THE REPORT

Oman 2018

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Sultanate of Oman سلطنة عُمان

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Balancing act

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The partial recovery in oil prices in 2017 and 2018, as well as successful moves to bring down the breakeven oil price through spending cuts and tax increases, will reduce fiscal pressure on the government in the months and years ahead. Policymakers will be looking to implement these measures in a way that continues to support growth of both the hydrocarbons industry and other sectors important to diversification efforts.

Powering ahead

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The strong headwinds of 2017 felt in Oman's energy sector have spurred the authorities to develop new sources of revenue. Despite recovering to 2015 levels of $55 per barrel, the steep drop in prices that saw Omani crude fall from $103 per barrel in 2014 to $40 in 2016 has squeezed state finances and added urgency to diversification efforts. Hydrocarbons' share of GDP was forecast at 2.9% for 2017.

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Take charge

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The utilities industry in the sultanate is going through a transitional period in anticipation of major restructuring and renewal plans in the water and electricity sectors. While large-scale retail competition in electricity is not yet feasible, changes like the introduction of cost-reflective tariffs are making distributed provision more cost-effective.

UTILITIES

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REAL ESTATE

INDUSTRY

MINING

TRANSPORT & LOGISTICS

AGRICULTURE & FISHERIES

ICT

TOURISM

Holding steady

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Faced with public investment cutbacks and a broad economic slowdown in the wake of lower oil prices, Oman's construction sector continues to grow at a brisk pace, bolstered by state-led diversification efforts, high income levels and relatively low labour costs. The building industry grew by a robust 10.4% in 2016, up markedly on the two previous years.

Focus of attention

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The government is investing heavily in breaking a cycle of hydrocarbons dependency and facilitating the development of a more diversified economic base. Manufacturing has been prioritised as one of the pillars of this strategy under the Tanfeedh programme. Industrial firms also received a boost from increased exports to Qatar during 2017.

Gulf gateway

Page 172

Bolstered by investments from a government cognisant of its potential, Oman's transport and logistics sector has continued to expand even as the impact of lower oil prices continues to be felt. The sector's real growth rate registered at 1.1% in 2015, giving it a value of $4.4bn. It has been sustained by robust growth in passenger arrivals by air, and of cargo by land and sea.

Rising star

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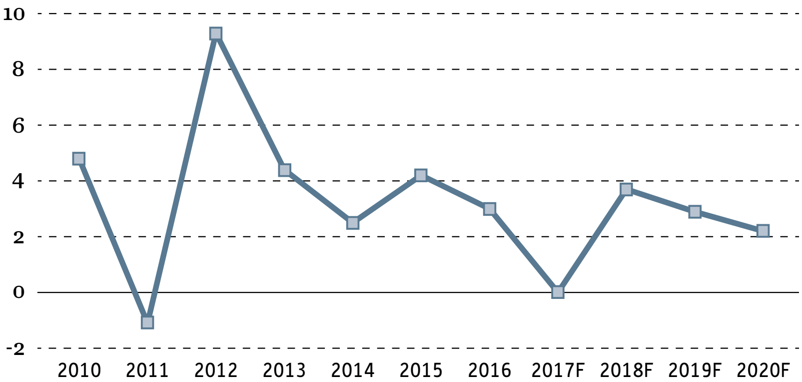
While the focus on preserving Oman's natural surroundings and cultural traditions has allowed it to retain much of the spirit of historic Arabia, the arrival of modern infrastructure and an emphasis on markets like activity-based tourism and ecotourism suggest that the country is firmly adapting to the needs of the modern travel industry.

Oman in figures

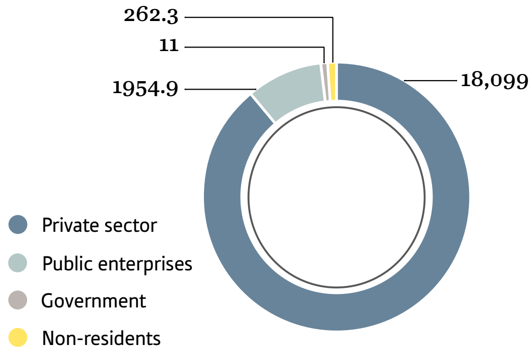
Oman benefits from significant oil and gas reserves, including a sizeable new gas field that began production in late 2017. Located between Asia and Africa – and adjacent to major international shipping routes – the sultanate's geographic location also makes it a natural regional logistics and manufacturing hub. The authorities are seeking to leverage these competitive advantages to diversify the economy and reduce its reliance on hydrocarbons production. Over the longer term these moves are expected to generate employment, bolster non-oil exports and increase government revenue.

Real GDP growth, 2010-20F (%)



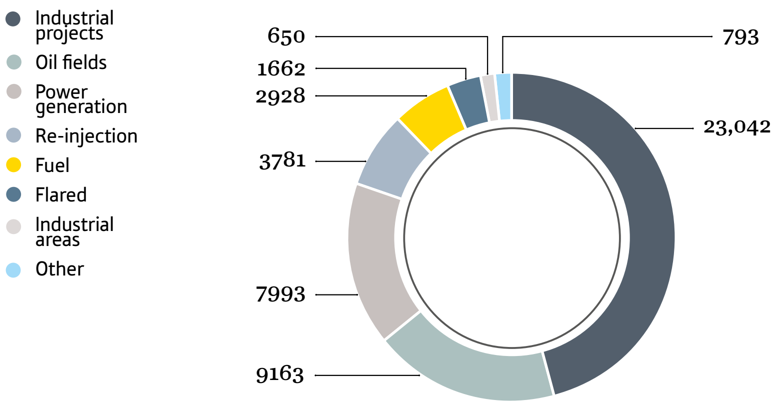
Source: IMF

Conventional bank lending by sector, October 2017



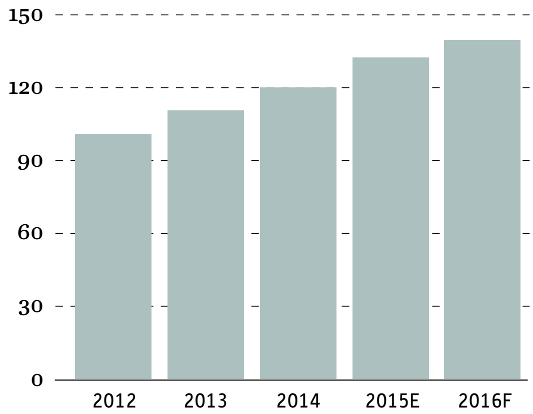
Source: CBO

Uses of natural gas, 2016 (m cu metres)



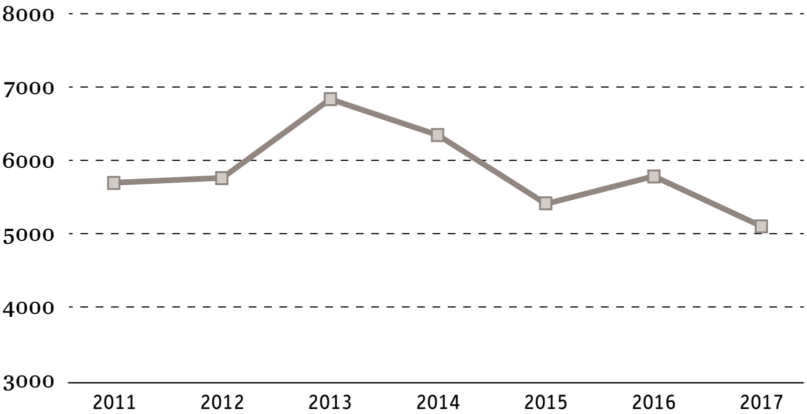
Source: NCSI

Mining & quarrying GDP*, 2012-16F (OR m)



