, and subject to external influence. Many judges, appointed for life, hold only a certificate in Sharia law, not a law degree from an institution of higher education. An estimated quarter of the judges have criminal records, according to the Department of State's Human Rights Report on Maldives of 2014. The media, human rights organizations, and NGOs have repeatedly criticized the Judicial Service Commission for appointing unqualified judges.

Industrial Promotion

Maldives plans to develop special economic zones to promote off-port shipping services, the information technology (IT) sector, and financial services, with the passage of the SEZ Act (2014).

In addition, the following industries offer potential for foreign investors:

Tourism

Transportation and shipping

Renewable energy

Since 2014, the government of Maldives has held annual Investment Forums to showcase priority investment areas of the government and private sector. Information is also disseminated through the website of the Ministry of Economic Development (www.trade.gov.mv) and through public announcements calling for expressions of interest for specific projects.

Limits on Foreign Control

Maldives allows foreign parties to register companies and partnerships but does not allow foreign parties to register cooperative societies or as a sole proprietor. Foreign investment is

allowed in all major sectors of the economy apart from the following areas, which are restricted for locals only:

- i) Wholesaling of goods
- ii) Photography and related activities
- iii) Souvenir trading and related business (wholesale and retail trade)
- iv) Inter-island passenger transfer services by sea (Foreign investors can engage in this areas with 51 percent local shareholding.)
- v) Water sports and related activities (Foreign investors can engage in this area with 51 percent local shareholding)
- vi) Operation of bonded warehouses in the customs area.
- vii) Fishing within the Exclusive Economic Zone (EEZ) of Maldives
- viii) Purchasing, processing and export of Skipjack Tuna

There is little private ownership of land. Citizens can hold title to land. A prohibition on foreign ownership of any land ended in July 2015 when Parliament passed and the president ratified a constitutional amendment allowing foreigners who invest at least USD 1 billion to own land and islands, provided at least 70 percent of the land is reclaimed. Until the constitutional amendment, there were no property and real estate laws or a mechanism to allow foreign persons to hold title to land. As a result, Maldives ranked 169 on the ease of registering property in the World Bank's 2015 Ease of Doing Business Report.

An amendment to the Tourism Act passed in 2010 allows investors to lease an island for 50 years in general. In April 2014, Parliament approved a law to allow the extension of resort leases up to 99 years for a payment of USD 5 million. The changes aim to incentivize investors, make it easier to obtain financing from international institutions, and increase revenue for the government. 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.

Privatization Program

A new Privatization Act was introduced in January 2013, and governs all 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. However, there are no privatization programs being implemented at present.

Screening of FDI

The Ministry of Economic Development screens and internally reviews 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 opinions of the related sector participants are also sought. Each case is reviewed based on its merits and other factors, including the number of existing investors in the area, and the employment and technology transfer potential demonstrated. The Ministry

of Economic Development makes the final decision. This has been a fairly transparent process to date.

Below is a step-by-step procedure of approval of foreign investments:

Step 1: File Foreign Investment Application form with the Ministry of Economic Development

- Foreign Investment Application Form is available from the Ministry's website: www.trade.gov.mv.
- Walk-in meetings are available for all foreign investors who may wish to discuss their proposal prior to submitting an application.

Step 2: Obtain approval

- Approval will be granted for the requested proposal in consultation with relevant government stakeholders and in accordance with the criteria specified in the Business Registration Act.
- The standard processing time is three working days, however, in cases where relevant line ministries need to review the applications further, it may take 10-14 days for a decision on the application.

Step 3: Designate Business Type

- Once approval is received for the foreign investment application request, the investor must state the type of business to be registered. The options available include company, partnership, or a company which has been duly incorporated in another jurisdiction.
- Application forms for registering as a legal business entity are available from the Ministry's website.

Step 4: Sign the Foreign Investment Agreement

- Upon registering as a business, a Foreign Investment Agreement (FIA) must be signed with the Ministry of Economic Development. This Agreement outlines all the terms and conditions for carrying out the specific business. For tourism sector investments an FIA need not be signed. In such instances, the land lease agreement signed with the Ministry of Tourism governs all matters relating to carrying out business in Maldives.

Step 5: Obtain licenses and permits

- Depending on the type of business activity planned, an operating license or permit may need to be obtained to start operations. Sectors which require operating licenses include, fisheries and agriculture, banking and finance, health, tourism, transport, construction, and education.

