

The Maldives: Islands over Troubled Waters

Leo Paul Dana & Teresa E. Dana
Nanyang Business School
B1c-104
Nanyang Avenue
Singapore 639798
Tel: (65) 7991488/7995559

THE MALDIVES: ISLANDS OVER TROUBLED WATERS

Abstract

Much entrepreneurship literature associates entrepreneurs with an affinity for, or at least a tolerance of, calculated risk. Indeed, small business usually involves some degree of risk. Also, financing is often a central issue for entrepreneurs, as reflected in the literature. However, the Dhivehis – who are the inhabitants of the Maldives – do not associate risk with business activities; nor do they feel constrained by the lack of financing, despite the absence of capital markets and the limited banking facilities in this archipelago.

INTRODUCTION & METHODOLOGY

The Republic of Maldives is a grouping of 1,192 coral islands, the total land mass of which is a mere 115 square miles or 298 square kilometers. Each of the islands is surrounded by a shallow lagoon, enclosed by a coral reef. Most of them have poor, sandy soil, which limits agricultural production. None of the islands rises beyond ten feet (3 meters) above sea level. Situated in the Indian Ocean and scattered on both sides of the Equator, this archipelago is divided into 26 ring-shaped clusters. Each cluster of islands is known as an “atoll,” a word derived from “atholhu” in Dhivehi, which is the language of the Maldives. Dhivehi belongs to the Indo-Iranian group, with strong Arabic influence. The language is unique to this country. The Dhivehis, as the 263,000 islanders call themselves, are of mixed Arab, Aryan, Dravidian, Negroid and Sinhalese ancestry. The society is homogeneous, with one language, one culture and one religion. Islam is the national religion and all citizens are Sunni Muslims. The weekend here, lasts from Friday to Saturday. It is unlawful to enter the country with an idol of worship. Except on designated tourist islands, alcoholic beverages and pork are illegal, as are dogs.

This conference paper is the result of ethnographic research in the Republic of Maldives. Although the literacy rate in this country is officially higher than that of all the neighboring countries, many people, especially those over 45 years of age, cannot read; consequently, all participants in this study were interviewed orally. Dhivehi entrepreneurs were asked to describe their business activities, their motives for being entrepreneurs, and their constraints –as they perceived them– in their own words. Respondents were also asked to discuss their perception of risk. Several questions attempted to identify financial issues. A non-quantitative approach was selected in order to gain an understanding of local values, rather than attempting to impose a framework that may have a Western bias.

Non-entrepreneurs were also interviewed. Information was obtained from the Ministry of Finance & Treasury; the Ministry of Fisheries & Agriculture; the Ministry of Planning, Human Resources & Environment; the Ministry of Tourism; the Ministry of Trade & Industries (including its Foreign Investment Services Bureau); and the Ministry of Transport & Communications. Para-statal entities were also consulted, including the Maldives Industrial Fisheries Company Limited, the Maldives National Ship Management Limited, and the State Trade Organisation. Others were

approached, as well, including the Maldivian National Chamber of Commerce & Industry and the Maldivian Traders Association. Banks were also sources of insight, namely the Bank of Ceylon, the Bank of Maldives, the Habib Bank, and the State Bank of India.

RISK IN WESTERN LITERATURE

Cantillon (1755) was the first to discuss entrepreneurs as risk-takers. Say (1815) and Mill (1848) also linked entrepreneurship to risk. Ely and Hess defined entrepreneurs as “the ultimate owners of business enterprises, those who make the final decision and assume the risks involved in such decisions (1893, p.95).” As well, Knight (1921) and Oxenfeldt (1943) recognized the centrality of risk in entrepreneurship. Cole (1959) also examined the risk of uncertainty. Cochran (1968) discussed risk as a distinguishing attribute of the entrepreneur.