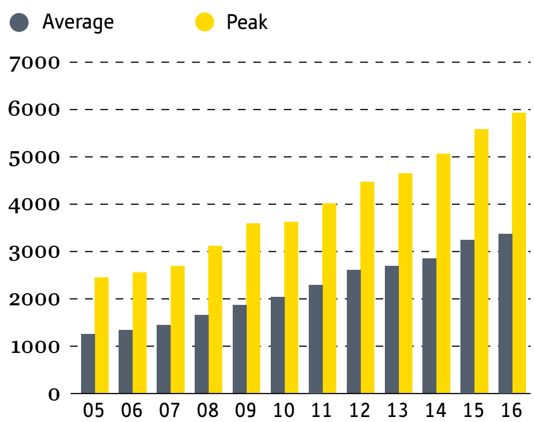
Source: CBO *current prices

MSM 30 performance, 2011-17*



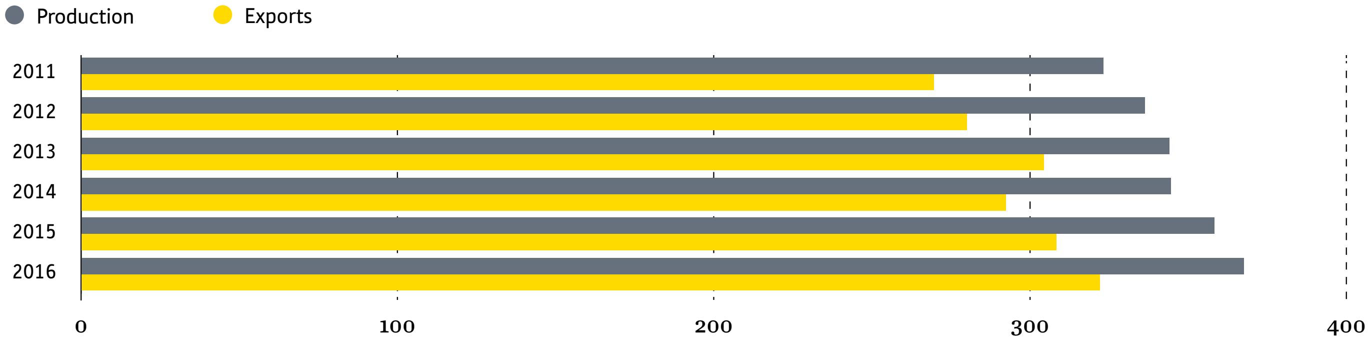
Source: MSM *end of period close

Power demand* growth, 2005-16 (MW)



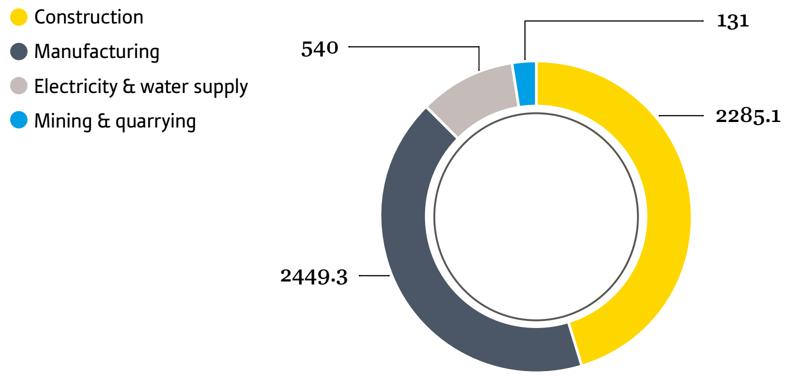
Source: QPWP *Main Interconnected System

Oil production & exports, 2011-16 (m barrels)



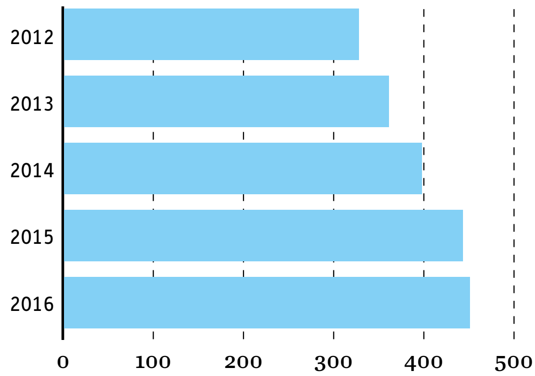
Source: CBO

Non-petroleum industrial GDP by category, 2016 (OR m)



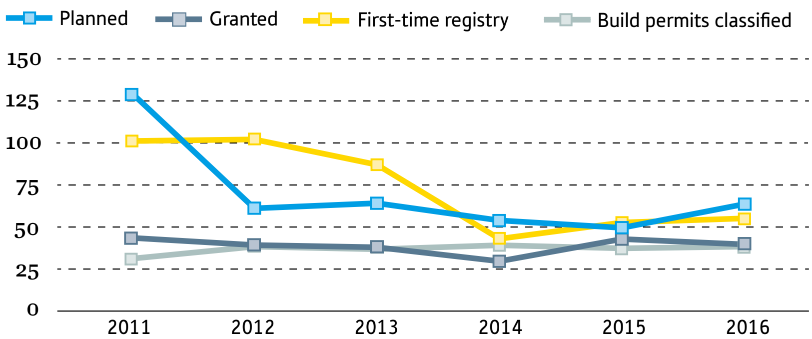
Source: NCSI

Direct insurance premiums, 2012-16 (OR m)



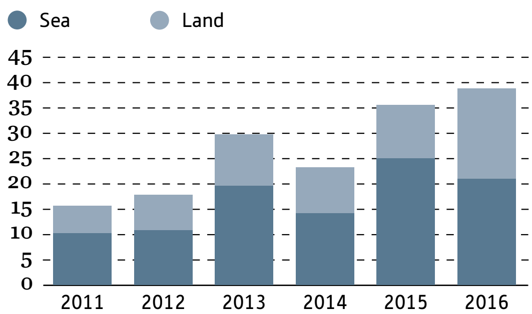
Source: CMA

Land plot activity, 2011-16 (000)



Source: MoH

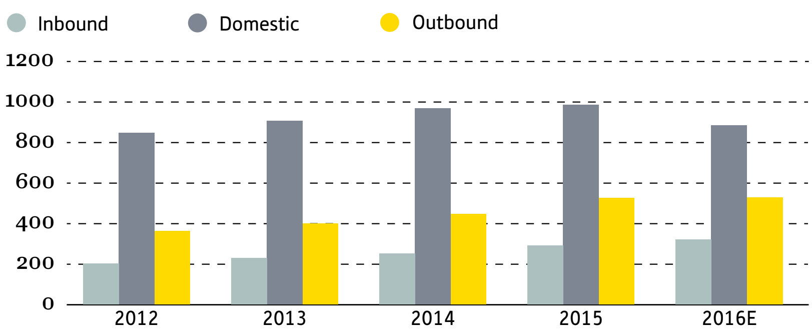
Goods received by Customs ports*, 2011-16 (m tonnes)