Competition Law

Maldives does not have a competition law and there is currently no legal mechanism to review transactions for competition-related complaints.

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 Maldives; (8) promote the use of renewable energy in Maldives; and (9) promote incremental social and economic benefits from the available natural resources.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	Not ranked	transparency.org/cpi2014/results
Heritage Foundation's Economic Freedom index	2015	134 of 178	heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2015	116 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	N/A	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 5,600	data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

Maldives moved to a managed currency float in April 2011. The exchange rate is set at a 20 percent range around the previously fixed MVR 12.85 exchange rate, 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. 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 through 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.

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 Malé.

Gross foreign reserves at the end of December 2015 were USD 564 million, compared with USD 600 million in 2014, and were sufficient to finance approximately 3 months of imports.

Remittance Policies

In early 2015, the IMF reported banks in Maldives faced difficulties accessing correspondent banking services as overseas banks reassessed their business models; this has made it difficult to obtain letters of credit and process remittances. Repatriation of funds and profits are allowed after local debts are settled.

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, 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 upon manner. The Act also requires Maldivian nationals to be employed, except in cases where the employment of foreigners is a necessity. This, however, is not strictly enforced in practice.

Both the former Waheed government and the current government canceled or re-opened provisions of at least two foreign development agreements approved by previous governments, raising concerns about contract enforcement. In December 2012, the Maldivian government took over operation of the Malé International Airport from GMR Malé International Airport Private Limited (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, some consider the government's move tantamount to expropriation. In April 2014, the Yameen government said it would compensate GMR appropriately, although it is not known how much will be paid or when. In June 2014, a Maldives tribunal directed the government of Maldives and the state-owned Maldives Airports Company (MACL) to pay USD 4 million in damages to GMR. In addition, GMR demanded a compensation of USD 800 million for losses incurred in developing the airport. The USD 800 million sought by GMR for the termination exceeds the annual government budget and would substantially increase the national debt. In addition, at least one resort developer has been told that the terms of its signed agreement will not be respected.

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 Maldives has a Contract Law (Law No. 4/91) which codifies English

common law practices on contracts. The Civil Court has jurisdiction over commercial cases. The Employment Tribunal is mandated to hear claims of unfair labor practices. A bill proposing the establishment of a Mercantile Court has been pending in parliament since 2013. The Judicial Services Commission (JSC) is responsible for nominating, dismissing, and examining the conduct of all judges.

Lack of Judicial Independence, 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: 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. An independent Employment Tribunal is mandated to hear claims of unfair labor practices. There are no jury trials. 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. The Maldivian judiciary is not completely independent and impartial and is subject to executive branch influence. There are numerous allegations of judicial impropriety and abuse of power. The Office of the High Commissioner for Human Rights in 2015 stated the judicial system is perceived as politicized, inadequate, and subject to external influence. The media, human rights organizations and NGOs have repeatedly criticized the JSC for appointing unqualified judges.

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. Section 40 of the Arbitration Act (No.: 10/2013) allows for the recognition and enforcement of foreign arbitral awards. However, judgments of foreign courts cannot be directly enforced through Maldivian courts. Judgments of foreign courts must be submitted as a new action and established as a judgment by the local courts before it can be enforced. The legal system does not discriminate between foreign or local investments in terms of the resolution of disputes. Most of the problems that arise are due to inadequate laws. Several areas of reform have been identified by successive governments and the Attorney General's Office (AGO) has published a five-year legislative agenda for the period between 2013-2018 identifying key pieces of legislation to be amended or introduced. The legislative agenda has however been criticized as being too ambitious and the AGO is in the process of making it more practical. Maldives is not a member of the International Center for the Settlement of Investment Disputes (ICSID).

Bankruptcy

The Maldives does not have a bankruptcy law although corporate insolvencies are dealt with under the Companies Act. Debtors and creditors may file only for liquidation, whereby contracts may not continue under any circumstance. There is no priority assigned to

creditors, and there is very limited legal framework to protect creditors after commencement of insolvency.

Investment Disputes

GMR: For information on the GMR case, please see the Expropriation and Compensation section.

In 2014, the Yameen government also terminated a Malé waste management project signed between the Nasheed government and India-based Tatva Global Renewable Energy, citing preference for a state-owned waste management facility.

A housing development project signed between the Nasheed government and India-based Tata Housing Development Company in 2010 stalled for two years under the Waheed and Yameen administrations over contract disputes. Amended agreements were signed in 2014.

