

S/M/Maldives ✓  
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Mr. Joseph Gold

Room 8-320  
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INFORMATION

May 11, 1977

To: Members of the Committee on Membership - Maldives  
From: The Committee Secretary  
Subject: Maldives - Calculation of Quota

Attached is a staff memorandum relating to the calculation of a quota for Maldives. It will be considered at a meeting of the Committee to be held on a date to be announced.

Executive Directors will recall that Maldives is one of those countries whose application it was agreed should not be delayed pending the discussion by the Executive Board on the question of the admission of small states to the Fund.

Att: (1)

Other Distribution:  
Members of the Executive Board  
Department Heads  
Mr. Ghoshal (IBRD)

INTERNATIONAL MONETARY FUND

Calculation of Quota for the Republic of Maldives

Prepared by the Asian and Treasurer's Departments

(In consultation with the Legal Department and the  
Exchange and Trade Relations Department)

Approved by Tun Thin and W.O. Habermeier

May 6, 1977

I. Background

The Republic of Maldives consists of some 2,000 coral islands spanning a 500-mile arc in the Indian Ocean, about 400 miles to the west of Sri Lanka. The total land area of the Maldives is a little over 100 square miles; most of the islands are small and none are larger than five square miles. Only about 215 of the islands are inhabited. For administrative purposes the islands are grouped into 19 atolls. The total population exceeds 135,000, of whom roughly 17,000 live in the capital, Male, an island one mile long and two-thirds of a mile wide. The language of the Maldives is Divehi.

Formerly a Sultanate under British protection, but with minimum British presence, the Maldives became independent in 1965. The British maintained an air base on Gan, an island in the south of the country, until April 1976, when it was dismantled. In 1965, the Maldives joined the United Nations. In 1968, the Sultanate of Maldives was abolished, a revised Constitution promulgated, and the Republic of Maldives established.

1. Economic structure

The Maldives has a typically hot and humid tropical climate, but sandy soil and lack of water permit little more than scrub vegetation. The main natural resource of the country is fish, and arable land is minimal. While coconuts, millet, sorghum, maize and yam are grown in the islands, the Maldives is far from being self-sufficient in food, owing to its considerable population density, poor soil, and lack of implements and pesticides. Other than fish, practically all the major food staples, such as rice, wheat flour, and sugar, have to be imported.

Before the growth of shipping and tourism in recent years, more than half of national income originated from fish production; this proportion has now declined to about one third. Until 1974, the fish was processed and exported mostly in dried form as so-called Maldive fish to Sri Lanka. Since then, mainly because of a phased reduction of Maldive fish exports to Sri Lanka, the export of fresh fish to other countries has become more important. The Government has arranged for Japanese and Korean freezing and processing vessels to be in Maldivian fishing grounds under agreements signed with Japanese companies and a Bangkok-based international corporation.

The fish catch is delivered directly to the foreign vessels by Maldivian fishermen in the presence of representatives of the Government,<sup>1/</sup> who pay the fishermen in local currency; the Government in turn is paid by the companies in foreign exchange.

The natural beauty of the country, with its remarkably rich underwater flora and fauna, has given rise to considerable tourist development since 1972, especially for scuba diving. Several previously uninhabited islands in Male atoll have recently been developed as tourist resorts by the Crescent Tourist Agency, a locally-financed private enterprise.

Since the Maldives consist of many small islands scattered over a large area, a major problem is internal communications. Transportation between the islands is provided on an irregular basis, mostly by small freighters and sailing boats. The airport on Hulule island, neighboring Male, is not yet equipped for jet airplanes; the only flight connections at present are from Colombo and South India. However, a project financed by the Kuwait Development Fund has recently begun to bring the airport up to international standards by 1978.

No national accounts or reliable GDP estimates are available for the Maldives. Rough estimates of national income at current prices prepared by the staff indicate that in 1972 the per capita national income was about \$95, but that it had increased to about \$135 in 1974 (Table 1). In the former year, tourism was virtually nonexistent and the Maldivian Shipping Ltd. (MSL) was only a small-scale operation, so that the dominant source of national income was fish production and exports. Since then, the MSL has experienced a rapid expansion in its operations, and although much of its net earnings remain outside the borders of the country, its expansion was mainly responsible for the rapid increase in national income in recent years.