Source: NCSI

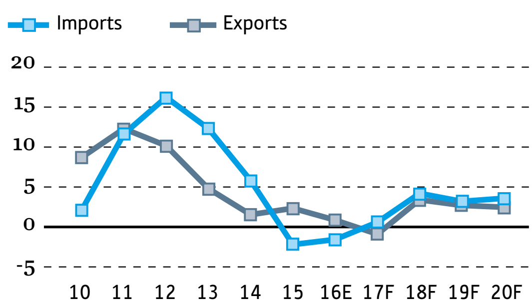
*excl. by air

Tourism expenditure by segment, 2012-16E (OR m)



Source: NCSI

Goods & services trade volume, GCC member average, 2010-20F (% change)



Source: IMF

Country Profile

Vision 2020 focuses on economic diversification efforts

Investing in strengthening transport infrastructure

Gulf countries seek to enhance foreign trade relations

Sovereign wealth funds in the GCC see greater activity


When crossing borders,
it helps to have a strong local partner.
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Vision 2020 emphasises diversification, privatisation and Omanisation

Strong and stable

The sultanate continues to evolve, with a focus on diversification and infrastructure investment

Located in the south-eastern quarter of the Arabian Peninsula, Oman is the only member of the GCC situated outside of the Gulf. Leveraging its strategic location, Oman has invested in infrastructure with the goal of becoming a global logistics centre. While the country is less hydrocarbons-rich than its GCC neighbours, diversification efforts are a driving force behind Oman's economic growth. The sultanate's long-term development strategy, Oman Vision 2020, emphasises diversification, privatisation and Omanisation. Logistics, tourism, mining, manufacturing and fisheries have all been identified as potential future economic drivers, and will be the focus of development under the next plan, Vision 2040.

ECONOMIC PLAN: The sultanate's ninth five-year plan (FYP), which covers the 2016-20 period, was launched at the start of 2016 and is the final portion of Oman Vision 2020. The ninth FYP continues the country's drive towards social development, the economic diversification of many production sectors and the optimal utilisation of available natural resources. The national strategy targets an annual growth rate for the economy of 3%, with a targeted oil price of $45-60 per barrel. Approximately OR41bn ($106.5bn) of investments are outlined during the five-year period by the government. The FYP also foresees the private sector playing a much more important role in driving economic growth, through planned privatisations, increased support for the development of small and medium-sized enterprises, a renewed focus on public-private partnerships and liberalisation of the country's investment framework.

In late 2016 the National Programme for Enhancing Economic Diversification, or Tanfeedh, was launched as a core element of the ninth FYP. According to the programme, Oman's non-oil activities are forecast to grow at 4.3% annually between 2016 and 2020.

HEREDITARY MONARCHY: Oman is a hereditary monarchy. His Majesty Sultan Qaboos bin Said Al Said is both the head of state and head of government after having taken over the reins of leadership from his father in 1970. At that time, Oman was an isolated, undeveloped state, lacking in basic facilities and infrastructure. Sultan Qaboos set about making changes that would transform Oman into the modern state it is today. One of his first acts was to change the name of the country from Muscat and Oman to the Sultanate of Oman, indicating that this would be a united country. The sultan also proceeded to appoint a Cabinet of ministers responsible for various government departments and functions – a first for the country. Just 25 years later, Oman was no longer among the ranks of lower-income nations in need of World Bank credit facilities.

Sultan Qaboos' ambitious economic goals, which include plans for easing the sultanate's dependence on hydrocarbons by diversifying its economic base, have seen tourism open up and major improvements made to the country's infrastructure.

BASIC LAW: In 1996 the sultan decreed the Basic Law of the State, which is considered to be Oman's constitution. The law established a bicameral legislature, clarified royal succession, provided for a prime minister and proscribed ministers from holding interests in companies doing business with the government. In addition, the Basic Law also guaranteed basic civil liberties, such as freedom of religion and due process, among other legal rights.

The year 2018 marks the 48th anniversary of the accession of Sultan Qaboos to leadership as well as the establishment of the Sultanate of Oman, making Oman the longest continually independent Arab country in modern history.

Each year, November 18 marks Oman National Day, which coincides with the sultan's birthday. Since the sultan took power in 1970, Oman has been transformed into a regional power, with a non-confrontational and pragmatic approach to foreign relations.

The ninth five-year plan, which covers 2016-20, continues the drive towards social development, economic diversification and the optimal utilisation of natural resources.

In 1996 the sultan decreed the Basic Law of the State, which, among other things, established a bicameral legislature, clarified royal succession, provided for a prime minister and guaranteed basic civil liberties.

The nation is sectioned into 11 governorates, which are further subdivided into a total of 59 provinces

As part of regional development plans, major investment has gone into the Port of Salalah, which is located near the main shipping lanes of the northern Indian Ocean.

GOVERNMENT STRUCTURE: The Council of Oman, Majlis Oman, is a bicameral consultative council with advisory powers only. The upper chamber of the council is called the Majlis Al Dawla, or State Council, the members of which are appointed by the sultan. Members of the lower chamber, the Majlis Al Shura, are elected by popular vote for four-year terms. The Majlis Al Shura is authorised to draft legislation sanctioned by the sultan. Since 2002 citizens over 21 years of age have been eligible to vote in elections. The most recent elections took place on October 25, 2015, when 84 members of the Consultative Assembly were elected from 61 constituencies, 23 with two seats and 38 with one. Voter turnout reached 56.66%, and the process was widely hailed by Oman observers as a success.

POPULATION: The population reached 4.6m in November 2017, according to the National Centre for Statistics and Information (NCSI), growing by 2.3% year-on-year. Omanis comprise 54.6% of the national population, while expatriates account for 45.4%. The Governorate of Muscat has the highest population of expatriates, at 64.5%. Children under the age of 15 make up 21.7% of the population, while 15- to 29-year-olds constitute 30.5%. This puts the productive population – those aged 15 to 64 – at 75% of the total. The population is expected to grow to 7.66m by 2040, according to NCSI estimates.

The majority of people live along the Batinah coastline, an area in the north stretching from the capital, Muscat, to the city of Sohar. The second-most-populous area is the Dhofar Governorate, home to Oman's second-biggest city, Salalah. Situated in the south near the border with Yemen, Salalah's population stands at around 341,000.

The government has a policy of actively applying quotas for hiring Omani nationals, although many positions are also filled by foreign workers, mainly from South-Asian countries. The largest foreign communities come from India and the Philippines, and represent over half of Oman's labour force.

The sultanate is affiliated with over 105 regional and international organisations, including the UN, the World Trade Organisation, the IMF, the World Bank, the GCC and the Greater Arab Free Trade Area.

Foreign workers tend to live in the sultanate's larger cities. Muscat, for example, had a foreign community of 951,028 and a population of 523,920 Omani nationals as of August 2017. Al Batinah North governorate reported the second-highest population of foreigners, with a total of 269,912. Other regions are home to greater numbers of Omanis than expatriates. Al Wusta and Musandam are the least-populated governorates, each reporting total populations of less than 50,000 people.