In 2015, the government terminated a 2010 35-year Concession Agreement with Global Project Developments (GPD), a subsidiary of the UK company Capital Investment and Finance Ltd, to reclaim and develop Gulhi Falhu as a Global Green City, citing failure to pay concession fees. GPD claims the government failed to honor terms of the concession agreement and has publicly challenged the validity of the termination.

International Arbitration

An Arbitration Act was passed in 2013 and provides for implementation of international arbitral awards. With significant arbitration pending on the GMR airport contract, it remains to be seen if Maldives will comply with international arbitration determinations.

ICSID Convention and New York Convention

Maldives is not a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States, and is not a Contracting State under the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards, although the Attorney General's Office reported it was currently working on documentation required to become a party to both conventions.

Duration of Dispute Resolution

Dispute resolution for significant investments can take years, and it can be a challenge to collect payment for any damages from the government or from Maldivian companies. The Maldivian judicial system is subject to political pressure, and local arbitration is not recommended.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Maldives became an original member of the WTO on May 31, 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 services to investors and incentives include import duty concessions, 100 percent foreign ownership, and no restrictions on repatriation of earnings or profits. Investments allowed under the SEZ framework are provided flexibility regarding the use of foreign employment and exempted from business profit tax, goods and services tax, withholding taxes and from taxes in sale and purchase of land. The SEZ framework also allows for the option of freehold land to registered companies with at least 50 percent local shareholding. Specific durations for tax exemptions depend on the business and scale of proposed investment. For foreign investments outside of the SEZ framework, the government also has the discretion to offer incentives such as exemption from import duty based on the size and scope of the investment.

Research and Development

Private research and development programs must obtain permission from the relevant line ministry of the government. There are limited opportunities for private sector firms to participate in government-financed research and development programs.

Performance Requirements

In tourist resorts, Maldives requires a minimum of 50 percent employment from the local workforce, but this is not strictly enforced in practice. All foreign workers in Maldives must obtain an Employment Approval from the Foreign Employment Division of Maldives Immigration in addition to a work visa. The process for work permit approval typically takes less than a week, and employers must file the application on behalf of foreign employees within 15 days of the employee's arrival in Maldives. There is no discrimination among domestic and foreign investors in granting investment incentives or performance requirements.

Data Storage

Maldives does not require foreign IT providers to turn over source code, and there is no requirement to turn over encryption keys. There is no minimum domestic content in goods or technology.

6. 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. Rights in real estate are governed by the Land Act, the Uninhabited Islands Act (20/98), the Tourism Act (2/99) and Chapter 15 of the Constitution. Foreign parties can acquire ownership of land through Chapter 15 of the constitution and can lease land for periods no longer than 99 years for business activity under the remaining regimes.

There is little private ownership of land. Citizens can hold title to land. A prohibition on foreign ownership of any land ended in July 2015 when Parliament passed and the president ratified a constitutional amendment allowing foreigners who invest at least USD 1 billion to own land and islands, provided at least 70 percent of the land is reclaimed. Until the constitutional amendment, there were no property and real estate laws or a mechanism to allow foreign

persons to hold title to land. As a result, Maldives ranked 169 on the ease of registering property in the World Bank's 2015 Ease of Doing Business Report.

An amendment to the Tourism Act passed in 2010 allows investors to lease an island for 50 years in general. In April 2014, Parliament approved a law to allow the extension of resort leases up to 99 years for a payment of USD 5 million. The changes aim to incentivize investors, make it easier to obtain financing from international institutions, and increase revenue for the government. 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.

Intellectual Property Rights

The only means of protecting intellectual property by law in Maldives is through the copyright process. Maldives is a signatory to the WTO Agreement on Trade Related aspects of Intellectual Property Rights (IPR). The Parliament passed a copyright law in October 2010 that came into effect in April 2011. 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 television and radio appearances, government announcements, school events, and meetings with relevant media and entertainment sector associations.

The Maldives government reported it was currently working on bills regarding trademarks and geographical indicators with the assistance from the World Intellectual Property Organization (WIPO). The government 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/>.

Resources for Rights Holders

Embassy Point of Contact:

Economic Specialist Mano Dharmadasa

Telephone Number: +94-11-249-8500

Email Address: commercialcolombo@state.gov

7. 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. The Maldives became a member of the Asia/Pacific Group on Money Laundering in July 2008 and ratified the Anti-Money Laundering and Combatting Terrorism Financing Law in April 2014, which introduced rules governing financial transactions and the inflow and outflow of money from Maldives.