Table 1. Republic of Maldives: National Income at Current Prices

Year	In Millions of Mal Rs	Conversion Factor (Mal Rs/US\$)	In Millions of US\$	Population	Per Capita National Income in US\$
1967	37.0	4.87	7.6	103,800	73.20
1972	52.9	4.56	11.6	122,600	94.62
1974	73.0	4.20	17.4	128,600	135.30

Source: Staff estimates.

<sup>1/</sup> The Government exercises a monopoly over exports of Maldivian fish and fresh fish through the State Trading Organization, a government department.

## 2. Population and employment

The population of the Maldives at the time of the last census (1974) was nearly 129,000 (Table 2). Between 1967 and 1974, the population grew at an average annual rate of 3.2 per cent which corresponded to the rate of natural increase, since immigration and emigration were negligible. The working population in 1974 was estimated at about 52,000, or about 40 per cent, of the total population. About 38 per cent of those employed were engaged in fishing (exclusively men) and about 33 per cent in agriculture and related activities (mostly women). About 6 per cent were civil servants, while about 5 per cent were employed in the shipping and tourist industries. No estimates exist of unemployment. Except for the southern part of the country, where about a thousand jobs were lost after the air base at Gan was dismantled, unemployment does not seem to be a major problem. Because of the shortage of local skilled labor, many positions, especially in the shipping, teaching, and tourist industries, are filled by foreigners.

Table 2. Republic of Maldives: Population, 1967-74

Year	Total Population
1967	103,801
1968	106,969
1969	110,770
1970	114,469
1971	118,878
1972	122,673
1973	125,655
1974	128,697

Source: Department of Home Affairs, Republic of Maldives.

## 3. Prices and wages

There are no official data on price developments in the Maldives. Prices of domestic agricultural products and fish have remained relatively stable over the past several years. However, most of the food staples and other consumer goods have to be imported. The bulk of these imports is channeled through the State Trading Organization (STO), which determines their selling prices. These selling prices are fixed on the basis of import and distribution costs plus profit margins, which are negligible for essentials, such as rice, wheat flour, sugar, and kerosene, and 20-25 per cent for most other commodities. The profit margins for essentials were higher (about 10 per cent) prior to 1974, but were

reduced in 1974 and 1975, in order to moderate the impact on consumers of rising import prices. Private traders can purchase goods from the STO at a slight rebate or import freely themselves; however, essentials cannot be sold by them at prices higher than those charged by the STO. Taking into account the movements in import prices and the increasing scarcity of housing, an average inflation rate of 10-15 per cent annually has been estimated for Male in recent years. The inflation rate is estimated to have been lower outside the capital, despite increases in freight and handling charges, since the imported goods component is much smaller and no housing problem has developed.

Very little is known about developments in wages. In 1974, the average wage of government employees was Mal Rs 255 per month, and that of a fisherman was about Mal Rs 90 per month. Increases in wage rates in the organized sector have been irregular in recent years and smaller on the average than increases in the cost of living. Wages paid to foreign nationals employed on Maldivian ships have kept pace with those paid internationally for similar positions.

#### 4. Public finance

The Government of the Republic of Maldives consists of central departments in Male and local administrative offices in each of the 19 administrative atolls. In addition to general government services, the provision of water, electricity, and postal services is undertaken by the Government. The STO, which is treated as a government department, combines important commercial and financial functions. Its commercial activities encompass about 95 per cent of the country's merchandise exports, 70-80 per cent of merchandise imports, and much of the domestic wholesale and retail trade. While the expenditures of the STO on wages, salaries, buildings and other overheads are met directly from the government budget, its purchases and sales of goods are conducted through separate trading accounts. Profits generated by the trading accounts are transferred to the Treasury at the end of each year and constituted the major source of government revenue in all recent years, except 1975. The STO also acts as the financial depository of the Government; all budget surpluses are transferred back to it at the end of each fiscal year for accounting and management purposes. It also manages the Government's foreign exchange reserves. Maldivian Shipping Ltd. (MSL) has grown into a major public enterprise, displacing the STO as the principal source of government revenue in 1975. Air Maldives is a recently established corporation, set up as a joint venture of the Maldivian Government and a U.S. firm, with the former holding a majority of the shares.

The government budget is prepared on a calendar year basis under the direction of the President of the Republic and is submitted to the legislature for approval. The budget consists only of estimates of expenditure. While no attempt is made to estimate revenue, the principle generally followed is that the year's estimated expenditure should not exceed actual revenue of the previous year but one. In any years when this principle is contravened, the attention of the legislature is drawn to available sources of financing; until now, accumulated surpluses from previous years have been the only such source. The actual revenue outturn may, of course, exceed the budgeted expenditure and render such financing unnecessary.