Shapiro found that in “almost all the definitions of entrepreneurship, there is agreement that we are talking about a kind of behavior that includes ... the acceptance of risk (1975, p.187).” Zalesnik and Kets de Vries specified that the entrepreneurial personality includes “the urge to take risks, and the stubborn resistance to change (1976, p.23).” Kets de Vries elaborated on the importance of the “risk-taking functions (1977, p.37).” Brockhaus (1980) focused on risk propensity. Gasse (1982) observed that entrepreneurs are generally risk-takers. Shapiro and Sokol (1982) found risk-taking to be central to the entrepreneurial event, and Stanford (1982) mentioned moderate risk-taking as an entrepreneurial trait. Tate, Meggison, Scott and Trueblood defined the entrepreneur as “a person who organizes, manages and assumes the risks of a business venture (1982, p.576).” Gasse (1985) elaborated on the importance, for the entrepreneur, to have the capability to take personal risks.

According to Stevenson and Gumpert, “An X-ray of the entrepreneurial organization reveals these dynamic characteristics: encouragement of individuals’ imagination, flexibility and a willingness to accept risks (1985, p.88).” Timmons, Smollen and Dingee (1985) also referred to risks, and Burch explained that the role of the entrepreneur is to assume “all or a major portion of the risk (1986, p.4).” To the surprise of some readers, Schumpeter (1934) suggested that risk-taking is in no case an element of the entrepreneurial function.

A BRIEF HISTORY OF THE MALDIVES

Mosques around the world face Mecca – except in the Maldives, where old mosques face the noon sun. This reinforces the popular belief that early islanders were sun-worshippers. About 2,000 years ago, a Buddhist Kingdom ruled over the Maldives; this is confirmed by historical remains.

It is believed that early maritime traders frequented the waters surrounding the Maldives. In 1153, Persian and Arab travelers introduced Islam to the islands, and a sultanate was established. The Dhivehi language subsequently adopted Thaara script, which is written from right to left.

During the 16th century, the Portuguese were granted permission to build a factory in Malé. This led to Portuguese rule for a period of 15½ years. In the 1860s, entrepreneurs from Bombay set up warehouses and retail outlets in Malé. These merchants eventually controlled a large share of foreign trade. In 1887, the Maldivian sultanate became a British protectorate. In exchange for protection, the Maldives were required to make payments to England; these continued until 1947.

For a few months during 1953, the islands became a republic. The year 1959 saw the temporary secession of the southern atolls, with the declaration of the Republic of Suvadhuva. In 1965, the nation gained independence as a sultanate, which became a republic in 1968.

In 1985, the republic was a founder of the South Asian Association for Regional Co-operation (S.A.A.R.C.); it is the smallest of the seven member states. (The other six members are Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka.) In 1988, Indian forces landed in the Maldives to suppress a coup d'état by Tamil separatists. In 1990, the India Maldives Joint Commission on Economic and Technical Co-operation improved economic relations with India. During the late 1990s, the per capita GNP of the Maldives was the highest of any S.A.A.R.C. member.¹

THE CONTEXT FOR ENTREPRENEURSHIP

Although the Maldives have had a constitution since 1932, the legal framework for commerce is poor in this country. The lack of comprehensive commercial laws is evident.

The Decree on Limited Companies was only instituted in 1988. The following year marked the implementation of the *Law on Foreign Investments in the Republic of Maldives* (Law No. 25/79). There are no restrictions on the ownership of equity. There is no income tax, no tax on corporate profit, no capital gains tax, no value-added tax (V.A.T.), no sales tax, and no property tax in this country.

The vast majority of entrepreneurs, surveyed in this study, operate their businesses as sole proprietorships and they manage the firms themselves. A few have private limited liability companies with a small number of shareholders; however, even these enterprises are managed by the owners rather than by professional managers. Certain limited liability companies have a mix of directors, some of whom are foreigners. Among non-natives, enterprises often take the form of joint-ventures with local participation; other firms are registered, with the Registrar of Capital Companies, as wholly-owned foreign companies.²

Registered partnerships appear to be uncommon in the Maldives. When asked why this is so, respondents explained that – in Dhivehi culture – it is not necessary to formalize a partnership between individuals who trust one another; among those who

¹ Source: Ministry of Finance & Treasury, Malé.

² Source: Ministry of Trade and Industry, Malé.

do not trust one another, a partnership is avoided altogether. Accepting these assumptions, they perceive registered partnerships as lacking utility.

Of the 1,192 islands which comprise the Maldives, 199 are inhabited by Dhivehis and 88 are set aside for tourism developments. Although the government provides electricity to some communities, all the resorts and several other islands who do not have access to public electricity rely on privately-owned generators, of which there are hundreds.

