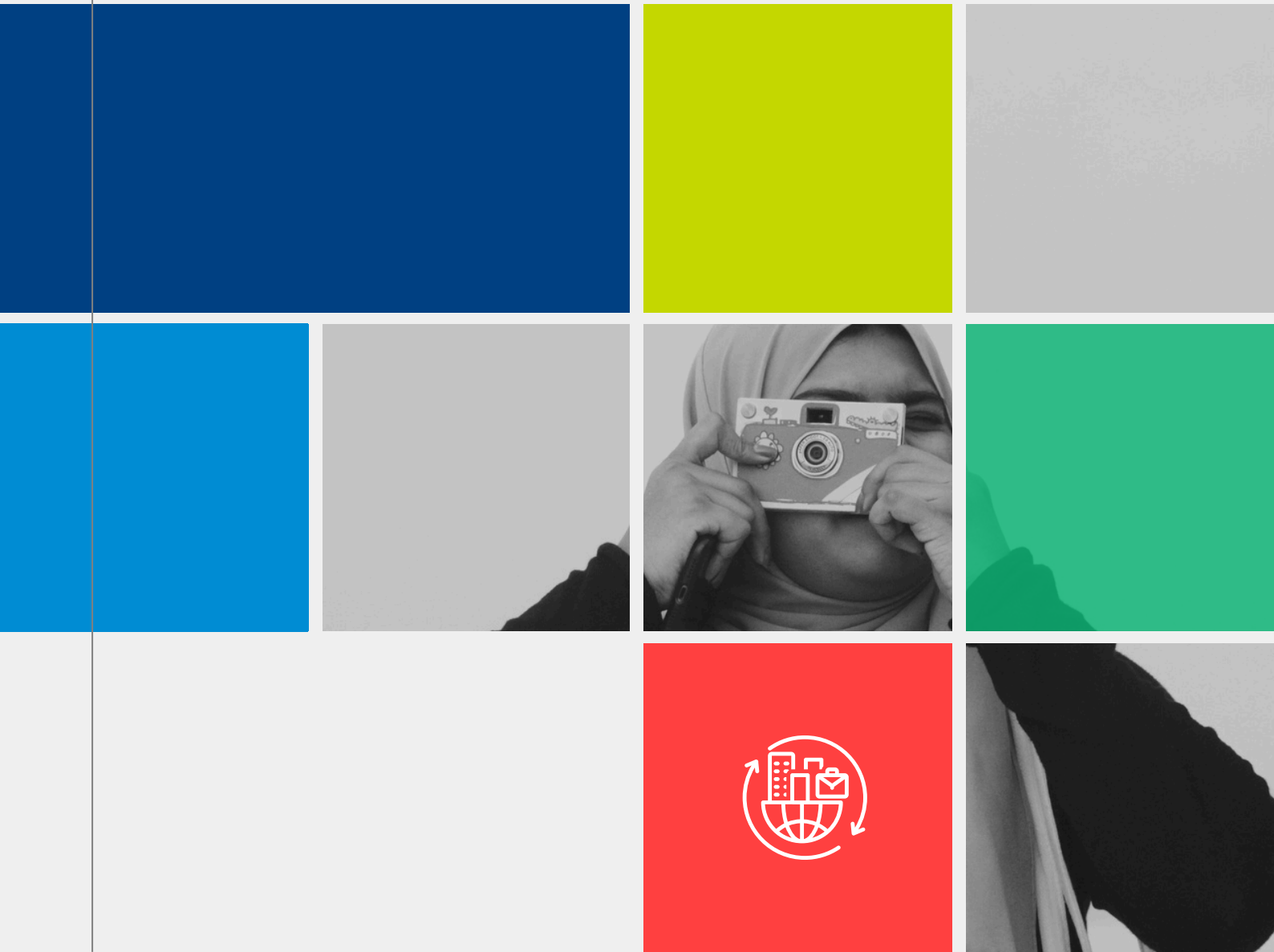




Strengthening the Entrepreneurship Ecosystem in the Maldives:

with a focus on

micro, small and medium enterprises



about.



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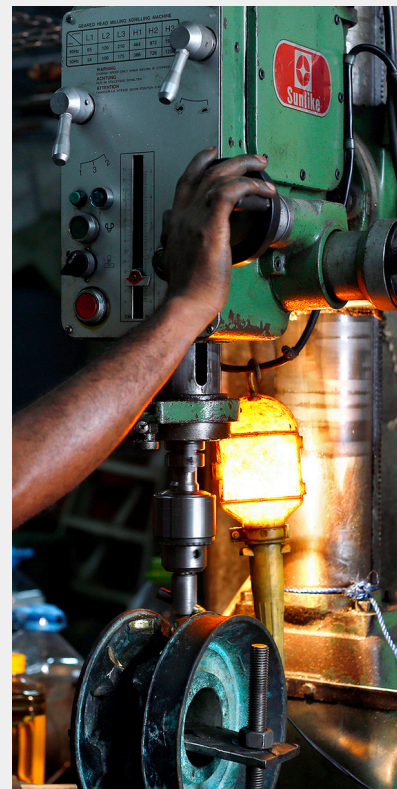


Table of Contents

	Introduction	6
01	The Maldives Economy	7
02	Micro, small and medium-sized enterprises	10
03	Entrepreneurship ecosystem domain analysis	13
	3.1 Policy and regulatory framework	15
	3.2 Human capital and entrepreneurship culture	16
	3.3 Access to finance and incentives	17
	3.4 Business development support and infrastructure	19
	3.5 Access to markets	21
	3.6 Innovation and technology	23
	3.7 Entrepreneurial networks	24
	3.8 Potential sectors	25

Table of Contents

04 Policy Recommendations 26

4.1 Policy and regulatory framework 27

4.2 Human capital and entrepreneurial culture 29

4.3 Access to finance and incentives 31

4.4 Business development support and infrastructure 33

4.5 Access to markets 34

4.6 Innovation and technology 35

4.7 Entrepreneurial networks 37

4.8 Potential sectors 39

Conclusion 40

Annex 1 SWOT analysis and potential sectors for MSME development 41

Table of Figures

Figure 1: Economic growth in South Asia 2018-2027 8

Figure 2: Youth Co:Lab Entrepreneurship Ecosystem Diagnostic Framework 13

List of Tables

Table 1: Confidence index score scale 14

Table 2: SWOT analysis 41

References 44

Introduction.

Maldives, an upper-middle-income country, consists of several natural atolls and over 1,000 islands spread over 900 km² around the equator. In 2022, the population of 515,132[1] was dispersed across 185 islands. The country is one of the fastest-growing economies with the highest per capita income in South Asia[2]. Tourism and fisheries have continued to be important growth drivers[3], generating new employment and business opportunities for micro, small and medium-sized enterprises (MSMEs). The performance of the tourism (20 percent) and technical service (17 percent) sectors has shown useful improvement from 2021-2022[4]. In recent years, the Government of Maldives, with the support of international development partners, has implemented several initiatives to develop the entrepreneurship ecosystem in the country.