Budgetary developments in recent years are shown in Table 3. Overall budgetary surpluses totaling Mal Rs 16 million were recorded in 1972 and 1973. These were followed by overall deficits totaling Mal Rs 9 million in 1974 and 1975, which were financed from accumulated cash balances. In each of these four years, nontax revenues accounted for 95 per cent or more of total revenues. In turn, profit transfers from the STO or MSL contributed, on average, close to 90 per cent of nontax revenues. The reduction in the profits transferred from the STO in 1974 and the absence of a transfer in 1975 are explained by the decline that took place in the STO's trading profits, following action taken to minimize the increases in the selling prices of essential goods in the face of rising import costs. In 1975, the MSL began transferring a part of its net profits to support the budget.<sup>1/</sup> In all four years, tax revenues have been low because of the virtual absence of taxation, other than of exports and imports; however, even the revenue from customs duties was small, because most of the external trade was in the hands of the Government.

Budgetary revenues do not include foreign grants received for financing of specific investment projects. Correspondingly, only that part of the capital expenditure that is financed through domestic resources is included in the budget. Despite this exclusion of aid-financed outlays, capital expenditures substantially exceeded current expenditures over the four-year period. Recently, for the first time, a supplementary budget was presented for a major project--the development of Hulule Airport and its financing through foreign loans.

#### 5. Money and banking

The currency of the Republic of Maldives is the Maldivian rupee, issued by the Department of Finance (Treasury). Since 1973, its value for official transactions has been fixed at Mal Rs 3.93 = US\$1, <sup>2/</sup> but there is also a free market for nonofficial transactions which is currently around Mal Rs 8.50 = US\$1.

There is no legislation regulating the issue of domestic currency and no legal requirements as to backing by any domestic or foreign assets. In practice, new issues of domestic currency have been made by the Treasury to the STO and brought into circulation by that department.<sup>3/</sup> Originally, the principal currency in circulation was the Ceylon (Sri Lanka) rupee, but in the early 1960s domestic currency was issued to replace it. By 1968, there were virtually no Ceylon rupees in circulation. During the British presence at Gan, the pound sterling began circulating in the southern atolls, and some British currency is still in use for domestic payments. With the

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<sup>1/</sup> Prior to 1975, the net profits of the MSL were used mainly for reinvestment in ships.

<sup>2/</sup> Before 1968, the Maldivian rupee was at par with the Ceylon rupee. From 1968 to 1973, the official rate was held constant vis-a-vis pound sterling at Mal Rs 11.40 = pound stg. 1. During that time, the official rate against the U.S. dollar was periodically adjusted to compensate for movements in the U.S. dollar/pound sterling rate.

<sup>3/</sup> Prior to the establishment of the STO in 1967, its predecessor, the Government-owned Bodu Stores, served as the channel for the issue of currency. Neither the Bodu Stores nor the STO have extended credit to the private sector.

Table 3. Republic of Maldives: Central Government Operations, 1972-75

(In millions of Maldivian rupees)

		Actual		Estimate
		1972	1973	1974
				1975
A. Revenues <sup>1/</sup>		20.67	26.70	13.94
				18.36
	Tax revenue <sup>1/</sup>	0.63	0.59	0.70
				0.40
	Customs <sup>1/</sup>	(0.50)	(0.40)	(0.53)
				(0.40)
	Other taxes	(0.13)	(0.19)	(0.17)
				(--)
	Nontax revenue	20.04	26.11	13.24
				17.96
	Stamp sales	(0.16)	(0.17)	(...)
				(...)
	Transfers from STO	(18.46)	(24.57)	(11.06)
				(--)
	Transfers from MSL	(--)	(--)	(--)
				14.66
	Grants	--	--	1.07
				--
	Other	(1.42)	(1.36)	(1.17)
				(3.31)
B. Expenditure		16.14	15.12	17.33
				23.79
	Current expenditure	9.17	8.70	9.90
				9.70
	Internal security	(1.51)	(1.59)	(2.01)
				(2.23)
	General administration	(4.59)	(4.90)	(5.29)
				(5.61)
	Other	(3.07)	(2.21)	(2.60)
				(1.86)
	Capital expenditure	11.43	10.01	12.23
				17.69
	Agriculture and fisheries	(0.72)	(0.46)	(0.57)
				(0.39)
	Economic services	(5.78)	(4.70)	(5.66)
				(5.74)
	Transport and communications	(0.86)	(1.34)	(1.76)
				(1.89)
	Education	(1.19)	(1.16)	(1.19)
				(1.29)
	Health	(0.92)	(1.16)	(1.28)
				(1.26)
	Other	(1.96)	(1.19)	(1.77)
				(7.12)
	Adjustment <sup>1/</sup>	-4.46	-3.59	-4.80
				-3.60
C. Overall surplus/deficit		4.53	11.58	-3.39
				-5.43