The telecommunication infrastructure is relatively well developed. The telecom monopoly belongs to Dhiraagu, which supplies mobile phones as well as Internet services. It is an affiliate of the British Cable and Wireless Company. Almost all of the islands in the south have facilities. Although telephones are less common in the north, the Maldives have more telephones per capita than any other member of S.A.A.R.C.³ The Dhivehis also have more televisions per capita than any other S.A.A.R.C. member.

In contrast, financial services are very limited in the Maldives. The Bank of Maldives is the only local, commercial bank. It saw its beginnings as a joint venture between the state and a Bangladesh-based firm, the International Finance and Investment Company Ltd. The other three commercial banks are foreign, namely the Bank of Ceylon, the Habib Bank, and the State Bank of India. These are all open from Sunday to Thursday.

Lending rates are determined on the basis of the London Interbank rate (LIBOR) plus a margin. More capital is lent to the tourism industry than to any other sector. The second largest recipient of loans is commerce.⁴ Bank are the only firms required to pay a tax on profits.⁵

There are no finance companies, investment banks nor trading banks in the Maldives. Nor does this country have a stock market. Yet, the apparent lack of capital markets is not reported as being a constraint for entrepreneurs.

There are neither buses nor trains in the Maldives. In the capital, which has cars, motorcycles and taxis, the most common means of transportation is to ride a bicycle. Between the islands, boats come and go depending on local needs, produce, the weather and the vessel's owner. There are only five airports in the Maldives, i.e. one per 2,384 islands. Many planes are equipped with floats, in order to land and take-off from the sea.

The most important island is Malé, formerly known as the Sultan's island. This island is the soul political capital and economic center of the Maldives. It is about 1 km. wide, 2 km. long, and home to one quarter of the nation's 264,000 people. There are also foreign workers from Egypt, Sri Lanka, and elsewhere. In addition, traders come here to conduct business, so the number of people on the island

³ Source: Ministry of Transport & Communication, Malé.

⁴ Source: Bank of Maldives, Malé.

⁵ Source: Ministry of Finance & Treasury, Malé.

is said to swell to 100,000 on some days.⁶ Yet, Malé is rather clean and tidy for the crowded capital of a nation. The town boasts 20 mosques, numerous small shops and very busy markets. It also offers many small teahouses, where Dhivehi men enjoy small snacks, such as fish balls, curry, breads, cakes, and samosa. To wash it all down, a cup of black tea, loaded with sugar, is the popular choice. Although men spend many hours in tea houses, chatting about business and smoking, cultural norms make it unacceptable for women to frequent such establishments. Important institutions include the firewood market, the fish market, the wet market and the Singapore Bazaar, which is a conglomeration of shops selling handicrafts mostly to tourists.

A short boat-ride away is the island of Hulule, where Malé International Airport is situated. From here, turbo-props go back and forth to Colombo (Sri Lanka), while jets link the island republic to Dubai, Kuala Lumpur, Singapore and Trivandrum (India). As well, charter flights bring in tourists from Europe. In addition, Air Maldives, Hummingbird Island Airways Pvt. Ltd., and Maldivian Air Taxi provide air service to other islands.

Yet, most of entrepreneurs arrive here from outlying islands, aboard *dhonis*, traditional Maldivian vessels, which travel at an average speed of seven knots. These are wide-based boats with deep bottoms. They have high curved hulls like those of Viking ships and a structure upon which a sail could be mounted, but none are attached. There are a few planks of wood on each side of the vessel and a couple in the middle. Passengers sit, stand and lie on these planks during their voyage at sea. At night, they stretch out and sleep on cargo, separated from each other by produce and merchandise. For some, the journey to and from the central trading area takes several days. While *dhonis* are used for short trips, larger vessels known as *vedi* are employed for trips to other islands.

DHIVEHI MERCHANTS

The distribution sector of the economy contributes more to the GDP than does any other sector and the most popular form of small business activity in the Maldives is commerce. The distribution function is fragmented among a multitude of merchants. Traders identify opportunities for arbitrage, and transport goods from areas of low cost to markets where the same goods are worth more. In Ukulhas, for instance, a kilo of tuna costs only 3½ rufiya.⁷ After a two-day journey, the same can be sold in Malé for 23 rufiya. (The currency has been steady at 11.72 rufiya per U.S. dollar, even during the Asian Crisis.)