DIPLOMATIC TIES: Since 1970 Oman has worked to expand its diplomatic relations according to a moderate foreign policy. Oman is affiliated with more than 105 regional and international organisations, including the UN, the World Trade Organisation, the IMF, the World Bank, the GCC and the Greater Arab Free Trade Area. However, Oman is not a member of the Organisation of the Petroleum Exporting Countries. The sultanate has a free trade agreement (FTA) with the US, while the GCC had FTAs in place with Singapore and the European Free Trade Association.

GOVERNORATES: The sultanate is sectioned into 11 governorates: Muscat, Musandam, Al Buraimi, Al Dakhiliyah, Al Batinah North, Al Batinah South, Al Sharqiyah North, Al Sharqiyah South, Al Dhahirah, Al Wusta and Dhofar. The governorates are further subdivided into a total of 59 *wilayat* (provinces). Each wilaya is presided over by a *wali* (governor), who is responsible for overseeing local administration and acting as a link between the government, its institutions and the public. Over a series of FYPs, Oman has been able to ensure that development efforts take place in a balanced and integrated manner across all its regions. Major projects and industrial estates have been set up nationwide within the framework of a scheme that seeks to equally balance the priorities and needs of each distinct region.

The Governorate of Muscat is Oman's political, economic and administrative centre, the location of the capital city, Muscat, as well as the seat of government and the heart of the sultanate's administrative apparatus. The governorate has also become a vibrant centre of local and international economic, commercial and tourist activity.

The Governorate of Dhofar has played a pivotal role in Oman's history. In ancient times the area was known as the Arabian Peninsula's Land of Frankincense – the gateway to the Indian Ocean and the crossroads of southern Arabia's caravan routes. Salalah, the governorate's main city, was the birthplace of Oman's modern development strategy, masterminded by Sultan Qaboos. Today, it remains an important portal to the country's prosperity.

As part of the sultanate's regional development plans, major investment has gone into the Port of Salalah, which is located near the main shipping lanes of the northern Indian Ocean, and its surrounding infrastructure. The port's general cargo terminal handled 13.6m tonnes of cargo in 2017, up from

13.04m tonnes in 2016. The port's container terminal processed 3.95m twenty-foot equivalent units, an 18.7% increase over 2016, according to port data.

Similarly, the Governorate of Musandam is of immense strategic importance to the country because of its position overlooking the Strait of Hormuz – a crucial international shipping lane for hydrocarbons exports and trade between the Gulf region and the outside world. Approximately 90% of the Gulf's oil exports pass through the strait, which also forms the eastern gateway for shipping to and from the Gulf littoral states.

The Governorate of Al Wusta lies to the south of the Al Dakhiliyah and Al Dhahirah governorates and enjoys a temperate climate throughout the year. Bordering the Arabian Sea to the east, the Empty Quarter desert to the west and the Governorate of Dhofar to the south, it has a large number of oil and gas-producing fields. Al Wusta comprises four wilayat. Three of these (Mahawt, Duqm and Al Jazer) are on the Arabian Sea, while the fourth (Haima) is located further inland. Developments around Duqm – situated outside of the Strait of Hormuz – constitute a major pillar of Vision 2040 and Tanfeedh, and are expected to generate logistical, warehousing, distribution and re-export opportunities. With the country's plans to become a trade centre for heavy, medium and light industries, the need to attract investors is key to the success of the special economic zone at Duqm and also fundamental to sustainable development in Al Wusta Governorate.

INFRASTRUCTURE: Efforts to enhance the sultanate's transport and logistics capabilities have been a major economic driver in recent years. The country's seaports, airports and road network are constantly being expanded and improved. The quality of the road network was ranked the 14th-best globally by the World Economic Forum's "Global Competitiveness Report 2017-18", and by recent estimates

The nation's seaports are poised to contribute to diversification

The sultanate's modern road network has helped facilitate trade with neighbouring countries

comprises approximately 35,522 km of paved roads and 31,744 km of unpaved roads. The road network covers most parts of the country, and paved roads are generally of high quality. The sultanate's modern roads have helped facilitate trade with neighbouring countries and improve safety conditions for drivers.

In early 2016 Oman completed construction of a historic highway that will directly link Oman and Saudi Arabia for the first time. The 680-km highway, in which the sultanate invested OR200m ($519.3m), is expected to increase both trade and tourism flows between the two GCC countries.

The Governorate of Musandam is of immense strategic importance to Oman because of its position overlooking the Strait of Hormuz – a crucial shipping lane for oil exports and trade for the region.

GATEWAYS: With such a long seafaring history, it is no surprise that seaports play an important economic role in Oman. The largest seaports, the Port of Salalah, the Port of Sohar and the Port of Duqm, are an integral part of the economy and are poised to drive growth and contribute to diversification. Each port is located in a different part of the country and serves a different function. In the aviation sector major upgrades to Muscat International Airport are due to be ready in 2018 and renovations at Salalah International Airport have been completed to accommodate the expected growth in domestic and international traffic, both for passengers and cargo. In addition to these airports, there are regional airports in Sohar, Ras Al Hadd and Duqm. Back on land, given the deferment of plans for a GCC-wide railway, the sultanate is now set on developing a rail network to support its burgeoning mining sector.

COMMUNICATIONS: Regarding communications, Oman is connected by fibre-optic cables to the UAE, Yemen and Pakistan. The National Broadband Strategy is expected to further increase the scope and connectivity of broadband across the country. This was approved in August 2016 and has received a great deal of support from the Omani government.

HISTORY: The territory that comprises modern-day Oman has long benefitted from its strategic

The territory that comprises modern-day Oman has long benefitted from its strategic geographic location

The present ruler of Oman, Sultan Qaboos bin Said Al Said, came to the throne in 1970. The new sultan embarked on a modernisation and liberalisation programme that helped expand social services and infrastructure.

geographic location. From there, merchants – without needing to sail far from land – made easy contact with ancient Persia to the north, India to the east and Africa to the south. Between the third and seventh centuries CE Oman was controlled by two other dynasties, the Parthians and the Sassanids. Their rule ended upon the arrival of Islam in the seventh century, during which time Muscat and Oman were under the control of either the Persian Empire or rulers from neighbouring Yemen.

From 751 CE onward, imams were chosen to rule the region as spiritual leaders. This elective theocracy lasted throughout four centuries until the succession of Banu Nabhan in 1154, when a dynasty of hereditary kings was established.

The early 16th century brought the entry of the Portuguese, who were opening up their trade route to India. Between 1507 and 1650 they occupied Muscat and various local garrisons, including a captured island located in the Strait of Hormuz. After a turbulent period of fighting with the Ottoman Turks, Ahmad bin Said regained control of the country in 1741 and expanded its territory to parts of Iran and around the coast of East Africa.

The descendants of Sultan Ahmad rule Oman today. Zanzibar, the former capital of Oman, fell out of Omani control in 1861; to this day, Oman and Zanzibar enjoy close ties. The Omani Empire's African lands, known as Muscat and Oman in the 19th century, steadily came under British influence and were the subject of Franco-British rivalry during that period. Through gradual economic and political encroachment on its overseas holdings, Omanis were forced to retreat to their homeland.