Source: Department of Finance, Republic of Maldives.

<sup>1/</sup> Customs duties have been adjusted for the export and import duties paid by the Government to itself. Corresponding adjustments have been made in total revenues and expenditures.

growth of tourism around Male since 1972, limited amounts of U.S. dollars have been circulating in Male Atoll.

There is no central bank or currency board in the Maldives. The banking system consists of two branches of foreign commercial banks, the State Bank of India and the Habib Bank Ltd., which were established in Male during the first quarter of 1974 and second quarter of 1976, respectively. There are no laws regulating banking business in the Maldives. Commission charges for foreign exchange transactions and interest rates on loans and deposits are established through competition or agreement between the banks.<sup>1/</sup> Banking business consists mainly of foreign exchange dealings and acceptance of deposits. Up to now, there has been no credit extended by the banks to the public sector and little credit to the private sector. Prior to the establishment of the banks, there was no identifiable source of credit in the economy.

Available data are not sufficiently comprehensive or consistent to allow presentation of a monetary survey. Data on currency in circulation indicate that its level at the end of September 1976 was virtually the same as at the end of December 1974 (about Mal Rs 14 million). However, during this period, broad money increased markedly, due to the growth of private sector deposits with the newly-established commercial banks. Since deposits were much larger than bank credit, the two banks held considerable amounts of domestic currency in their vaults and on deposit with the STO;<sup>2/</sup> their net foreign assets, while always positive, did not increase significantly. Net foreign assets, held primarily by the STO within the government sector, rose rapidly between 1972 and end-1975 to \$2.7 million.

#### 6. Balance of payments

The information presently available does not allow for a detailed analysis of Maldivian balance of payments performance. Apart from registered exports and imports and foreign assets, on which data are available, other items in the balance of payments (Table 4) have had to be estimated roughly on the basis of partial information.

While the overall balance of payments has been in surplus since 1972, the trade account has registered a persistent--and since 1973, increasing--deficit. This deficit was financed primarily through net earnings of the rapidly expanding shipping sector and, to a lesser extent, through net earnings of the emerging tourist industry.

Fish and fish products account for approximately 95 per cent of merchandise exports. Until 1974 dried Maldivian fish was the dominant export item; since then, there has been a marked shift to fresh fish exports.<sup>3/</sup> Rice and other essential food staples, such as sugar and wheat flour, remain dominant on the import side, although fuel, construction materials, and other items relating to the tourist sector have gained in importance since 1972. Since

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1/ The prevailing interest rates are in the range of 4 per cent to 7.25 per cent for deposits, depending on amount, type and maturity, and 13 per cent to 18 per cent for loans.

2/ Deposits were held with the STO for security reasons and no interest was received.

3/ For explanation, see Section I.1.



1974, invisible receipts have become more important than receipts from merchandise exports, and the MSL has become the major foreign exchange earner.

Net official reserves amounted at the end of 1975 to about four months of 1975 imports (excluding ships). Practically all of the official reserves are managed by the STO and held in the form of currency or deposits with banks abroad.