These businessmen are not clad in suits and ties but rather, most wear cotton sarongs that are constantly being hiked up above the knees and then lowered to the ground. Shirts are often in checkered, plain and modern designs with short sleeves and collars. A few of these men sport pants, but no one wears socks. All have some variety of flip-flops on their feet. A look into their glass-like hazel eyes reveals a tenderness tempered by the sea. These people are one with nature and they emit

⁶ Source: Ministry of Planning, Human Resources & Environment, Malé.

⁷ Source: Interview with entrepreneur, Adam Ali, 111 Lushi, Ukulhas, The Maldives.

warm personalities. At night, many lay on their boats and on concrete blocks awaiting the departure back home, where they will head to pick up more produce from their island, only to return once again.

In some cases, a *dhoni* may be too big to dock at the pier of an island. In such cases, all the merchandise and bags as well as passengers are ferried aboard a small, wooden, motor-boat that navigated back and forth in the dead of night. The men pile the boat high with coconuts, melons, barrels and boxes. A flashlight is used on the *dhoni* to alert the small boat of its location. Aside from distribution, the economic sectors which contribute the most to the country's GDP are tourism, fisheries, and agriculture.

TOURISM & FISHERIES

In contrast to other countries which have encouraged industrialization, the economic policies of the Maldives were designed to promote tourism and fisheries. Tourism, contributing on fifth of GDP, is the largest provider of foreign exchange. Fishing is also important as Dhivehis catch over 100,000 metric tonnes annually,⁸ more than half of which is exported.⁹ Over two-thirds of the nation's exports are fish and fish products. According to the census, more people work in fisheries than any other sector.

Commercial tourism was introduced here, in 1972, by a few enterprising entrepreneurs. That year, the first of the resorts in the Maldives was established. Soon, several resorts began setting up, but never more than one per island. Tourism is perceived as disruptive to traditional lifestyle, and for this reason, it is strictly regulated. Tourists are encouraged to stay together, and away from the Dhivehis. An Inter Atoll Travel Permit is required outside the tourist zone. This is issued by the Ministry of Atolls Administration, only if sponsored by a resident.

At first, most of the tourists to the Maldives came from Western Europe, causing the industry to be seasonal. During the 1990s, an increasing number of tourists arrived from East Asia and Australia.¹⁰ This was so until 1997, when several Asian currencies were devalued, making the Maldives relatively expensive to visit.

Nevertheless, the annual number of tourists visiting the Maldives exceeds the national population. Most visitors stay at resorts. Each resort is on its own island. In addition to the over 10,000 beds at resorts, there are also guest-houses and hotels. As well, several sea vessels provide accommodations. The *M.V. Coral Princess*, for instance, was custom-built for 45 guests. Despite opportunities for entrepreneurship in the tourism industry, few local entrepreneurs take notice of these. About half of the resorts are owned and managed by foreign firms.

In contrast, fishing is a sector to which the Dhivehis have long been attracted. Fishing is the traditional occupation of Maldivian men and commercial fishing continues to use the traditional line and pole method. It is the people's principal

⁸ Source: Ministry of Fisheries & Agriculture, Malé.

⁹ Source: Ministry of Trade & Industries, Malé.

¹⁰ Source: Ministry of Tourism, Malé.

means of livelihood and is the second most important source of foreign exchange. Each year, on December 10, the nation celebrates Fisherman's Day, to highlight the importance of the role of fishing in the economy.

Until the 1970s, fishing was done from sailboats. Since then, the state has encouraged the modernization of the country's fishing fleet, through the addition of motors. One man pumps the fuel, four men pull in the anchors, one starts the engine and two others shout directions. After these procedures take place, they navigate slowly amidst other boats. Bumping into a few does not seem to disturb the other vessels' crew. There are no life jackets on board.

The principal catch is skipjack. Yellow fin tuna, red snapper, mackerel and barracuda are also important. Fishermen use the pole and line method to catch skipjack and trolling for surface fish such as jacks, little tuna, mackerel, and wahoo. Net fishing, coral mining and the use of harpoons have been banned as such techniques are harmful to the aqua-culture. Since 1980, lobsters have been protected and since 1993 the same has been true for dolphins, giant clams and whales. Other protected marine life include black coral, conch, turtles and whale sharks.