Maldives has established a small Financial Intelligence Unit (FIU) within Central Bank MMA to combat money laundering and terrorist financing, which remains understaffed and has reported a need for technical assistance and training from international partners on money laundering. A February 2016 special audit of the Maldives Marketing and Public Relations Corporation (MMPRC) by the Auditor General revealed the embezzlement (through checks deposited into private bank accounts) of USD 79 million in resort lease acquisition fees. The report found MMA's inaction on past allegations of corruption within MMPRC facilitated the embezzlement, and recommended MMA strengthen its FIU and implement more effective controls.

Contract law and financial sector regulations are weak and several major contracts have been cancelled. The Companies Act requires all companies to prepare an annual accounts report specifying the share capital of the company, paid up capital, assets, liabilities, and the manner in which all immovable properties are valued. It also requires all companies to appoint an auditor. Public companies whose share capital is more than MVR 1,000,000 must appoint chartered accountants or certified public accountants certified by the Auditor General's Office who in turn are required to prepare an additional annual audit report. Both the annual accounts report and annual audit report have to be submitted to the Registrar of Companies but such reports are not made publicly available within a reasonable period of time. There are no informal regulatory processes managed by NGOs or private sector associations.

8. Efficient Capital Markets and Portfolio Investment

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 opportunities available to the public are a limited number of shares in the Bank of Maldives, five state-owned public companies, and a foreign insurance company. The market capitalization of all companies listed on the exchange was MVR 8.1 billion (USD 525 million) at the end of 2015.

Money and Banking System, Hostile Takeovers

The Maldives financial sector is 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 government and the Islamic Corporation for the Development of the Private Sector, 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 USD 2.5 billion at the end of 2015.

Non-bank financial institutions in the country consist of two insurance companies, a pension fund, a finance leasing company, a specialized housing finance institution and money transfer businesses.

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 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 expanded 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.

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.

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.

9. Competition from State-Owned Enterprises

At the end of 2013, 69 companies were either fully or partly government owned. Major operations 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 state-owned enterprises (SOEs) in any specific sectors and no published list of SOEs.

SOEs operate under the Companies Act with little government influence. The government appoints the board members of SOEs in proportion to the government's 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 although often not within a reasonable period of time..

OECD Guidelines on Corporate Governance of SOEs

Maldivian SOEs do not strictly adhere to the OECD Guidelines on Corporate Governance for SOEs, and political interference on behalf of SOEs can put private sector competitors at a disadvantage. Most SOEs officially report through line ministries, but political pressure from

higher offices often plays a role in major decisions. When SOEs are involved in investment disputes, domestic courts, which are not transparent, tend to favor the government enterprise.

Sovereign Wealth Funds

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

10. Responsible Business Conduct

There is limited but growing awareness of corporate social responsibility (CSR) among the business elite. The government does not have any ongoing policies or programs to promote responsible business conduct. There are no non-governmental organizations that promote or monitor CSR in the country. Most of the larger resort companies manage CSR programs, especially targeting environmental protection and employee welfare, but the Maldivian government does not regulate CSR programs or force companies to follow the OECD Guidelines for Multinational Enterprises.

OECD Guidelines for Multinational Enterprises

The government does not ensure adherence to the OECD Guidelines for Multinational Enterprises.

11. Political Violence

Political violence has been on the rise over the past two years as the administration of President Abdulla Yameen has become increasingly autocratic. Several political opponents, business figures, reporters, and bloggers have been arrested or are being pursued for alleged criminal offenses. Former President and leader of the opposition Maldivian Democratic Party Mohamed Nasheed was sentenced to 13 years imprisonment on terrorism charges in March 2015 while the courts sentenced opposition Adhaalaath Party leader Sheikh Imran Abdulla to 12 years imprisonment on terrorism charges in March 2016. The former defense minister and several other political dissidents have also been imprisoned, and the Maldives Bar Association has been dissolved. Since May 2015, several other political leaders have been living in self-exile to avoid terrorism charges and political persecution.

In August 2014, unknown assailants abducted Minivan News journalist Ahmed Rilwan, who has not been seen since. Four suspects were arrested, but none remain in custody. Police are continuing their investigation. Human rights NGO Maldivian Democracy Network blamed organized criminal gangs, and accused the police of negligence for the delays in concluding the investigation.