Table 4. Republic of Maldives: Balance of Payments, 1972-75

(In millions of Maldivian rupees)

		Preliminary Estimates			
		1972	1973	1974	1975
I.	Trade balance	-11.2	-6.3	-16.2	-26.1
	Registered exports, f.o.b.	15.1	13.4	15.6	12.3
	Registered imports, f.o.b.				
	excluding ships	21.4	17.0	13.4	26.6
	Unregistered imports, f.o.b.	4.3	3.4	2.7	5.3
	Unregistered exports, f.o.b.	0.8	0.7	0.8	0.5
	Purchase of ships and related equipment	1.3	--	16.5	7.0
II.	Services and transfers	3.1	14.0	29.7	28.4
	Tourism	0.4	2.6	2.9	3.7
	Shipping (net)	2.7	11.4	26.8	24.7
	Others	--	--	--	--
III.	Grants	0.8	1.1	1.5	3.9
IV.	Errors and omissions (including private capital flows and changes in foreign currency in circulation)	8.5	-6.2	-11.3	-3.0
	Change in reserves (I+II+III+IV)	1.2	2.6	3.7	3.2
	Change in foreign reserves of the Government (STO) (increase +)	1.2	2.1	4.0	2.6
	Change in foreign reserves of public enterprises	--	0.5	-0.4	0.1
	Change in net foreign assets of commercial banks	--	--	0.1	0.5

Sources: Data provided by the Maldivian authorities and staff estimates.

## 7. Exchange and trade system

A fixed official rate is maintained at Mal Rs 3.93 = US\$1. There is also a fluctuating exchange rate in a free market conducted by the two commercial banks; on November 30, 1976, this rate was about Mal Rs 8.5 = US\$1. The official rate is applicable to all public sector transactions and the free market rate to the transactions of the private sector. No exchange control legislation has been issued. Exchange and trade control are administered by the Department of Finance (Treasury). This Department also issues import and export licenses. There are no rules prescribing the currencies in which transactions between residents and nonresidents must be settled. No distinction is made between accounts held by residents and those held by nonresidents. No bilateral payments agreements are in force. There is a trade agreement with Sri Lanka governing price and quantity of exports of dried Maldivian fish. The accounting takes place in Sri Lanka rupees, but the Sri Lanka Government permits conversion of the earnings into convertible foreign exchange.

Imports are subject to licensing only if undertaken to match licensed exports of domestic products. Import licenses, where required, are issued freely. The foreign exchange for unlicensed private imports must be obtained in the free market. The importation of alcoholic beverages and a few other items is prohibited for reasons of public policy. Most staples (including rice, sugar, wheat flour, and kerosene) are imported at the official rate by the STO.

The Government has a monopoly, exercised through the STO, over the export of fresh and dried Maldivian fish. Private sector exports of all other domestic products (including small amounts of salt dried fish) require licenses. These are generally granted, but exporters are required to import commodities of equivalent value within a specified period. In the interim before the counter-imports are paid for, the export proceeds are freely disposable through the free market. Re-exports are exempt both from export licensing and from the requirement of matching the transaction with future imports. Licensed exports and imports are subject to tariffs. In cases where an importer obtains foreign exchange from the free market rather than from domestic exports, no import license is required nor are the imports subject to tariffs.

The private sector may freely make payments for all current invisibles through the free market. Payments by the public sector are made at the official rate. Private sector receipts from current invisibles need not be surrendered and may be disposed of freely through the free market. Travelers may freely take out or bring in any amount in domestic or foreign currency, subject to declaration only. Residents of the private sector as well as nonresidents may freely import and export capital through the free market, and residents do not require permission to maintain foreign currency accounts at home or abroad. Inward direct investment requires approval, and the acquisition of land by nonresidents is prohibited. Transactions in gold are not subject to regulation.

## II. Quota Range

Calculations of a suggested initial quota for the Maldives have been made on the same basis as calculations for the Fifth General Review of Quotas (see Data Bearing on Fund Member Quotas, SM/69/58, 5/8/69) and the calculations for other countries that have joined the Fund since that Review was completed. Calculations have also been made to determine an increase in quota for the Maldives following the procedures adopted in connection with the Sixth General Review of Quotas and recently followed in determining increases in quotas for a number of countries that joined the Fund since completion of that Review.<sup>1/</sup>

### 1. Data used in making quota calculations

The quota calculations have been made using Set I data--national income, reserves, exports, imports, and the variability of export receipts--and Set II data in which current receipts (exports, services and private transfers), the variability of current receipts, and current payments (imports, services and private transfers) are substituted for exports, variability of exports, and imports. The data used for making calculations on the bases of the Fifth General Review and of the Sixth General Review are shown in Table 5.

