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Keynote Address by Governor Dr. Azeema Adam in the Maldives Finance Forum 2014

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Minister of Economic Development, Honourable Mohamed Saeed,
Chairman of the Pension Board,
CEO of the Maldives Pension Administration Office
Ladies and gentlemen,
Assalaam Alaikum and a very good morning to you all.

I would like to, first of all, congratulate the Pension Administration Office, and in particular Mr Mohamed Hussain Maniku and his team, for organising and convening this Forum for three successive years. The Forum has been an excellent platform for all stakeholders in the financial sector of the Maldives to meet and debate on critical issues facing the country.

I would also like to thank the Pension Administration Office for inviting me to deliver the keynote speech in this year's Forum. It is indeed an honour to speak to such a distinguished audience, particularly on an issue that is profoundly important to the Maldives economy.

Today, in front of me, we have some of the brilliant minds in the country and from around the world, who have the expertise and the experience in the area of finance. We are here to discuss, debate, and present, views on one of the most advanced and sophisticated subjects in the area of finance. We have several names for it; numerous terminologies to describe it. Yet, basically what we are talking about here is money.

It is about how to get money to build a better life for us;
How to make the best use of money to help us live a dignified life at retirement;
And indeed, how to invest that money to pave the way for our kids to achieve their goals and dreams in life.

Ladies and gentlemen,

Challenges and opportunities in tapping into international financial and capital markets are widely debated and analysed topics. And today, we will hear from our distinguished speakers and panellists about their views on the subject.

I will focus my talk on some of the key aspects of creating an enabling environment, for attracting and using, foreign and domestic finances in the Maldives.

The most important condition for creating such an environment is political stability. With the successful conclusion of three elections in the past seven months, and with a newly elected President, and a newly elected Majlis, we expect political stability to continue to prevail in the Maldives in the years to come.

The second most important condition for creating an enabling environment is macroeconomic stability. The current macroeconomic situation in the Maldives provides us with a historically unprecedented opportunity to put our economy in order; it is an opportunity to make the right choices and to take bold decisions. And it is an opportunity to shape the future and make the country a stronger and a prosperous nation.

The Maldives' economy is now headed on a positive growth trajectory. This year, we are expecting a GDP growth of 4.5 per cent. Inflation is expected to remain at around 4 to 5 percent. These two numbers portray the vibrancy of the private sector and the buzz of the business sector. The Government needs to make sure that the private sector is not dragged down by the fiscal burden. Rather, the Government can seize the opportunity to bring fiscal consolidation. For this, we need courage. We have seen such courage in the Maldives in the past.

One example: a few, but historic, initiatives taken by some courageous entrepreneurs in the Maldives offered a taste of Maldivian hospitality to the world in the early 1970s. Those initial steps created the tourism industry of today. Those initial steps have led the Maldives to become a global brand in just a few decades. It is now one of the most sought after luxury and exotic, tourist destinations.

This was done in spite of the advice by a leading international development agency in the late 1960s stating that tourism would not be a viable industry in the Maldives; but boat building would be.

Another example can be drawn from the Government itself. The Government was able to turn around the macroeconomic crises in 1994 and 2001-2002, by committing to sound macroeconomic policies. In both episodes, the Government took bold and courageous decisions to cut expenditure, and increase revenue. As a result, the Government was able to correct the fiscal imbalances in the economy in a remarkably short period of time. These examples illustrate that whenever we have shown courage, we have succeeded.

Is it not worth then, to strive to transform the Maldives, once again, into a nation of courage; courage in making choices and decisions; courage in prioritising our needs? And indeed, we need courage in reducing government expenditure, especially the untargeted subsidies, and then in increasing revenue.

Yet, the Government alone cannot do that. The private sector needs to have courage to be creative. Private entrepreneurs thrive when they are driven by pursuit of greater good, than narrow interests.

Similarly, we, as individuals, should have the courage to strive to be independent and have self-dignity. Individuals should understand that the Government can help only within its abilities. That ability comes from the taxes paid by the people. A society that is learning to depend on hand-outs from others would not generate prosperity. Is it not, then, time to once again, create a society of entrepreneurs, not a society of beggars.

How do we create a society of entrepreneurs? We need to give them opportunity to access to finance so that they could unleash their creative and innovative potential. We could do that by creating an enabling environment for both local and foreign financiers, to invest in the Maldives. For this, we need to have an efficient and a modern financial sector in the country.

To allow the financial sector to thrive, it is imperative that we have a well-developed legal framework. When the legal framework is fully developed, there would be timely enforcement of contracts, and the protection of investors' rights. There would be legal instruments for recovering debt. There would be speedy settlement of commercial cases in the courts.

MMA is working with the Government in introducing new legal instruments and further developing and strengthening institutions, so that there is high degree of trust in the legal system. The Anti-Money Laundering Act that was passed recently is one such legislation that would safeguard the financial sector from criminal activities and enhance investor-confidence.

Developments in the legal framework should go hand in hand with the regulatory framework. MMA has a fairly robust financial sector regulatory framework. Yet, we are currently reviewing the existing regulations to see whether they pose any constraints to the development of the financial sector, whether they are right for the current conditions and time. This will minimise the chances for the financial system to be burdened by unnecessary rules and unintended consequences.

International experience suggests that even a slight improvement in the legal and financial regulatory frameworks bring significant changes to the financial sector, enabling new financial products to emerge. Such products would cater to various market niches

such as SME financing, large investment financing, Islamic financing, and various types of insurance.

Strengthened legal and regulatory frameworks give stability to the financial sector. With stability, we also need to further expand and modernise the financial services provided, so that there would be increased investment in the country. There is scope, and indeed the need, for increased competition in the financial sector. The banking sector needs to be modernised. It is time that banks adopt twenty-first century toolkits in providing services to their customers.

The banking sector has to become more competitive, and banking services need to be expanded. Non-bank financial services and capital market activities also need to be further developed in the country.

We are already seeing encouraging signs in the pension fund and insurance sector. In developed financial markets, pension funds and insurance companies have been central in the development of the capital market in the country.

Pension fund has the potential to play an important role in the Maldives financial sector. A comprehensive and well-regulated pension fund framework will lend support to development of the capital market. The pension fund, while tapping savings by the public and private sector workers, provides a potential market to absorb longer term debt instruments, as well as develop the equity market in the country.

The insurance sector in the Maldives is still at its infant stage. There is, significant scope for new entrants to the market, to level up with just the current demands.

As SME's are given so much importance in today's economy, there is enormous potential to establish a market for micro insurance. Micro finance revolution has successfully provided financial services to developing countries over the last two decades. This is proof that if micro credit is helping people to acquire new wealth, micro insurance will help them to keep it.

It is vital to encourage new entrants to the financial sector, to provide more financial services and products that serve the different financial needs of the economy.

We all need to stay focused, on the challenges of today, in attracting international finance to this country tomorrow. I believe that we have the tenacity to hold steadfast in what needs to be done. I believe that we can all work hand-in-hand to create a more enabling environment for foreign investors. And I believe that we can promote the Maldives as an attractive destination for global financial investors.

MMA will do its part in developing and advancing the financial sector. Yet it requires the rest of the society, including the Government and the private sector, to make choices - the right choices, to create a conducive environment. Investors will come when we are able to proudly showcase our potential; instead of justifying our plight.

Thank you very much.

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