Much activity takes place in Malé fish market. Local fishermen bring the day's catch here to sell to other Dhivehis. Fishing *dhonis* arrive in an orderly fashion and the fish are carried to the market by young men. The fish are placed in tidy rows on the floor and are then available for sale. Prices are reflective of the day's supply. There is never any fish remaining. Tuna is the popular choice.

It used to be that the industry's main exports were dried and smoked tuna to Sri Lanka. Now, exports have expanded to include canned, frozen and salted fish. Such products are now shipped to the Far East as well as to Europe. In order to tap marine resources, the government established a 200-mile Exclusive Economic Zone (which encloses 900,000 square kilometers of sea).

AGRICULTURE

Although the government allows people to cultivate state property, some islands have minimal amounts of fertile terrain, limiting the ability to grow crops. Many islands are nevertheless able to use their arable land in order to grow produce for supplementary income. Main crops include bananas, breadfruits, coconuts and papayas. Some islands grow bamboo, banyans, betelnut, chili, mangoes, millet, pandanus, taro, sweet potatoes and yams. On very few islands it is possible to grow citrus fruits and pineapples.

The island of Thoddu, at the top of the Ari atoll, grows most of the watermelons and pumpkins for the region. Most of the vegetables grown on this island are sold, rather than consumed locally. Each watermelon can earn up to \$5 U.S., especially during the month of Ramadan. The lack of availability of green vegetables on this island, and on many others, is problematic, and many children are iron-deficient as a result. People eat tuna and rice, every day. The only livestock on the island are chickens, which are eaten on special occasions. Surplus may be

transported to Malé where a hen is worth 40 rufiyaa. Bats, cats, and rats are the only mammals on Thoddu. On other islands, people raise goats for special occasions.

Malé and the tourist resorts are the main markets for agricultural produce. Since production is less than demand, it is necessary to import large quantities of fruits, vegetables, meat and poultry. Such imports are draining foreign exchange reserves.

ARTISANS & MANUFACTURING

The traditional industries of the Maldives are still very much alive, employing about 25 percent of the workforce. It is not uncommon to see a self-employed fisherman making his own boat. Women are often seen weaving mats, or making ropes. Blacksmiths are usually men. Other cottage industries supply souvenirs to the tourist trade.

As well, modernization has give rise to a new industrial sector. Fish is now being packaged at processing plants such as the canning facility operated by Mifco, the Maldives Industrial Fisheries Company Ltd., in Malé. Also, soft drinks are bottled locally. Light manufacturing includes the production of garments, bricks, detergents and pipes. Yet, the government is careful not to encourage rapid industrialization. At the Asia-Pacific Ministers' Conference on Tourism and Environment, in 1997, His Excellency Mr. Maumoon Abdul Gayoom, President of the Republic of Maldives declared, "Past experience has shown that rapid modernization is accompanied, more often than not, by enormous damage to the environment."

The lack of self-sufficiency makes the Maldives rely greatly on imports, almost half of which originate in Singapore.¹¹ Their main trading partner since the 1970s, Singapore exports to the Maldives goods worth approximately \$10 million US monthly.¹² Import duty, based on cost, insurance and freight (CIF) value, is a sufficient source of revenue for the Republic of Maldives.¹³

Almost one quarter of all exports from the Maldives go to Sri Lanka, and about one fifth to the U.K. During the late 1990s, S.A.A.R.C. announced plans to encourage preferential trading accords among its member countries, the total population of which exceeds one billion people. This includes about 400 million middle-class consumers, a considerable market to tap and a possible opportunity for Dhivehi entrepreneurs.

CONCLUSION

In the absence of abundant resources, Dhivehi entrepreneurs view entrepreneurship as the function of acting upon arbitrage opportunities. With little formal education, they appear as being unskilled people using simple technology. Yet, they perform important economic functions. They do not perceive the lack of

¹¹ Source: Ministry of Trade & Industries, Malé.

¹² Source: Ministry of Foreign Affairs, Singapore.