Table 5. Republic of Maldives: Data Used in Making Quota Calculations  
(In millions of SDRs)

	Fifth General Review Period	Sixth General Review Period
National income	7.59	10.69
Reserves	0.07	0.37
Imports, c.i.f.	2.47	3.18
Exports, f.o.b.	2.23	3.24
Current payments	3.51	4.42
Current receipts	3.16	4.66
Variability of exports	0.18	0.31
Variability of current receipts	0.26	0.44

<sup>1/</sup> The original procedures in determining individual increases in quotas after completion of the Sixth General Review were described in SM/75/223, Supplement 1, 11/26/75, and have been used in connection with calculating quota increases for eight members or applicants.

Most of the data used in the quota calculations are staff estimates and are subject to a substantial margin of error. The only official data available were for imports and exports. In the absence of official data, national income has been estimated utilizing data on exports, domestic consumption of fish, agricultural production, and profits, wages and salaries paid in the shipping and tourist industries. Reserve figures have been estimated from foreign exchange holdings of the State Trading Organization and the public enterprises. Current payments and current receipts have been estimated using the same method as adopted in estimating current receipts and payments for the Comoros and Seychelles, i.e., by applying to Maldives' exports and imports the average ratios of invisible receipts and payments to exports and imports of a representative group of countries. In the case of the Maldives this technique might somewhat underestimate the variability of current receipts.

## 2. Quota calculations and suggested initial quota

The results of the quota calculations made on the same basis as those made in connection with the Fifth General Review are shown in Table 6.

Table 6. Republic of Maldives: Quota Calculations

(In millions of SDRs)

	Set I	Set II	Average of Set I and Set II
Bretton Woods formula, reduced	0.31	0.38	0.35
Bretton Woods formula, reweighted			
Scheme III	0.44	0.53	0.49
Scheme IV	0.54	0.65	0.59
Bretton Woods formula, linear and reweighted			
Scheme M <sub>4</sub>	0.47	0.53	0.50
Scheme M <sub>7</sub>	0.51	0.57	0.54
Average of two of the reweighted and modified Bretton Woods formulae	0.46	0.53	0.50

Following earlier practice, the results of the quota calculations using Set I and Set II data have been averaged (SM/69/88, 6/16/69, p. 1), and the quota range has been determined by the calculations based on the Bretton Woods quota formula, reduced, and the average of the lowest two calculations of four reweighted and linear formulae. The quota calculations shown in Table 6 indicate a quota range of SDR 0.35 million to SDR 0.50 million; increasing these results by 25 per cent in accordance with procedures followed for new members since the Fifth General Review of Quotas results in a quota range of SDR 0.44 million to SDR 0.63 million.

Table 7 lists the five countries with the smallest quotas in the Fund ranging from SDR 1.9 million to SDR 5 million and the variables employed in the quota calculations, as well as the population of these countries. Corresponding data for four recent applicants for membership in the Fund, and for the Maldives, are also shown. As can be seen from the Table, the Maldives falls below any other country listed in every category except for national income, exports, current receipts and population. In terms of several of the variables given emphasis in quota calculations, the Maldives appears to be the smallest country among members of the Fund and recent applicants.

Following the rounding procedures which recently have been applied in connection with determining initial quotas for a number of small countries joining the Fund, it is suggested that the quota calculations for the Maldives be presented to one decimal place. On the basis of the calculations shown in Table 6, an initial quota falling within the range of SDR 0.5 million to SDR 0.7 million for the Maldives would seem reasonable in the light of the calculations and the relevant economic variables used in making the calculations. An initial quota within this range would also seem to fit reasonably well in the present structure of Fund quotas.

### 3. Suggested increase in quota

An increase in quota has been calculated for the Maldives on the same basis as used in connection with the Sixth General Review.<sup>1/</sup> For the purposes of this Review, the Maldives would have been classified as an "other developing country."

An initial step in the procedures adopted under the Sixth General Review was the establishment of a single calculated quota. This was derived by taking the higher of (i) the average of the results in Set I and Set II of the Bretton Woods formula, reduced, and (ii) the averages of the lowest two reweighted Bretton Woods formulae, Set I and Set II, averaged. Under this procedure, based on the data shown in Table 8, the calculated quota for the Maldives would be SDR 0.74 million.

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<sup>1/</sup> See SM/75/128, Rev. 2, 5/30/75, which was issued to the Interim Committee as ICMS/Doc/75/12.