Said bin Taymur ruled Muscat and Oman until the present ruler, Sultan Qaboos, came to the throne in 1970. The country declared independence the following year and renamed itself the Sultanate of Oman. The new sultan embarked on a modernisation and liberalisation programme that helped expand social services and infrastructure. With Sultan Qaboos as ruler, the country also worked for closer integration with its neighbours. These efforts culminated in 1981 with the founding of the GCC.

TRADITION: The *dhow*, an ancient sailing boat, is an enduring symbol of Oman's close relationship with the sea and its extensive knowledge of seamanship. Evidence exists of an Omani dhow reaching China in the eighth century, and they can still be seen today along Oman's coastline as vehicles for trade, fishing and tourism. In the desert interior, meanwhile, life takes on a more tribal and traditional bent, with many families tending livestock and growing crops. This cultural and geographic split had important historical consequences, with the interior peoples choosing to be ruled by imams and the coastal peoples ruled by sultans. Sultan Qaboos unified these two areas when he ascended to power.

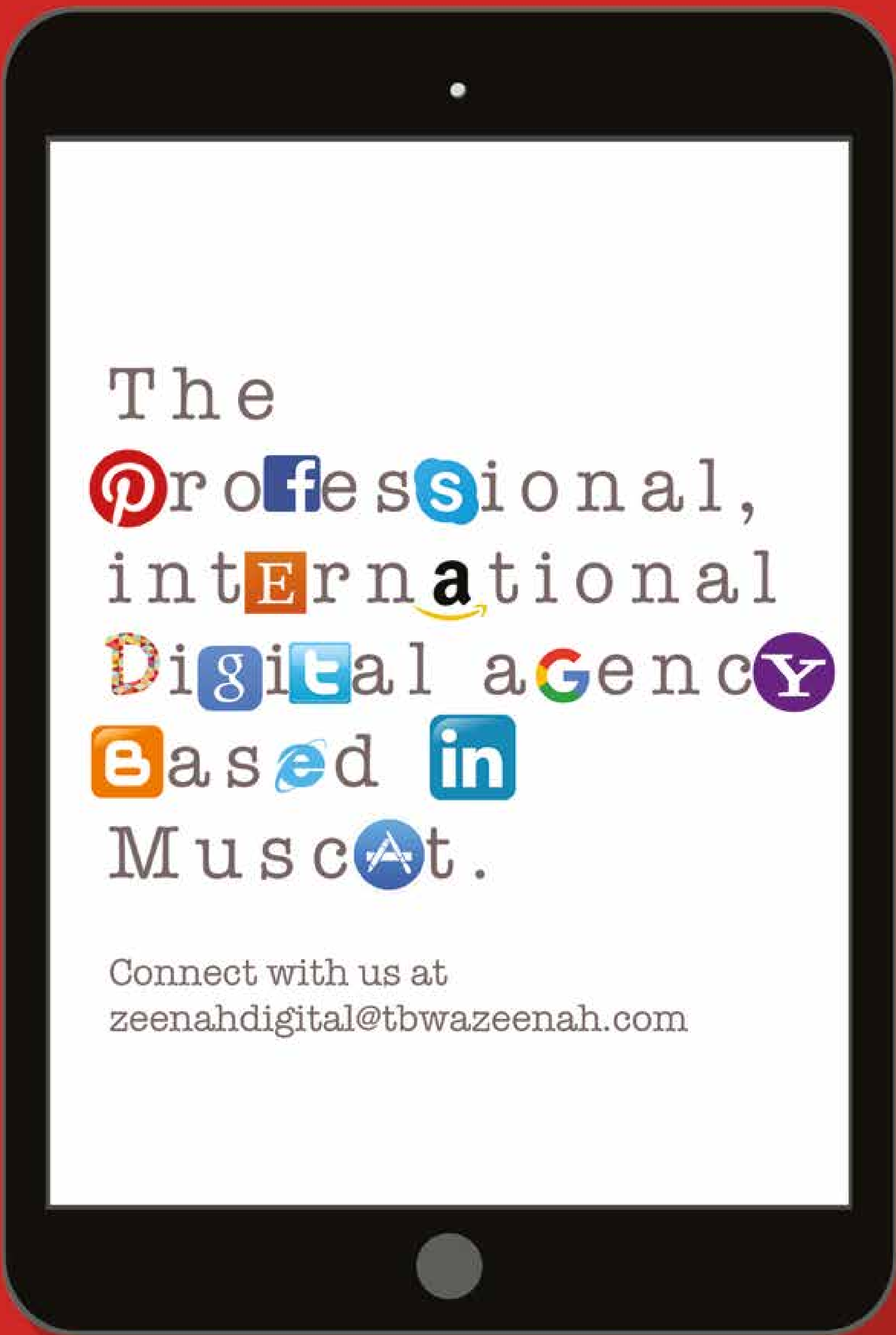
In addition to the historical interior-coastal divide, the whole of northern Oman is separated from the southern region of Dhofar by hundreds of miles of desert. This topographical detail has resulted in its own cultural differences, as many Dhofaris maintain cultural and historical ties with neighbouring Yemen.

Most Omani men wear the traditional clothing of their ancestors, the *dishdasha*: a collarless, tasselled, ankle-long white robe. Traditionally, the tassel was scented with a drop of one of Oman's famous perfumes. During special days men wear ceremonial dress, including the elaborately carved Omani *khanjar* knife with its curved dagger.

Most Omani women wear the *hijab* and *abaya*, and while some women cover their faces and hands, most do not. On celebrated days Omani women dress in brightly coloured traditional clothing consisting of a long tunic worn over trousers.

RELIGION: Ibadi Islam is the predominant religion in the country, accounting for around 75% of Omanis. Ibadism is dominant in Oman and Zanzibar, but Ibadis are also found in parts of North and East Africa, including Algeria, Tunisia and Libya. The Ibadi movement is said to have been founded 20 years after the death of the Prophet Muhammad, and as such it pre-dates both the Sunni and Shia denominations. The remaining 25% of the population mostly comprises a mixture of Sunni and Shia Muslims. While Shia Muslims constitute slightly less than 5% of the population, they are well integrated into society.

The majority of non-Muslims are South-Asian migrant workers, who practise a variety of faiths, including Buddhism, Sikhism, Christianity and Hinduism. All religious organisations in Oman must be registered with the Ministry of Endowments and Religious Affairs. Freedom of religion is guaranteed in Oman, and the sultanate reaffirmed this right with a legal circular issued in 2006 that decreed all people in Oman could practise their beliefs without interference from the government. However, this legal right was on the condition that services are to be held in government-sanctioned religious buildings.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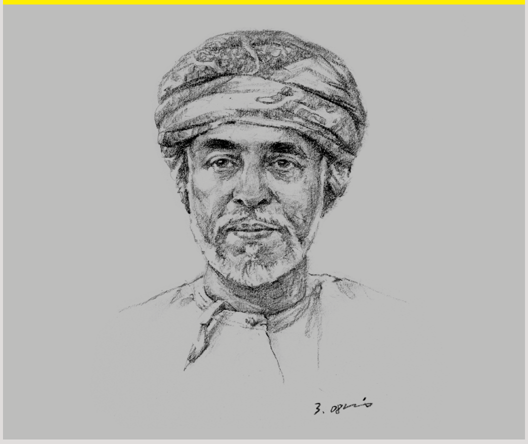


Sultan Qaboos bin Said Al Said,

Strength in change

Sultan Qaboos bin Said Al Said, on how embracing the private sector will help bolster the economy in the long term

As Oman enters its 48th year of renaissance, we hope to see its sustained development continue. In recent years we have witnessed, through the implementation of various plans and programmes, the accomplishment of those goals which we have had our sights set on since the dawn of our new era. These achievements are inspired by our fundamental principles: the development of Oman's richly abundant supply of human and natural resources; the building of infrastructure; and the establishment of the state's institutions.