This Policy Brief aims to provide actionable insights to further develop the entrepreneurship ecosystem in Maldives through an inclusivity lens. It assesses the strengths and weaknesses of this ecosystem in the following seven entrepreneurship domain areas[5]: (i) the policy and regulatory framework; (ii) human capital and the entrepreneurship culture; (iii) access to finance and incentives; (iv) business development support and infrastructure; (v) innovation and technology; (vi) access to markets; and (vii) the entrepreneurial network.

In 2022, the following activities were conducted. Two consultation workshops, 12 focus group discussions, 13 key informant interviews, five case studies, and 613 face-to-face interviews with entrepreneurs and ecosystem builders representing Greater Malé, Faafu and Raa Atolls. In addition, a comprehensive desk review was conducted to analyse current initiatives and developments in the national entrepreneurship ecosystem. This Policy Brief outlines the main findings from the research analysis and key recommendations for policymakers and key stakeholders.

01 The Maldives economy.

Despite the country's structural characteristics, such as its geographic isolation, small size and limited natural resources, Maldives is one of the fastest-growing economies in South Asia (Figure 1). Although its economic growth slowed down during the COVID-19 pandemic period[6] it rebounded in 2021, projecting a real growth of 6.6 percent in 2023, and an average 5.6 percent growth in the 2024–2025 period.

In the 2023 Multidimensional Poverty Index (MPI), the Maldives achieved a remarkable ranking of 0.003, signifying that the incidence of multidimensional poverty within the nation is effectively nonexistent. However, according to the National Bureau of Statistics[7] a regional comparison reveals that 10 percent of the population in Malé was multidimensionally poor compared to 40 percent in the atolls.

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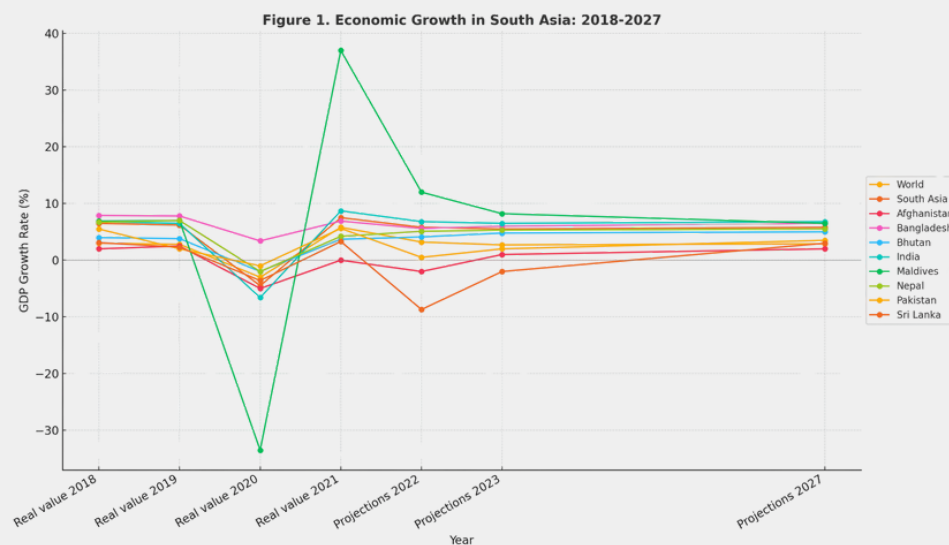
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In recent years, two sectors, tourism and fisheries, have been the driving forces behind GDP growth and employment generation[8] and have created linkages to other subsectors such as local handicrafts, tourism-related activities and boatbuilding. According to the Annual Report 2022 published by the Maldives Monetary Authority (MMA)[9] during 2022, business growth was strengthened and accelerated in all strategically important sectors such as tourism, construction, wholesale and retail trade, transport, communication, and construction.



Sources: International Monetary Fund, *World Economic Outlook: Countering the Cost-of-Living Crisis*, Washington, USA, October 2022, World Bank, *Global Economic Prospects*, Washington, USA, June 2022, and Maldives Monetary Authority, *Annual Report*, 2022.



Maldives remains highly vulnerable to external economic shocks and the adverse impacts of climate change. Significant economic development challenges include inadequate connectivity among outer islands to facilitate proper logistic services, low investments outside the tourism sector, heavy reliance on imported fossil fuels for electricity generation, weak waste management and sanitation, and low access to quality education and healthcare services[10]. Overall, heavy public debt, a widening current account deficit and low foreign reserves are the key macroeconomic risk factors[11].

The Ministry of Economic Development (MED)[12] has taken the leadership role in consolidating government efforts in MSME development to establish a more holistic and integrated approach to private sector development and the promotion of the MSME sector.



02

Micro, small and medium-sized enterprises.

In Maldives, MSMEs are an essential part of the economic fabric and a critical accelerator for achieving sustainable and resilient growth. According to the Household Income and Expenditure Survey (HIES) 2019, there are 40,232 small enterprises in Maldives, of which 85 percent consist of own-account workers and 10 percent are employees. Based on the definitions used in HIES 2019[13] The survey analysis reveals that 94 percent of businesses are classified as small businesses, approximately 38 percent of the small enterprises are located in Malé, and 62 percent are based in the atolls[14].

Small enterprises exhibit diverse sectoral engagements and ownership patterns. Manufacturing activities attract the majority, with 40 percent involvement, while education follows with 12 percent representation. Notably, 32 percent of small enterprises are either fully or partially, in the tourism sector.

When dissecting the demographics, it becomes evident that women entrepreneurs dominate the manufacturing sector, constituting 61 percent, and also make a significant presence in the education sector at 15 percent. Conversely, men predominantly participate in wholesale and retail trade (24 percent) and agriculture (17 percent).

Ownership distribution reveals a relatively balanced landscape, with 52 percent of small enterprises owned by women and 48 percent by men. Youth entrepreneurs account for 28 percent of ownership, whereas adults command the majority at 66 percent, leaving the elderly, aged 65 and above, with a modest 6 percent representation.

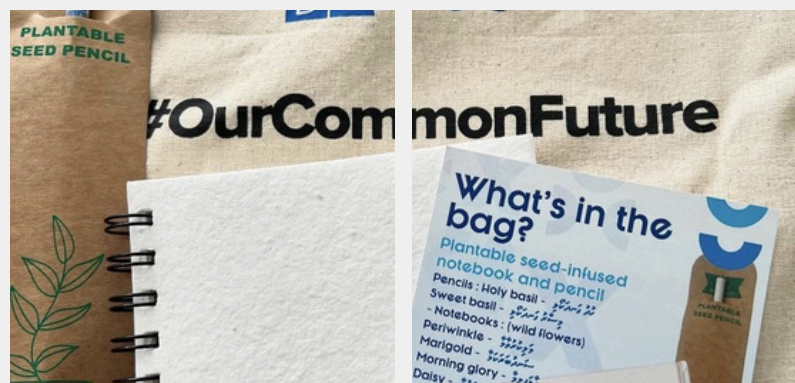
Educational backgrounds vary within this entrepreneurial landscape, where a substantial 58 percent of small business owners lack formal education. This underscores the diverse nature of small enterprises, both in sectoral engagements and the demographic characteristics of their proprietors.