Table 7. Economic Data Used in Quota Calculations for Maldives, and Comparable Data for Members and Applicants of Similar Size

(In millions of SDRs; Population in thousands)

	Quota	Increased Quota	National Income (1967)	Reserves (1967)	Imports (Average 1963-67)	Exports (Average 1963-67)	Current Payments (1963-67)	Current Receipts (1963-67)	Total Trade	Total Current Payments & Current Receipts	Variability of Exports (1955-67)	Variability of Current Receipts (1955-67)	Population Latest Available Data
<b>Members</b>													
Botswana	5	9	52	1	15	14	21	18	29	39	1	1	654
Lesotho	5	7	55	1	25	7	30	17	32	47	1	2	1,191
Western Samoa	2	3	26	3	9	6	...	...	15	...	1	...	157
Grenada	2	3	26.0	3.0	11.3	5.2	14.0	9.2	16.5	23.2	0.9	0.9	108
Comoros	1.9	2.3	26.5	1.4	6.6	4.0	9.4	5.7	10.6	15.1	0.6	0.8	285
<b>Applicants</b>													
Guinea-Bissau	3.2 <sup>1/</sup>	3.9 <sup>1/</sup>	94.64	1.18	15.57	4.21	21.83	5.97	19.78	27.80	0.89	1.27	977
São Tomé & Príncipe	1.6 <sup>2/</sup>	2.0 <sup>2/</sup>	21.63	2.76	5.15	6.05	7.73	7.69	11.20	15.42	0.61	0.77	77
Seychelles	1.0 <sup>3/</sup>	1.3 <sup>3/</sup>	2.75	1.49	3.92	1.85	5.57	2.63	5.77	8.20	0.43	0.32	58
Cape Verde	1.2-1.3 <sup>4/</sup>	1.6-1.7 <sup>4/</sup>	15.91	4.99	5.84	1.00	6.38	4.05	6.84	10.43	0.25	1.02	300
Maldives			7.59	0.07	2.47	2.23	3.51	3.16	4.70	6.67	0.18	0.26	135

<sup>1/</sup> Proposed quota, see EBD/76/190 (Corrected, September 21, 1976).

<sup>2/</sup> Proposed quota, see EB/CM/São Tomé and Príncipe/77/1 (February 2, 1977).

<sup>3/</sup> Proposed quota, see EBD/76/161, (August 3, 1976).

<sup>4/</sup> Proposed quota, see EB/CM/Cape Verde/77/1 (February 28, 1977).

Table 8. Republic of Maldives: Quota Calculations; Sixth General Review  
(In millions of SDRs)

	Set I	Set II	Average of Set I and Set II
Bretton Woods formula, reduced	0.45	0.54	0.50
Bretton Woods formula, reweighted			
Scheme III	0.64	0.76	0.70
Scheme IV	0.84	0.99	0.92
Bretton Woods formula, linear and reweighted			
Scheme M <sub>4</sub>	0.74	0.82	0.78
Scheme M <sub>7</sub>	0.82	0.91	0.87
Average of lowest two of the re- weighted and modified Bretton Woods formulae	0.69	0.79	0.74

For a member in the group of "other developing countries," the actual quota increase under the Sixth General Review was the sum of (i) an increase of 21 per cent in its existing quota, and (ii) a special increase based on the member's proportionate share in the total of the excess of calculated quotas over existing quotas.<sup>1/</sup>

For the Maldives, this procedure would yield the following results:

	(SDR million)
(Suggested) present quota	0.50 - 0.70
21 per cent general increase	0.10 - 0.15
Special increase <sup>2/</sup>	0.10 - 0.02
Potential quota	0.70 - 0.87

<sup>1/</sup> The ratio of the total of the special increases available for the countries in the group of "other developing countries" to the total excess for these countries of their calculated over present quotas, was 0.41396.

<sup>2/</sup> 41.396 per cent of SDR 0.24 million and SDR 0.04 million, the latter amounts being the excess of the calculated quota (SDR 0.74 million) over the proposed quota range of SDR 0.5 million to SDR 0.7 million for the Maldives.

In light of the above, it is suggested that the Maldives be offered an initial quota within the range of SDR 0.5 million to SDR 0.7 million if it joins the Fund before quota increases become effective under the Sixth General Review of Quotas; and that the proposed initial quota be increased to a maximum within the range of SDR 0.7 million to SDR 0.9 million on the same terms and conditions as are provided for increases in quotas proposed in connection with the Sixth General Review of Quotas (Board of Governors Resolution No. 31-2, adopted 3/22/76). The higher quota within the range of SDR 0.7 million to SDR 0.9 million would also be the suggested quota if the Maldives were to become a member after quota increases become effective under the Sixth General Review of Quotas.