In May 2014, the Maldivian Broadcast Commission released a comprehensive survey of the press corps where 84 percent of journalists surveyed reported being threatened at least once. Five percent reported they received daily threats. In April 2016, the police arrested 16 journalists who were part of a protest to highlight crackdowns on media freedoms and charged four reporters with obstruction of law enforcement officers and assault.

In June 2013, unknown assailants attacked local reporter and journalist Ismail Hilath Rasheed and slashed his throat. Rasheed survived and fled the country. He had previously been

attacked in December 2011 by 10 unknown men after he had organized a peaceful demonstration in support of religious tolerance in Malé. He suffered a fractured skull in that incident. No arrests were made after either attack, which Rasheed alleged were arranged by religious extremists. The Ministry of Islamic Affairs, since November 2011, also continues to ban Rasheed's blog.

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 and police investigations confirmed unspecified "political motives" behind the murder.

12. Corruption

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 the included offenses. Penalties range from six months to 10 years banishment, or jail terms. Maldives acceded to the United Nations Convention against Corruption in March 2007, and under the 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. There are concerns the government restricts its autonomy and ability to investigate politicians. It cannot 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 Maldives; resort owners and tourism operators control a majority 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 and transportation networks connecting the widely scattered islands are controlled by two groups of resort owners. A number of prominent resort owners are in the Parliament, and a few have served as ministers. Nepotism and cronyism are also hallmarks in all areas, from the judiciary and the executive to the private sector.

A February 2016 special audit of the Maldives Marketing and Public Relations Corporation (MMPRC) by the Auditor General revealed the embezzlement (through checks deposited into private bank accounts) of USD 79 million in resort lease acquisition fees, which authorities have declared the "biggest corruption scandal" in the nation's history. Private companies which received the majority of the embezzled funds have alleged President Yameen and First Lady Fathimath Ibrahim, parliamentarians belonging to the ruling Progressive Party of Maldives, and prominent tourism companies were the primary beneficiaries of the embezzled MMPRC funds. The same audit report alleged the state owned corporation had illegally facilitated a USD 6 million loan from state funds to two private companies with ties to former Tourism Minister Adeeb. The auditor general was dismissed a week later through

controversial amendments to the Auditor General's Act.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

The Maldives is a party to the UN Anticorruption Convention. The Maldives is not a party to the OECD Convention on Combatting Bribery.

Resources to Report Corruption

Contact at government agency responsible for combating corruption:

Anti-Corruption Commission of the Maldives

Address: Huravee Building, Male, Maldives, 20114

Telephone: (800)3300007 (Toll free number), (960) 331 0451, (960) 331 7410 (General Inquiries)

Email: info@acc.gov.mv; complaints@acc.gov.mv

Contact at "watchdog" organization:

Mrs. Mariyam Shiuna

Executive Director

Transparency Maldives

Address: MF Building, 7th Floor, Chaandhanee Magu, Male', Republic of Maldives

Telephone: +960 330 4017

Email: office@transparencymaldives.org

13. Bilateral Investment Agreements

Maldives does not have a Bilateral Investment Treaty (BIT) or Free Trade Agreement (FTA) with the United States.

Bilateral Taxation Treaties

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

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 a 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 November 13, 2005. In April 2016, Maldives and India signed an agreement to avoid double taxation of income derived from air transport and an agreement to share information on taxes.

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.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

Maldives plans to develop special economic zones to provide employment diversification and opportunities in off-port shipping services, IT, and the financial services industry. The government is currently considering a foreign investment proposal to establish a commercial port and the country's first free trade zone near the capital city Male'. The IMF has encouraged Maldives to adopt measures to ensure uniform high standards for institutions that decide to operate in special economic zones. Maldives is currently in negotiations with China on establishing a free trade agreement between the two countries.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical source		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2014 Source: Maldives Monetary Authority	\$3.0	2014	\$2.8	www.imf.org
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 partner country (\$M USD, stock positions)	2014	NA	2014	NA	BEA data available 3/19/14 at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Host country's FDI in the United States (\$M USD, stock positions)	2014	NA	2014	NA	BEA data available 3/19/14 at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Total inbound stock of FDI as % host GDP	2014	NA	2014	NA	NA

Table 3: Sources and Destination of FDI

This information is not publically available from reliable official or unofficial sources.

Table 4: Sources of Portfolio Investment

There is no reliable portfolio investment data for Maldives.

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, IFRCs, 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](#))

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Gary Youinou

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