Small enterprises constitute a substantial portion of the country's productivity and data underscores the diverse financial performance of small enterprises across different sectors, highlighting both their varying revenue generation and cost structures. According to the HIES 2019, an average small enterprise's monthly revenue is MVR 22,618, but this can range from as high as MVR 92,501 for the wholesale and retail industry to as low as MVR 2,350 for activities of households as employers. The average monthly cost of a small enterprise is MVR 16,138, and it ranges from MVR 530 to MVR 79,616. The overall average monthly profit amounts to MVR 6,480. The monthly value added of small businesses is MVR 358,645,259, which is approximately 5.7 percent of 2019 gross value added[15].



The Government's 2019–2023 Strategic Action Plan (SAP) set objectives for the development of the MSME sector. Business Centres were implemented in different regions of the country to assist the formation of start-ups and act as advisory bodies providing training and workspaces, among other services. In addition, the SME bank was established, specializing in financing start-ups, and efforts were planned to strengthen the data collection framework. Regulations regarding the subsector were a further development[16].

However, the MSME sector is still challenged by inadequate capacity, high start-up costs, limited access to finance and banking facilities, high collateral requirements, lack of infrastructure and weak transport networks. According to a report by UNDP Maldives (2020)[17], major challenges include the lack of an entrepreneurship culture, limited training and education opportunities in entrepreneurship skills, and information gaps about available funding sources. The geographical disparities in land valuation, low financial literacy, and high collateral requirements and interest rates add to the limitations faced by start-ups. There have been very limited investments in innovation and information and communications technology (ICT). The above challenges are more pronounced for women[18] and youth[19], particularly those who are in entry level jobs residing in remote islands[20].



03

Entrepreneurship ecosystem domain analysis.

This policy brief presents the results of primary data collected through sample surveys (one with MSME entrepreneurs and another with ecosystem builders), Focus Group Discussions (FGDs), Key Informant Interviews (KIIs), and case studies. Secondary data from desk reviews were utilized to support the findings and frame recommendations.

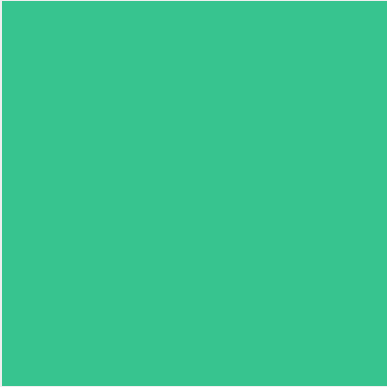
To ensure a holistic assessment of the operating environment for young entrepreneurs in the Maldives, the study employed a six-domain framework (Figure 2), which has been adapted from Youth Co:Lab's methodology to the specific socio-economic and geographical context of the Maldives. A seventh domain of entrepreneurial networks is added to capture the scope and diversity of youth entrepreneurship across the country.



The seven domains include:

1. Enabling policy and regulatory framework
2. Human capital and entrepreneurial culture
3. Access to finance and incentives
4. Business development support and infrastructure
5. Access to market
6. Innovation and technology, and
7. Entrepreneurial networks.

Figure 2: Youth Co:Lab Entrepreneurship Ecosystem Diagnostic Framework



The entrepreneur survey and the ecosystem builder survey were used to measure Entrepreneurship Ecosystem Confidence Index (EECI) scores (Table 1). The EECI scores range from 1 to 5, with 1 indicating the lowest confidence and 5 for the highest confidence. The average score value is 3.00. The estimated EECI scores reflect the confidence of entrepreneurs and ecosystem builders in the entrepreneurship ecosystem in the Maldives.

Table 1: Confidence Index Score Scale

SCORE	1	2	3	4	5
Level of Confidence	Highly Disagree	Disagree	Neutral	Agree	Highly Agree



3.1

Policy and regulatory framework.

Government agencies and regulatory bodies are actively involved in the development of the entrepreneurship ecosystem. The Small and Medium Enterprises Act 2013 (the SME Act) provides the overall policy direction for SME development across the country, while SAP 2019–2023 outlines several concrete actions to strengthen MSMEs and entrepreneurship. In addition to framing policies and regulations, the Government, with the support of international development organizations, has introduced various programmes to address barriers, promote entrepreneurship and strengthen MSMEs.

Some of the key initiatives include funding and grants opportunities, accelerator and incubator programmes, and innovation labs provided through establishments such as the Business Center Corporation (BCC)[21] and the SME Development Finance Corporation (SDFC). The current policies and regulations under the SME Act are supportive of MSME entrepreneurs in several ways including strengthening the integration of youth and the gender-responsive approach in the policy design and implementation.

The existing MSME database could be further strengthened through enhance collaboration among stakeholders. This, in turn, ensures that the analysis of gender-disaggregated data yields valuable insights for policymakers and targeted support measures aimed at dismantling inclusivity barriers. Although Maldives has a universal pension system, the social insurance system could be strengthened through the delivery of focused schemes catering specifically to MSMEs, including disaster-resilient social protection strategies and unemployment benefits.



3.2

Human capital and entrepreneurship culture.

In recent years, entrepreneurship progress in Maldives has advanced with an evolution of entrepreneurial culture, especially within the Greater Malé region. This positive trend is attributed to governmental initiatives including the establishment of the BCC and its initiatives, such as the MSME National Dialogue Series. Additionally, initiatives, including the prospective business TV entrepreneurship channel and the business incubator program, further underscore the positive impact on the entrepreneurship ecosystem.

Building on the existing pathways for integrating entrepreneurship education into university curricula and the efforts from both public and private sector entities in providing entrepreneurship training can be an opportunity for accelerating growth and development in this domain.

There are untapped opportunities to strengthen the capacity and knowledge of young aspiring entrepreneurs by addressing the challenges related to geography, the quality of training and their awareness of training programmes. Additionally, addressing social and gender norms can lead to the meaningful engagement of youth and women in entrepreneurship activities and foster stronger innovation and productivity within enterprises. Exploring avenues to support MSMEs to foster inclusive enterprises and scale up their business can be vital for unlocking further potential in the entrepreneurial landscape.

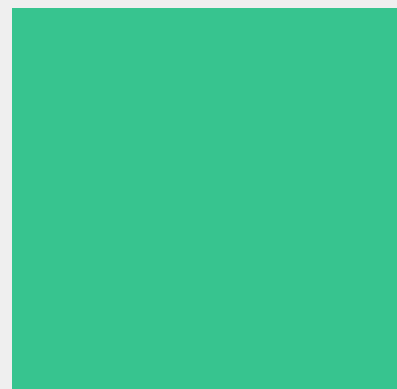
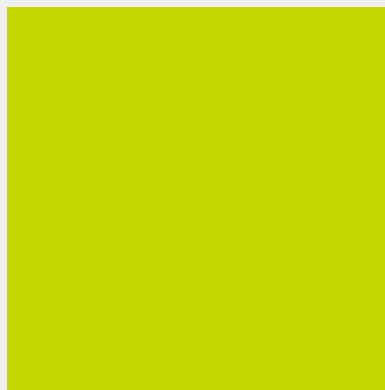


3.3

Access to finance and incentives.