### III. Initial Subscription Payment

Prior to 1973, countries joining the Fund paid part of their initial subscription in gold. All countries joining the Fund since 1973 have paid their entire initial subscription in national currency. Each membership resolution since 1973 has also included the period over which the member is required to repurchase in reserve assets from the Fund the equivalent of 25 per cent of the initial subscription, thereby maintaining the principle of making a contribution to the usable resources of the Fund. New members since 1973--the Bahamas, Grenada, Papua New Guinea and Guinea-Bissau--and Surinam, whose membership resolution has recently been voted by the Board of Governors, have been required to repurchase 25 per cent of their initial subscription within three months of payment. For two other countries whose official holdings of reserves were regarded as relatively low--Comoros and Seychelles--the membership resolution also included a provision for paying the initial subscription in national currency, but the repurchase can be made in installments, within a two-year period. Comoros has, however, recently repurchased the equivalent of the 25 per cent of its initial quota in a single transaction within three months of paying its initial subscription (EBS/77/80, 3/23/77 and Supplement 1, 4/4/77).

It would seem appropriate to continue to require new members to make a contribution to the Fund in connection with their membership in the Fund.<sup>1/</sup> Since a reserve position in the Fund, which represents a diversification of a country's external reserves, can be mobilized without cost at very short notice in case of need, a reserve asset payment equivalent to 25 per cent of quota would normally not pose an undue burden.

As indicated above, the balance of payments of Maldives has been in overall surplus since 1972. However, the net inflow of foreign exchange takes the form of external balances held by the STO, by the public enterprises and by the banking sector. External assets held by these institutions totaled about SDR 3 million at the end of 1975; no data are available since then.

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<sup>1/</sup> This principle is also contained in the draft Article II, Section 2, and in the Commentary on the Proposed Second Amendment, which refers to "the continuation of the established practice that a new member pays an appropriate part of its original subscription in reserve assets" (Chapter B, Section 1).



In making the application to join the Fund, the President of the Republic of Maldives stated "that the Government of State of Kuwait has agreed to assist us in this respect." The Minister of Finance of Kuwait has indicated that the Government of Kuwait is prepared to meet the foreign exchange equivalent of the reserve assets payable by the Maldives in connection with its initial subscription.<sup>1/</sup> It is suggested that the Maldives pay the equivalent of 25 per cent of the initial quota within the range of SDR 0.5 million to SDR 0.7 million in reserve assets.

The Maldives holds no gold in its reserves. Taking into account present circumstances as regards official transactions in gold, prices in the private gold markets, the particular circumstances of the country as well as recommendations regarding the initial subscriptions for recent new members, it is suggested that the Maldives not be required to pay part of its initial subscription in gold. Instead, it is proposed that the Maldives pay the whole of its initial subscription in local currency and shortly thereafter repurchase, in assets acceptable to the Fund, the equivalent of 25 per cent of the quota proposed for the period prior to quota increases under the Sixth General Review coming into effect. Since payments of quota increases in connection with the Sixth General Review may be made wholly in local currency, it would not be appropriate to require a payment in reserve assets in excess of 25 per cent of the quota proposed for the period prior to quota increases under the Sixth General Review coming into effect, whether the excess is paid separately, or as part of a proposed larger quota if the Maldives were to become a member after quota increases become effective under the Sixth General Review of Quotas.

As with other members that have recently joined the Fund and in order to permit sufficient time for the completion of certain technical arrangements--such as the establishment of the depository, the opening of accounts, and the determination of an exchange rate for the member's currency--it might be considered appropriate to require the Maldives, as a condition of membership, to pay its subscription in local currency equal to the proposed quota within a period of three months of becoming a member of the Fund. Furthermore, as regards the timing of the proposed repurchase it is suggested that this take place within three months after the payment of the local currency subscription of the initial quota. This repurchase would be made, after consultation with the Fund, in assets acceptable to the Fund in accordance with the Fund's policies.

The Maldives could not be required to repurchase its own currency with SDRs, because of its right not to become a participant in the Special Drawing Account. Nevertheless, in the event of the Maldives becoming a participant, it could thereafter opt to repurchase with SDRs provided it would be able to acquire them either through an allocation or from other participants.

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<sup>1/</sup> A similar arrangement was made with the Comoros.