We affirm the need to further diversify our sources of national income. Indeed, it is important to look into harnessing alternative energy sources and finding food security. Oil is a finite resource, therefore it is important that we do not solely depend on it to finance development. We have stressed this truth from the beginning, and our efforts have been very successful. However, oil is still our main resource, and the fluctuation of its price is of great concern. It is essential to diversify the sources of our national income more widely, in order to make oil revenues only a minor element of this income. This leads us to call upon citizens to save, invest, pursue business interests, develop industry, tourism and agriculture, and utilise mineral resources, fisheries, livestock and other sources of revenue.

To date, we have been very pleased with the private sector's progress in providing job opportunities for citizens and welcome efforts to intensify its employment initiatives. The private sector is one of the basic pillars of development, both economically and socially. The construction, economic, commercial and industrial projects established in the Sultanate have absorbed many national workers, and the private sector has demonstrated its cooperation in shouldering responsibility, as it assumed a valuable role in working with the government and boosting sustainable development efforts. We look forward to the private sector playing an even greater role, especially in advancing human resources and offering employment opportunities.

It is unjust that some citizens perceive the private sector as being reliant on what the state offers without contributing to the service of society and social institutions or programmes, or assume that the private sector seeks only to achieve profit without helping people, the environment or the country. Fallacies such as these will harm not only the future of the private sector, but also development plans in the country, particularly those concerning the diversification of income sources. Therefore, the private sector must work harder to counteract these misconceptions with efficient and practical measures, such as increasing contributions to altruistic developments and working more closely with the government and civil society institutions on policies that offer social services. Taking on a positive attitude can enhance the confidence and appreciation of citizens for the private sector's role. It will encourage the Omani youth to work in the sector and instil a spirit of belonging to institutions. This will in turn positively influence their performance and work ethic, which will additionally contribute to productivity.

Our youth must remember that work is as much a right as it is a duty. Everyone who has completed their education or training should take up a useful profession that fulfils their sense of being, and through this one can achieve their ambitions, rather than wait for a government job. The state, with all its civil, security and military institutions, cannot continue to be the main source of employment, as the state cannot sustain this forever. Citizens have to understand that the private sector is the real source of employment in the long run.

While we commend the government's recent performance, we also emphasise the need for constant revision of administrative systems. This will ensure that the best procedures are followed, thus expediting the decision-making process. The government administrative system must cooperate with the private sector and not let bureaucracy or routine hinder its good performance; in this way, we will be able to reach our goals.

After flat growth in 2017, the economy is expected to rebound in 2018

New measures

The government moves to accelerate fiscal reforms and broaden its revenue base

Oman's oil output fell by 3.7% year-on-year (y-o-y) in the first 10 months of 2017, with production averaging 970,000 barrels per day (bpd), down from 1m bpd in the same period of 2016. However, an improvement in average prices saw oil earnings rise by 32%, according to the National Centre for Statistics and Information.

Bolstered by a 10.7% increase in gas revenues to October 2017, the higher hydrocarbons earnings helped narrow the budget deficit to OR3.2bn ($8.3bn) by the end of October 2017, down from OR4.8bn ($12.5bn) in the same period the previous year. The year-end deficit was expected to reach OR3bn ($7.8bn), according to forecasts from the 2017 budget, down from OR5.3bn ($13.8bn) in 2016.

FLAT GROWTH: Despite state revenue rising by 19.2% y-o-y in the first 10 months of the year, real GDP growth was expected to fall by 2.7 percentage points to 0.1%, pushed down by cuts in oil production, according to World Bank figures from October 2017. Non-hydrocarbons growth was also set to ease, from 3.4% to 2.5%, due to lower public spending, and the knock-on effects of falling consumption and a decline in investment. The IMF anticipated a moderate contraction of -0.02% in its "World Economic Outlook", also released in October 2017. However, it added the economy was set to rebound in 2018 on growth in both the oil and non-oil economy; GDP is forecast to expand by 3.7%, well above the GCC average of 2.9%.

TAX REFORMS: The government has taken steps to generate new avenues of income. In February 2017 it introduced an increase in the corporate tax rate from 12% to 15%, and withdrew the OR30,000 ($77,900) tax-free ceiling. A 3% income tax was also implemented for certain small-scale taxpayers, while the 10% withholding tax was extended to encompass dividends, interest and payments for services.

The government hopes the new taxes will generate an additional OR125m-250m ($324.6m-649.2m) per year, although some analysts feel the measures could deter investors. "The introduction of withholding is negative for banking. The sector now pays taxes on interest payments and fees paid to overseas banks, which local banks tap for liquidity from time to time," Lloyd Maddock, CEO of Ahlibank, told OBG. "However, the increase in the corporate tax rate from 12% to 15% is still internationally competitive, and manageable."

IMPACT ON CREDIT RATINGS: The downturn in the economy also had an effect on the country's credit rating. In early November 2017 ratings agency Standard & Poor's (S&P) lowered Oman's long-term foreign and local currency sovereign credit rating from "BB+" to "BB", citing continued dependence on hydrocarbons as a key factor. The move came four months after Moody's lowered its long-term bond rating from "Baa1" to "Baa2" due to concerns over structural vulnerabilities.

STREAMLINING BUSINESS ACTIVITY: While reflecting some of the challenges facing the country, the S&P downgrade could spur the government to improve the investment climate with further reforms, according to Lo'ai Bataineh, CEO of Ubhar Capital. "S&P's downgrade of Oman's credit rating could hasten the authority's efforts to improve the ease of doing business," he told OBG. "Investors are aware of Oman's challenges and have already priced them into their decisions. S&P's downgrade does not change that."

The government introduced a number of measures over the course of 2017 designed to improve the business environment. Initiatives included enhancing the online single-window system for exports and imports; easing processes related to obtaining construction permits; and speeding up the incorporation of businesses and registration of employees.

The reforms helped the sultanate rank 71st out of 190 countries in the World Bank's ease of doing business index for 2018. Although the country slipped five places from its 2017 standing, Oman's overall score of 67.2 was well above the MENA regional average of 56.7.

Although oil output fell by 3.7% year-on-year in the first 10 months of 2017, an improvement in average prices saw Oman's oil earnings rise by 32%.

The government introduced measures in 2017 designed to improve the business environment, including enhancing the online single-window system for exports and imports, and easing processes related to obtaining construction permits.

Bigger ideas lead to **Bigger** ROI (Return on Ideas)

Xi Jinping, President, People's Republic of China

Strengthening unity

Xi Jinping, President, People's Republic of China, on the myriad benefits of China-Arab cooperation

Arab states are China's important partners in following the peaceful development path, strengthening unity and cooperation among developing countries and establishing a new type of international relations, with win-win cooperation at its core. China has always approached China-Arab relations strategically. It is China's long-held diplomatic principle to consolidate and deepen the traditional China-Arab friendship.