Access to finance is one of the key challenges for MSMEs. The Government of Maldives has set up a special SME financial institution, SDFC, to provide financial services to MSMEs and entrepreneurs that are just starting out on their entrepreneurial journey. One of the critical support services offered by BCC is to improve the financial literacy of entrepreneurs with a special focus on youth and women, and to strengthen the financial management of their enterprises. However, MSMEs mainly rely on personal savings or on financial support or loans from relatives and friends. Despite the new opportunities, financial institutions and capital markets remain hesitant to invest in MSMEs due to asymmetric information and high transaction costs[22].

In recent years, the country has received various forms of financial support for MSMEs from several international development agencies, including the World Bank, the Asian Development Bank, the Islamic Development Bank, the European Union (EU), and recently, the Global Fund for Coral Reefs. The EU also provided COVID-19 relief support for SMEs. However, angel investors and crowdfunding are not accessible for MSMEs in the country. Furthermore, entrepreneurs are not adequately aware of external alternative sources of finance, nor do they have sufficient financial literacy to engage with banks. MSMEs are hesitant to opt for equity finance, suspecting that investors would steal their business ideas.



In addition, People with disabilities (PWDs) have identified gaps in access to financial services as a significant barrier hindering the development of their potential entrepreneurship. Key challenges here relate to:

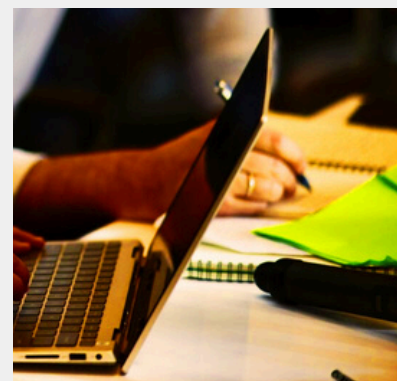
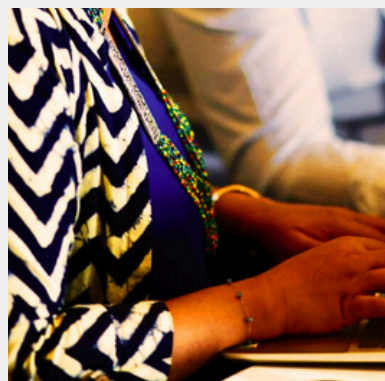
- 1.Limited access for PWDs to business support services and infrastructures such as banks, training institutes and workspaces;
- 2.A lack of awareness initiatives regarding financial products and opportunities supporting PWDs;
- 3.Reliance on the ad-hoc financial support for PWDs instead of empowering them; and
- 4.A lack of necessary tools such as voice-to-text converters, braille books, and easily understandable information packs for PWDs.

3.4

Business development support and infrastructure.

Access to relevant business development support and supportive infrastructure is essential for the establishment and sustainability of MSMEs.. There is a growing trend of support for accelerators, incubators and capacity-building programmes offering mentorship, training and advice. While most of these support services are currently concentrated in Greater Malé, efforts are gradually expanding to other atolls.

Lack of awareness is also identified as one of the barriers to the effective uptake of these services. Additionally, considering that many of these service providers are still in their early stages, having been established within the last two or three years, their full potential is yet to be realized.



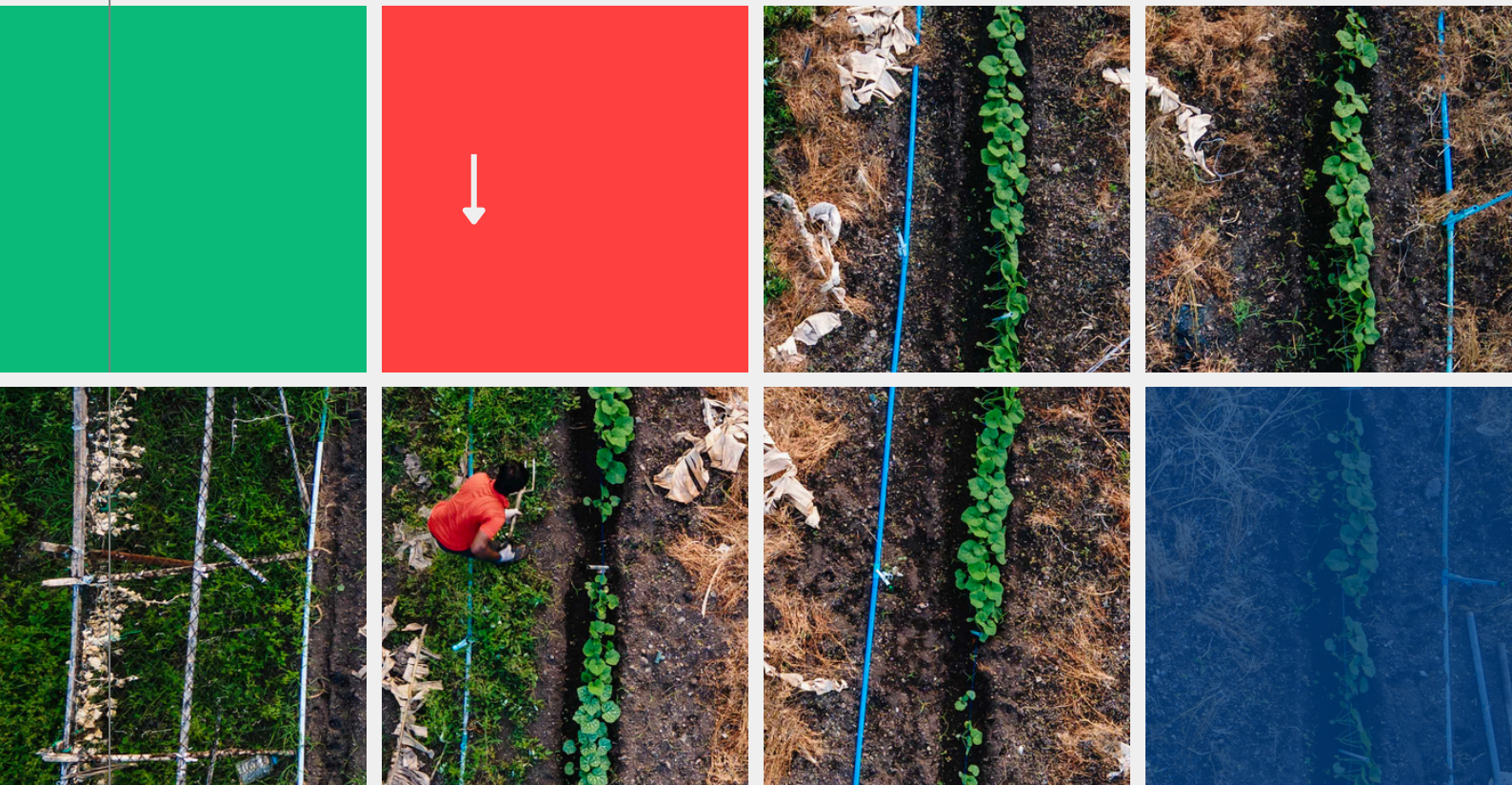
Most of these initiatives and their services have been impacted by the COVID-19 pandemic. MSMEs hesitate to rely on private sector-led business service providers, often perceiving them as expensive. In contrast, NGO-led business development services enjoy moderate popularity, particularly among male-led SMEs and entrepreneurs in Greater Malé. Due to a lack of demand and unaffordable high-quality business development services, high-quality suppliers might withdraw from the market. This withdrawal could be because they have information about the quality of their services that the market does not fully appreciate[23].