¹³ Source: Ministry of Finance & Treasury, Malé.

formal infrastructure nor the lack of capital as a constraint. Nor are they concerned with risk. They associate risk with global warming causing the sea level, thereby drowning their islands, the average of which is a mere 10 feet above sea-level. While the islands thrive on a subsistence market economy, the capital is a town of small enterprises. Unemployment never exceeds one percent, and the people are on average, the richest in the region.

REFERENCES

- Brockhaus, Robert H. Sr. (1980), "Risk Taking Propensity of Entrepreneurs," *Academy of Management Journal* 23 (3), September, pp.509-520.
- Burch, John G. (1986), *Entrepreneurship*, New York: Wiley.
- Cantillon, Richard (1755), *Essai sur la nature du commerce en général*, London and Paris: R. Gyles; translated (1931), by Henry Higgs, London: MacMillan and Co.
- Cochran, T.C. (1968), "Entrepreneurship," in David L. Sills (ed.), *International Encyclopedia of the Social Sciences*, London and New York: MacMillan.
- Cole, Arthur H. (1959), *Business Enterprise in its Social Setting*, Cambridge, Massachusetts: Harvard.
- Ely, Richard T. and Ralph H. Hess (1893), *Outline of Economics*, New York: Macmillan.
- Gasse, Yvon (1982), "L'entrepreneurship moderne: Attributs et fonctions," *Revue Internationale de la Gestion* 7(4), pp. 3-24.
- Gasse, Yvon (1985), "A Strategy for the Promotion and Identification of Potential Entrepreneurs at the Secondary School Level," in Horneday, J.A., B. Shills, Timmons J.A., and Karl H. Vesper (Eds.), *Frontiers of Entrepreneurial Research*, pp. 538-559. Wellesley, MA: Babson College.
- Kets de Vries, Manfred F.R. (1977), "The Entrepreneurial Personality: A Person at the Crossroads," *The Journal of Management Studies* 14(1), pp.34-57.
- Kirzner, Israel (1979), *Perception, Opportunity and Profit Studies in the Theory of Entrepreneurship*, Chicago: University of Chicago.
- Knight, Frank Hyneman (1921), *Risk Uncertainty and Profit*, Boston and New York: Houghton Mifflin.
- Mill, John S. (1848), *The Principles of Political Economy with Some of Their Applications to Social Philosophy*, London: John W. Parker, Vols 1 & 2; revised 1886, London: Longmann, Green.
- Oxenfeldt, A. R. (1943), *New Firms and Free Enterprise: Pre-War and Post-War Aspects*, Washington, D.C.: American Council of Public Affairs.
- Say, Jean Baptiste (1815), *Catechisme d'économie politique*; translated (1821) by John Richter, *Catechism of Political Economy*, London: Sherwood.
- Schumpeter, Joseph (1934), *The Theory of Economic Development*, Cambridge, Massachusetts: Harvard University Press.
- Shapero, Albert (1975), "The Displaced, Uncomfortable Entrepreneur," *Psychology Today*, 7(11), pp. 83-89.
- Shapero, Albert and Lisa Sokol (1982), "The Social Dimensions of Entrepreneurship," in Calvin A. Kent, Donald L. Sexton and Karl H. Vesper (eds.), *Encyclopedia of Entrepreneurship*, Englewood Cliffs, New Jersey: Prentice Hall, pp. 72-90.
- Stanford, Melvin J. (1982), *New Enterprise Management*, Reston, Virginia: Prentice Hall.
- Stevenson, Howard H. and D.E. Gumpert (1985), "Heart of Entrepreneurship," *Harvard Business Review* 63 (2), March-April, pp. 85-94.

- Tate, Curtis E. Jr., Leon C. Meggison, Charles R. Scott Jr. and Lyle R. Trueblood (1982), *Successful Small Economic Management* (3rd ed.), Plano, Texas: Business Publications.
- Timmons, Jeffrey A., Leonard E. Smollen and Alexander L.M. Dingee (1985), *New Venture Creation* (2nd ed.), Homewood, Illinois: Irwin.
- Zaleznik, A. and Manfred F.R. Kets de Vries (1976), "What Makes Entrepreneurs Entrepreneurial?" *Business and Society Review* 17, Spring, pp. 18-23.