There will be a joint effort by China and Arab countries to promote the Belt and Road Initiative under the principles of wide consultation, joint contribution and shared benefit. China and Arab countries will adopt the "1+2+3" cooperation pattern to upgrade pragmatic cooperation by taking energy cooperation as the core, infrastructure construction and trade and investment facilitation as the two wings, and high and new technologies in the fields of nuclear energy, space satellites and new energy as the three breakthroughs.

Following the principle of market-oriented business operation in which enterprises serve as the main player and the government as facilitator, we will combine China's advantage of production capacity with the demands of Arab states, and will carry out advanced, suitable, effective employment-oriented and environmentally friendly production capacity cooperation, and support their efforts to realise industrialisation.

On the basis of equality and mutually beneficial cooperation, we encourage and support the expansion and optimisation of mutual investment by enterprises from the two sides. We will expand cooperation areas, diversify cooperation methods, broaden investment and financing channels and strengthen cooperation on two-way investment and financing through equities and debts, as well as the use of loans, mezzanine financing, direct investment and funds. China is ready to continue providing foreign-aid loans on favourable terms to Arab countries, as well as exporting credit and overseas investment insurance. We will push for the signing of agreements on avoiding double taxation and tax evasion with Arab countries, thus creating a sound and convenient investment environment to investors from both sides, protecting their rights and interests.

We support the entry of more non-oil products from Arab states into the Chinese market. We will continue to improve the trade structure and push for the sustained and steady development of two-way trade. We will strengthen exchanges and consultations between Chinese and Arab trade authorities, complete the China-GCC free trade agreement (FTA) negotiations and sign an FTA at an early date. We will oppose trade protectionism and actively remove non-tariff trade barriers, properly resolve trade disputes and frictions through friendly consultations, and gradually establish bilateral and multilateral mechanisms of early warning for trade disputes and cooperation on trade remedies. We will step up cooperation on inspection and quarantine, speed up the alignment of standards, enhance personnel exchanges and training, and jointly crack down on fake and shoddy goods in imports and exports.

We will carry out energy cooperation on the basis of reciprocity and mutual benefit, promote and support investment cooperation with Arab countries in the field of petroleum and natural gas – in particular, investment cooperation on oil prospecting, extraction, transportation and refining – and advance the collaborative overlaps of oilfield engineering technology service, equipment trade, and industrial standards. We will strengthen cooperation on renewable energy such as solar energy, wind energy and hydropower. We will jointly build the China-Arab clean energy training centre and develop all-round cooperation in related areas.

With regard to infrastructure construction, we encourage and support broader participation by Chinese companies and financial institutions in such areas as railways, highways, ports, aviation, power, communications, the BeiDou Navigation Satellite system, satellite ground stations and other infrastructure projects.

Excerpt from China's Arab Policy Paper released in 2016

GCC member states have a pressing need for economic diversification

A widening reach

GCC member states look to strengthen global trade ties

For the nations of the GCC, the drop in oil prices highlighted something many already knew: there is a pressing need for economic diversification and to further engage with global partners across different markets. To this end, countries in the region have made efforts to expand their international role and reach in recent years, with trade deals and investments being pursued in the US, China and India. Going forward, relationship building is likely to receive even greater focus, with GCC member states seeking opportunities as well as forging partnerships with other economies.

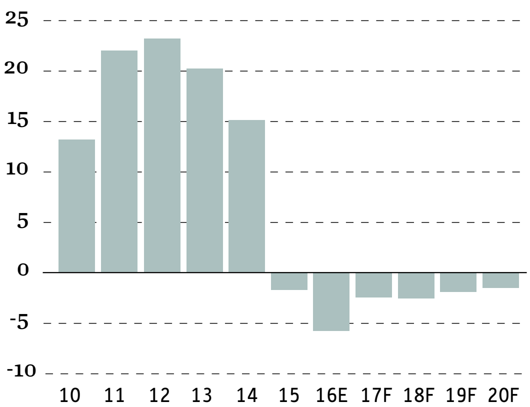
LOOKING WEST: One of the most closely watched international developments in 2016 was the US presidential election. Despite Donald Trump's "America First" rhetoric, his election had a largely positive impact on the US' relationship with many GCC member states in 2017, which had frayed somewhat under Barack Obama, who led the US from 2008 to 2016. Trump's first foreign trip as president in May 2017 began in Saudi Arabia. There he met with 50 Arab and Muslim leaders, including those from the six GCC nations. It was announced shortly before the visit that the US had signed deals worth close to $400bn with the kingdom, including $110bn related to weapons and arms contracts. The following month the US Department of State approved an initial sale of military training programmes and equipment worth over $1.4bn to the kingdom, with the contract including a radar system and education for the Royal Saudi Air Force. Trade relations beyond defence have been enhanced recently as well, with Saudi Arabia's Public Investment Fund announcing plans to contribute $20bn to private investment firm Blackstone Group, with the funds to be used as financing for infrastructure projects in the US.

It is the UAE, however, that has historically been the US' largest export market in the Middle East, with sales worth more than $22bn in 2016. According to Sultan bin Saeed Al Mansouri, the minister of economy of the UAE, non-oil trade between the US and the UAE increased from $27.8bn in 2015 to $30.3bn in 2016. Alongside the military deals with Saudi Arabia, the US authorised the sale of $2bn worth of missiles to the UAE.

TO THE EAST: China's engagement with the Middle East has also grown significantly in recent years, with a number of strategic agreements and projects in place. This trend has been aided by China's Belt and Road Initiative, which was unveiled in 2013.

The aim of the scheme is for China to extend its global reach, and it has found a receptive audience in the GCC. Saudi Arabia and China signed 15 memoranda of understanding (MoUs) during the G20 summit in September 2016, spanning areas such as science and technology, oil storage, water and cultural cooperation. Underpinning these bilateral agreements is a five-year programme of mutual

Current account balance, GCC member average, 2010-20F (% of GDP)



Source: IMF

The nations of the GCC have made efforts to expand their international role and reach in recent years, with trade deals and investments being pursued in the US, China and India.

In 2017 the US signed deals worth close to
$400bn
with Saudi Arabia

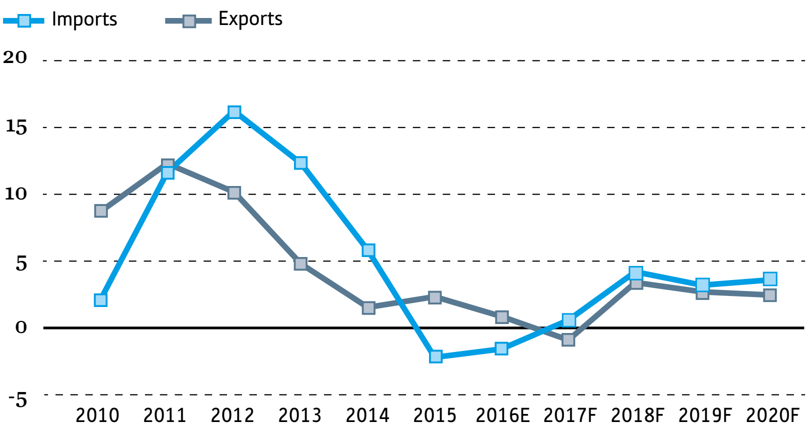
GCC states have signed strategic agreements with several world powers

The UAE is expected to play a key role in China's Belt and Road Initiative due to its importance as a regional and global trade hub. The country is the gateway for roughly 60% of China's exports to the region, worth about $70bn a year.

investments, with a timeframe of one year to be set aside to finalise the deals.