In terms of infrastructure, although basic utilities such as electricity, water, transport and the Internet are widely available, their cost is of great concern for entrepreneurs. In addition, the logistics infrastructure, in particular transportation, presents a major obstacle for MSMEs, particularly for women-led businesses.

3.5

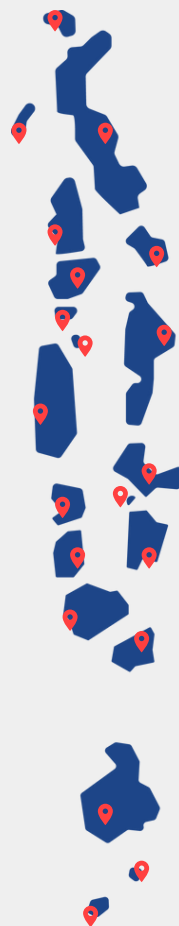
Access to markets.

Access to national and international markets is crucial in the Maldives due to the small size of the domestic market and its geography constraints. Within this context, key issues identified include inefficient and unaffordable logistics infrastructure, and inadequate support systems and institutions to strengthen value creation. Additionally, barriers to market access for MSMEs include a lack of reliable market information, limited opportunities to connect with foreign markets, and absence of economies of scale.





Key enablers for MSMEs to access markets include growing online marketing platforms such as Authentic Maldives, Moolee, ibay, and Etukuri, along with widely available internet facilities. Additionally, multiple Authentic Maldives outlets in airports and resorts, the SME Hub based in Malé and the planned co-sharing kitchen provide opportunities for MSMEs to market their products to a wider audience.



3.6

Innovation and technology.

The Government's strong commitment to digitalization, combined with the country's strong internet usage rate (currently at 63.2 percent), presents a significant opportunity for substantial growth.

The COVID-19 pandemic served as a catalyst for expediting the country's digital transformation journey. However, in addition to the opportunities that this transformation provided, several significant challenges also remain. These challenges include high internet costs, limited knowledge and awareness of the latest technology, inadequate infrastructure, insufficient systems for safeguarding intellectual property rights, and a shortage of skilled workers. Additionally, entrepreneurs operating in rural areas encounter higher barriers in accessing affordable and good quality internet services.

Furthermore, there is a strategic opportunity for fostering greater collaboration between university researchers and industrialists. Bridging this collaboration gap can lead to enhanced innovation, stronger knowledge transfer, and the development of innovative products and technologies. Additionally, addressing the funding gap for market research and product development is crucial to ensure the successful transition of innovative ideas into demand-driven products and services.





3.7

Entrepreneurial networks.

Entrepreneurial networks offer significant potential to support MSMEs in facilitating knowledge exchanges, accessing valuable resources and potential investors. Building stronger relationships with stakeholders and ecosystem builders can help MSMEs to grow and scale up their businesses. While the country hosts various international events, targeted support can be provided to engage a diverse range of MSMEs in such forums. Establishing linkages and building networks, such as linking and bridging social capital[24], can be challenging, as social enterprises or similar entities aiming to facilitate networking are not yet widely established.

3.8

Potential sectors.

The research also considered the capacities, strengths, opportunities, and challenges within various economic sectors in the country. It also assessed the active participation of youth and women, in addition to evaluating the alignment of these sectors with the country's development priorities and global commitments, including the Sustainable Development Goals (SDGs). Based on this analysis, the following sectors emerged as having significant potential for increased involvement and expansion of MSMEs and requires further research to identify specific policy and programmatic interventions: tourism, fisheries, ICT and telework, agriculture and construction.

04

Policy recommendations.

To enhance the entrepreneurial landscape, policymakers must focus on addressing the requirements of the broader entrepreneurship ecosystem and on enhancing the capacity of support organizations that empower entrepreneurs, aspiring women and youth entrepreneurs. This section presents a comprehensive set of actionable recommendations that enable policymakers to take an integrated approach to intervention aimed at addressing the gaps in the ecosystem while strengthening the capabilities of support institutions to empower entrepreneurs, particularly women and youth. By working collaboratively with the private sector and support organizations, policymakers can take strategic action towards creating an inclusive environment for entrepreneurship, unlocking economic growth and job creation opportunities in the country.



4.1

Policy and regulatory framework.

Develop and implement inclusive policies and regulations through regular evaluations and analysis.

To design effective policies that align with the SDGs and support MSME growth, policymakers should have mechanisms in place to regularly evaluate the effectiveness of policies and regulations at least every five years, including the impact of policies on target sectors, different geographical locations and demographic groups, and to identify types of support required for entrepreneurs from diverse backgrounds. The findings from evaluations should be integrated into existing policies and regulations and in framing new policies. Additionally, streamlining data management and inclusive data analysis related to entrepreneurship can support the effective monitoring and evaluation of policies and regulations.



Strengthen efforts to enhance the enforcement of intellectual property rights protection and investor protection.

Maldives has made substantial progress in creating a favourable framework for protecting intellectual property rights and investor protection in the country. Further efforts could focus on property rights, contract enforcement, and investor protection.

Maintain a comprehensive MSME database.

The MSME database should be strengthened by ensuring regular maintenance of the registry. The disclosure of data related to the entrepreneurial ecosystem could effectively enable the development of the country's ecosystem.

Ensure disaster-resilient social protection.

In addition to the universal pension, targeted schemes such as the disaster-resilient social protection scheme are crucial for both promoting and scaling MSMEs.

Enhance the policy and regulatory framework for women, youth and social enterprises.

Evaluate the current SME policy framework, specifically from the perspectives of gender inclusivity and youth entrepreneurship. Based on the findings of this evaluation, the necessary amendments can be made to strengthen the inclusivity of targeted support for women and youth entrepreneurs.

Additionally, it is crucial to adopt formal definitions for start-ups and social enterprises, providing them with the appropriate recognition and support they require to thrive in the entrepreneurship ecosystem.



4.2

Human capital and entrepreneurial culture.

Enhance entrepreneurial education and professionalism.

Entrepreneurship must be included in all levels of the education system. Universities can play an important role in fostering entrepreneurship by inspiring students and cultivating an entrepreneurial mindset, providing entrepreneurial skills, and transferring technologies to young enterprises to enable them to become more innovative.

Women and youth entrepreneurship should be encouraged early on

by integrating entrepreneurship education in high schools to increase the uptake of similar courses in university and tertiary education. These approaches can foster an entrepreneurial culture that is supportive of MSME development, particularly women entrepreneurship.





Enhance online transformation.

ICT services are growing due to widespread internet connectivity across inhabited islands, providing an opportunity to engage remote workers in ICT jobs. Beyond a macro focus on job creation, opportunities for skill building in information technology (IT) enabled services, entrepreneurship, and self-employment could stimulate a stronger micro focus. In response to the COVID-19 pandemic, an online adaptation initiative was introduced in schools and the workplace. Continuing these initiatives could lead to enhancing education and training outcomes and new employment and entrepreneurial opportunities for youth in the digital age (the 4th Industrial Revolution).

Raise awareness on equal sharing of domestic responsibilities and supporting childcare to empower women in entrepreneurship opportunities.

In order to address the disproportionate burden of childcare and household responsibilities placed on women, it is crucial to promote and advocate for the active participation of men and boys in caregiving and household responsibilities. Accessible and high-quality subsidized child and elderly care services should also be established nationwide to encourage women to participate in the labour force.

4.3

Access to finance and incentives.

Provide low-interest micro-loans targeting marginalized groups.

SDFC could develop micro-loan schemes with low interest rates, combined with a grant targeting those facing higher barriers in accessing financial services and products.

Foster crowdfunding and equity finance.

Innovative financing mechanisms such as crowdfunding and peer-to-peer funding should be fostered to stimulate the growth of MSMEs. Policymakers should revise regulations to accommodate these new financial tools and encourage the private sector to establish venture capital funds dedicated to supporting MSMEs and develop a system for alternative finance on the supply side. It is also essential to implement awareness programmes to promote a shift in mindsets towards alternative finance and encourage the adoption of these financial tools.

Set up a public-private MSME investment scheme.

A public-private investment scheme can be set up to support women- and youth-led MSMEs, developed as a profit-sharing scheme. Similar models are operated in the United States of America, New Zealand and Europe. In many cases, the government can be a partner and a contributor of funds to cover operational costs and capacity building. Examples include the Business Partners Limited in sub-Saharan Africa and Small Enterprise Assistance Funds in the United States of America and from the European Investment Bank Group.



Strengthen financial infrastructure and knowledge.

Improving financial infrastructure, such as credit information systems, evaluation systems, and payment methods, is vital. The country needs practical strategies to improve financial literacy and financial management among MSMEs, such as short training programmes and initiatives following a similar approach to the International Financial Olympiad[25].

Promote digital finance.

Digital financial services can support effectively reaching financial services to atolls and marginalized groups, reducing transaction costs and making products affordable for under-served market segments. Additionally, digital finance creates a direct channel for effectively collecting data from clients in remote areas[26].

Ensure green finance availability.

Equitable access to green financing should be ensured[27] (e.g., the green financing initiative implemented at MMA, commercial banks and SDFC) to support MSMEs in their efforts to strengthen climate change adaptation and mitigation.





4.4

Business development support and infrastructure.

Strengthen the BCC services through an inclusivity lens.

Coordination should be strengthened with key ecosystem partners to expand BCC outreach and ensure that interventions are inclusive, addressing the barriers faced by entrepreneurs, including women.

Reduce the cost of production.

In-depth research and data analysis are needed to identify actionable solutions to reduce the high cost of basic infrastructure facilities and transaction costs in Maldives.

Improve awareness of business support services.

Strengthen awareness and advocacy efforts targeting MSMEs and ecosystem builders across the country through the use of communication platforms, and evaluate the effectiveness of the diverse channels utilised.

4.5

Access to markets.

Provide targeted support to enterprises in overcoming barriers to entering global markets.

In close coordination with relevant stakeholders, develop strategies aimed at increasing the efficiency and affordability of logistics infrastructure. Building on existing entry points, strengthen the support systems and institutions for value creation. Developing policy and programmatic activities to address barriers that facilitate the lack of reliable market information, limited opportunities to link with foreign markets, and lack of economies of scale can contribute towards an inclusive entrepreneurship ecosystem.

Support enterprises to build stronger capabilities.

Policies should be developed, such as quality control and improving access to support services, to help MSMEs compete in international markets. This includes acquiring knowledge and skills for evaluating and exploring potential business opportunities and identifying necessary changes to product offerings or marketing strategy. Toolkits should be developed, and capacity-building training should be introduced for MSMEs to make them competitive in the international markets. The services typically consist of advising individual firms that do not export but are interested in doing so and providing information or training to groups of firms that do export or are interested in doing so.

Support the establishment and scaling of green and blue MSMEs.

The establishment and expansion of green and blue MSMEs should be promoted by providing evidence-based targeted support and resources. This includes facilitating access to funding and financing options tailored to these sectors and encouraging collaboration and networking among green and blue MSMEs. Targeted research should be conducted focusing on blue and green sectors to facilitate evidence-based programmatic and policy priorities aimed at strengthening entrepreneurship opportunities in these sectors.

4.6

Innovation and technology.

Support businesses in funding innovation and technology.

To bridge the research funding gap between academic research and market finance and to assist MSMEs in developing new products, a structured program should be implemented that includes both research and development tax credits and direct grants. Additionally, cluster-based incubators should be established in selected atolls to provide localized support services for entrepreneurs. It is crucial to develop a practical toolkit to aid entrepreneurs in evaluating and identifying potential innovative business ideas. This toolkit should include methods for assessing feasibility, monitoring and evaluating success, and analyzing market trends.

Promote e-entrepreneurship.

E-entrepreneurship can provide employment opportunities for those that face higher barriers in pursuing entrepreneurship. By leveraging digital technologies and online platforms, e-entrepreneurship offers a transformative opportunity for these individuals to engage in business activities and reach wider markets. Policymakers and key stakeholders can support to strengthen the development of essential infrastructure, both in terms of digital connectivity and necessary support services, to enable and facilitate e-entrepreneurial ventures.

Use the cluster approach for open innovation:

The cluster-based approach is an effective and innovative way of organizing and structuring the economy for MSME development. Successful clusters in the world are characterized by three pillars: (i) geographical concentration, (ii) partnerships within clusters that have access to common necessary resources, and (iii) firms' interactions and cooperation. Due to the geographical landscape of the country, this approach could be practical and effective. Cluster mapping should be conducted by identifying the specialization in the atolls, and by monitoring and evaluating clusters. In addition, raising awareness of the benefits of clusters should be part of cluster development strategies. Research schemes and joint incubations through university-industry partnerships should be promoted to identify barriers and enablers. A specific unit could be established to develop, monitor and oversee these clusters.

Help businesses protect their ideas using intellectual property (IP) protection.

It is important to protect innovative solutions led by entrepreneurs through IP rights, patents and trademarks. Customized support, such as strengthening human resources, managerial support, and facilitating introduction into markets of new products and services, may improve the effectiveness of protecting the IP rights. Maldives can accelerate the recent work with the World Intellectual Property Organization (WIPO) in setting up an IP office.



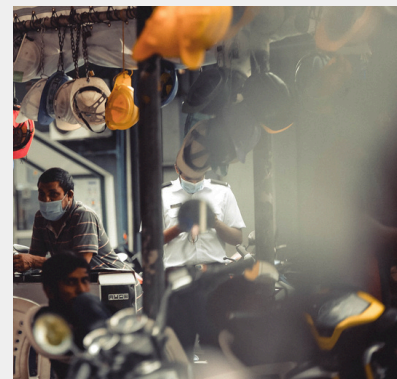
4.7

Entrepreneurial networks.

Ensure an effective social capital and entrepreneurial network.

Social capital is a critical factor that connects all the other areas to foster successful entrepreneurship. Effective social capital increases the possibilities and potential for entrepreneurs. While face-to-face interactions are more effective, technology beyond the online platform could further enhance access to and the impacts of social capital. Events and activities could be organized to develop social capital and entrepreneurial network.

To ensure the effectiveness of entrepreneurial networks and social capital, it is crucial to provide support in the form of robust support mechanisms, including building networks, establishing connections among entrepreneurial ecosystem builders, aligning institutional priorities, and fostering peer-based interactions.



Network with mentors.

In many countries, mentoring has been shown to deliver benefits across various critical areas, including leadership skills and business planning. For example, in the United Kingdom, SMEs using business mentors report that it can boost their business performance in terms of sales and profit.

One possible avenue to explore is forming partnerships with global mentorship and incubator networks (e.g., Y Combinator) and identifying current challenges and entry points for attracting qualified local mentors. Connecting local higher educational institutions with universities with successful accelerator programmes could also be a viable way forward.

Link and bridge social capital at the individual level.

A key entry point to improve the capacity and motivation of MSME-level entrepreneurs is to develop programmes and mentoring opportunities that cater to the needs of these entrepreneurs, set up skills development sessions and implement diverse networking opportunities.

Strengthen women's business forums.

Spaces should be created to discuss challenges and opportunities specifically facing current and aspiring women entrepreneurs, opportunities for strengthening women's entrepreneurship and pathways for facilitating networking and partnerships with donors and government entities for women entrepreneurs.



4.8

Potential Sectors.

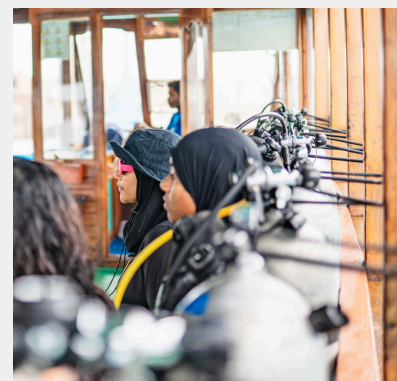
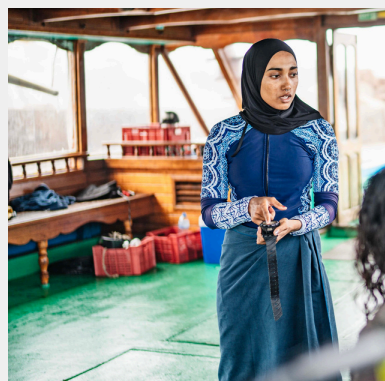
Support MSMEs to test and scale in emerging sectors.

A proactive approach is essential to guide current and new entrepreneurs towards key sectors that show promising growth areas. MSMEs cannot often identify untapped opportunities in key sectors. To address this, it is strongly recommended to undertake comprehensive studies aimed at uncovering opportunities for MSMEs within identified priority sectors or area. These studies should be guided by an in-depth analysis of the production value chains within each sector. The findings of these studies can be an invaluable guide for entrepreneurship policy development and future programmatic interventions in these specific sectors.

The identified sectors through this research include tourism, fishery, ICT and telework, agriculture and construction. The blue and green economies have also been highlighted as a potential avenue for accelerating the achievement of SDGs at the national level. These sectors have been identified through an analysis covering strengths, weaknesses, and growth prospects, as well as contribution objectives that are critical for economic transformation[28]. These objectives include (i) upgrading technology, (ii) promoting innovation, (iii) closing the infrastructure gap, (iv) addressing the regional imbalance, (v) generating more decent jobs, (vi) sustainability, (vii) creating spill-over effects, and (viii) strengthening supply and value chain backwards and forward linkages.

Conclusion.

In conclusion, development partners increasingly adopt an ecosystem approach to supporting MSMEs. In line with this approach, this Policy Brief proposes implementing targeted initiatives based on the findings for the entrepreneurship ecosystem domains outlined in the research to enhance the ecosystem in the Maldives. Implementing interventions through an inclusivity lens will ensure more incredible innovation and reduce inequality for marginalized groups. Researchers, private firms, business associations, civil society and policymakers all have a role in driving change to benefit MSMEs and create broader positive impacts for society. This approach will not only spur economic growth. Still, it will also contribute to poverty reduction, reduced inequality, the empowerment of women and girls, and an inclusive and sustainable development strategy aligned with the overarching objectives of the SDGs.



Annex 1.

SWOT ANALYSIS AND POTENTIAL SECTORS FOR MSME DEVELOPMENT

Based on the data and information gathered from the primary sources and the secondary sources, strengths, weaknesses, opportunities, and threats (SWOT) were identified. Table 2 presents the results of the SWOT analysis.



Table 2: SWOT Analysis

Annex 1.

POTENTIAL SECTORS

The following sectors are identified as emerging and strong potential sectors for MSME development based on their capacities, strengths, opportunities, and weaknesses, youth engagement and their preferences, future trends, including climate changes, and the fourth Industrial Revolution.

ICT and digitalization: Digital and technology will play a significant role as they are needed for business operations, marketing, and sales forecasting. Therefore, there will be many new business opportunities, particularly for youth, in the areas of ICT and digital technology in the future. The world is also heading to the 4th Industrial Revolution, known as Smart economies, in which ICT and digitalization will play a key role.

Tourism: The tourism industry is the leading sector in terms of income generation, job creation, and entrepreneurial start-ups. Due to the mesmerizing islands and magnificent resorts, many tourists are attracted to the Maldives. This includes world-famous celebrities and tycoons. Around 1.2 million tourists visit the Maldives every year. It brings more foreign currency and indirectly increases exports. The industry is connected to many other industries, and therefore, it gives a boost to other industries like resorts, restaurants, photography, tourist guides, food processing, etc. The Maldives would not only have a thriving and differentiated tourism trade with holiday, education, and business travelers but also be able to provide tourism-related consultancy and expertise to emerging island economies. This sector is in many ways aligning with SDGs, particularly as a part of the Blue Economy, poverty alleviation, women's empowerment, and youth empowerment. The tourism sector recorded a high growth (138%) in 2021[29]. During the year, sectors closely linked to the developments in the tourism sector, such as transportation and communication and wholesale and retail trade, also recorded strong positive growths. Therefore, the sector provides many direct and indirect business start-up opportunities for MSMEs.

Agriculture and green economy: Since the country is small and scattered, small-scale agriculture with the support of innovation and new technology has great potential in the Maldives. Apart from domestic consumption needs, the continuous influx of tourists will increase demand for fresh agricultural products. With the possibility of commercial ports in the Maldives, there will likely be increased demand for local agricultural products. There are, therefore, good reasons to develop the sector further and to attract more local participation in the agricultural sector. The agricultural sector will contribute more to employment and income generation, conserve foreign exchange as well as enhance food security.

The government of the Maldives has emphasized the potential of the agriculture sector in its National Fisheries and Agricultural Policy 2019-2029. *“The agriculture sector is envisioned to evolve as the third important driving force (pillar) in the economy after tourism and fishery in expanding livelihood options for the rural people, in enhancing employment and income opportunities, and in improving food security and nutritional status of the Maldivian people.”* (National Fisheries and Agricultural Policy 2019-2029: p. 8)[30].

The opportunities may be coupled with the concept of the green economy. The geography of Maldives is favorable for the adoption of large-scale energy transition. This, coupled with the increasing number of financing opportunities for green economy projects, could be a potential area for growth.

Fishing and blue economy: Since the Indian Ocean is one of the main resources, the fishing industry, together with tourism, has a great future potential for MSMEs in the Maldives. This, coupled with increased blue financing projects globally, could be a potential area for growth. The country must increase the value of all marine-related activities through diversification and high-value secondary production to generate sustainable productive employment and export earnings as well as introduce new marine-related activities with the view of providing consultancy and expertise to other economies. Most of the employment and self-employed and micro businesses are in outlying islands, outside Male’, and hence, the primary source of rural income. Studies are required to develop the industry, focusing on value-creation activities with the support of innovation and technology.

Construction sector: The construction sector of the Maldives has been one of the most dynamic sectors of the economy, although the sector has been adversely affected due to the COVID-19 pandemic[31]. It is also a vital sector of the economy and has been a key driver of economic growth[32]. On the demand side, the main factor behind the growth has been the scaling up of public infrastructure projects, while energetic growth in resort construction has also contributed to the recent boom.

The other two fastest-growing clusters that the Maldives can convert as strong potential sectors which play a highly significant role in the Maldivian economy are namely Port and Logistic Services (PLS), and Offshore Banking and Financial Centre (OFC). PLS is particularly to establish a reliable inter-region and intra-region transportation system to support the development of core economic clusters in the Maldives and to extend the role of the commercial ports in the South and/ or North to complement other ports in South Asia for cargo trans-shipment in the long term. OFC, on the other hand, provides necessary funding for the development of the Maldives’ economy and to become a leading OFC in Asia in the long term. However, Sri Lanka and Singapore are the main competitors. Unlike tourism, ICT, Agriculture, and fishery, these two sectors do not directly create MSMEs but will fertilize the MSME sector.

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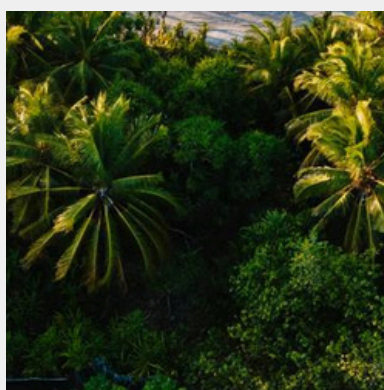
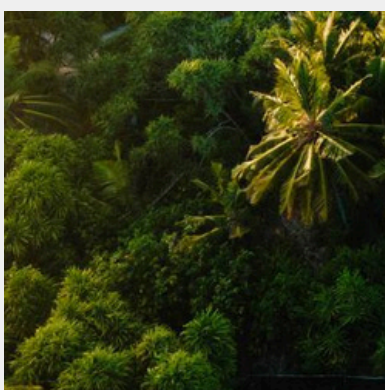
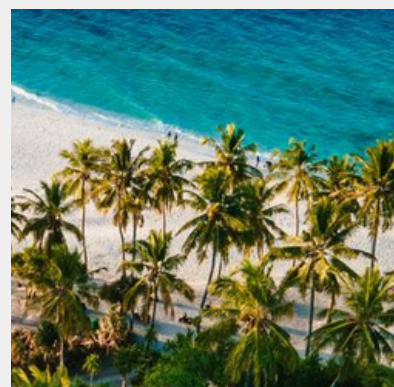
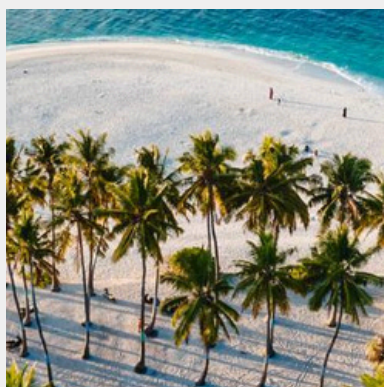
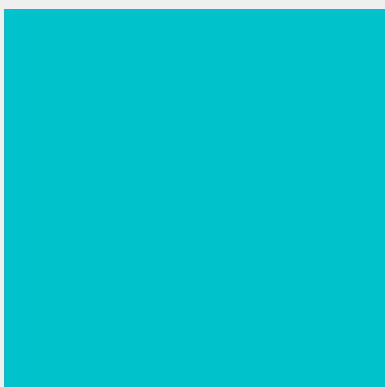
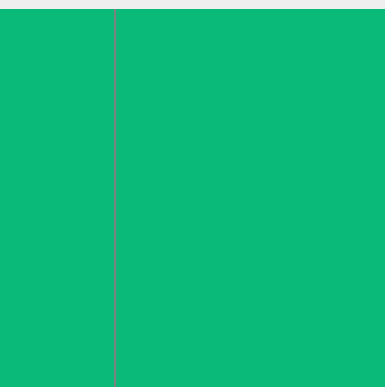
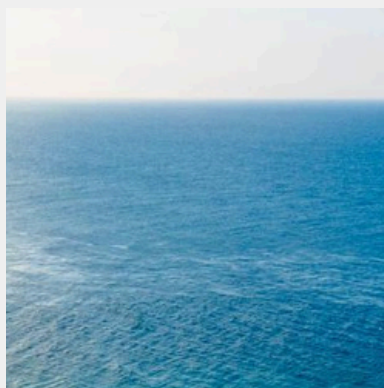
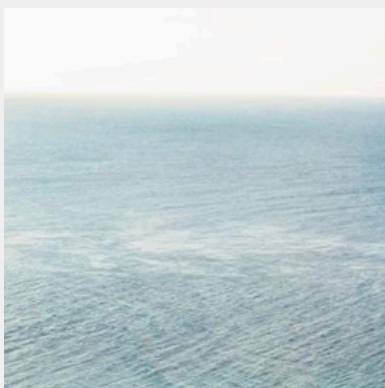
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United Nations Development Programme
UNDP in the Maldives
7th and 9th Floor, H. Thuniya
Boduthakurufaanu Magu
Malé 20094, Maldives



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