At a global exhibition in the UAE in February 2017, another MoU – related to China's defence sector – was executed between the two countries. The agreement plans to establish a production line in Saudi Arabia for China's new-generation Rainbow 4 aerial drone, among other projects. In March 2017, during a month-long tour of Asia to increase economic cooperation with the region, King Salman bin Abdulaziz Al Saud oversaw the signing of additional deals worth upwards of $65bn with Beijing. The agreements included an MoU between oil giant Saudi Aramco and China North Industries Group to look into establishing refining and chemicals plants in China, as well as a deal between Saudi Basic Industries Corporation (SABIC) and China's Sinopec to develop petrochemicals projects in both countries. Sinopec and SABIC already operate a joint chemicals complex in the Chinese city of Tianjin.

Goods & services trade volume, GCC member average, 2010-20F (% change)



Source: IMF

China is currently Saudi Arabia's largest trading partner, with bilateral exchanges amounting to $42.4bn in 2016. During a visit to the kingdom in August 2017 Zhang Gaoli, vice-premier of China, said his country "supports Saudi Arabia in making its 2030 vision a reality, and would like to be a partner as the country diversifies its economy". A total of 60 agreements and MoUs, worth close to $70bn, were signed during his visit.

REGIONAL PARTNERS: Gaoli also visited Kuwait during his time in the region, becoming the highest-level Chinese official to visit the nation in almost a decade as the countries look to deepen trade relations. Kuwait was the first Gulf state to establish full diplomatic ties with China in 1971 and was also one of the initial Arab countries to sign a cooperation agreement with it under the Belt and Road Initiative. Bilateral trade between China and Kuwait reached $9.37bn in 2016 and rose 28.6% year-on-year (y-o-y) to $5.47bn in the first half of 2017.

Elsewhere, the UAE is expected to play a key role in the Belt and Road plan due to its importance as a regional and global trade hub. The country is the gateway for roughly 60% of China's exports to the region, worth about $70bn annually, according Abu Dhabi Ports. He Song, commercial counsellor at the Chinese embassy in Abu Dhabi, stated that Chinese non-financial foreign direct investment in the UAE rose 352% y-o-y in the first nine months of 2016 to reach $390m. That year China's COSCO Shipping Ports won a 35-year concession to build and operate a new container terminal at Khalifa Port in Abu Dhabi, with plans to invest over $700m.

Earlier, in December 2015, Abu Dhabi-based Mubadala Investment Company launched a joint investment fund with China Development Bank Capital and China's State Administration of Foreign Exchange, with each government investing $5bn to be used for projects in both countries. Since 2011, four of China's state-owned banks have set up operations in the UAE.

TIES WITH INDIA & PAKISTAN: Emerging markets in South Asia are also key to outward growth. India is currently the GCC's largest trade partner, and with the OECD expecting the country's economic growth to remain above 6.7% through 2019, there are numerous opportunities on offer.

Trade between India and the GCC totalled $137.7bn in 2014-15, up from $6.2bn in 2001-02, according to the International Trade Centre. Ali Ebrahim, deputy director-general of Dubai Economy, said in August 2017 that GCC exports to India had increased by 49% annually over the previous decade – the highest growth rate among the region's major trading partners – with imports from India growing by 39%. According to India's Ministry of External Affairs, the GCC currently supplies 60% of India's total energy imports. Furthermore, with millions of Indians working in the GCC, remittances from those living in the region make up over $35bn per year, representing half of India's annual total remittances.

While relations between Pakistan and the GCC are not as well established as those with India, a third round of negotiations over a free trade agreement (FTA) between GCC member states and the South-Asian country are expected in 2018, with the text of the initial framework in place as of early August 2017. The hope is that an FTA will help to develop multilateral trade, with Pakistan's agricultural potential and energy needs seen as areas of opportunity.

RUSSIA: With Russia a major hydrocarbons producer in its own right, trade between the GCC region and the northern giant has never been as critical as with the US, China and India. Still, there have been strong efforts to boost bilateral trade and cooperation.

The Russian Direct Investment Fund (RDIF) and Mumtalakat, Bahrain's sovereign wealth fund, signed a mutual investment agreement in 2014, and in February 2016 it was reported that Mumtalakat had made a $250m investment in the RDIF. In June 2017 Mahmood Hashim Al Kooheji, CEO of Mumtalakat, told Reuters that they had an "impressive" pipeline of investment deals in Russia, with $135m worth of projects already approved, while some existing projects already offered double-digit return rates.

Bahrain's moves followed the November 2015 announcement that Kuwait's sovereign wealth fund, the Kuwait Investment Authority, had agreed to allocate a further $500m to a number of investment projects in Russia in partnership with the RDIF.

According to Kirill Dmitriev, head of the RDIF, Gulf sovereign wealth funds had earmarked more than $20bn for investment in Russia as of May 2017.

In June 2017 Rosneft – Russia's largest oil producer – and Saudi Aramco announced they were looking into joint investments in Saudi Arabia. At the same time, the kingdom said it would consider joining Russia's Arctic liquefied natural gas project.

In May 2017 the PIF also entered in a partnership with RDIF to invest up to $10bn in Russia-Saudi projects, with $1bn already invested in infrastructure, manufacturing, logistics and retail, according to the PIF Programme 2018-20. In the latest development, in October 2017 Saudi Arabia's King Salman led a delegation to Moscow that agreed joint investment deals worth several billion dollars.

In Oman, Sultan Qaboos bin Said Al Said welcomed a Russian special envoy in February 2017 to review bilateral relations, reinforce a climate of supportive cooperation and activate existing joint agreements between the two nations. Trade between Oman and Russia has risen since 2010, with Russian companies currently engaged in Oman's energy sector.

If oil prices continue to recover, the GCC is likely to enter further agreements with countries around the world. These deals, whether related to developments in the region or investments elsewhere, will become increasingly important for economic growth and revenue generation for all GCC member states.

Trade between Oman and Russia has risen sharply since 2010, with Russian companies currently engaged in the sultanate's energy sector.

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Oman's two main sovereign wealth funds hold a total of $24bn in assets

Money management

Activity among the region's sovereign wealth funds picks up as oil prices stabilise

The number of sovereign wealth funds (SWFs) operating in the GCC has grown significantly in the last decade. The value of these SWFs – created to invest and manage the huge sums flowing into the region from hydrocarbons sales – stood at $2.9trn in December 2017, according to the Sovereign Wealth Fund Institute (SWFI), or 38.3% of the global total.

TURNING A CORNER: With oil prices remaining relatively low since mid-2014, many SWFs have had to rein in investments, pulling money out of global stock markets and holding off on investment plans to make up for shortfalls in government spending.

> "The number of sovereign wealth funds operating in the GCC has grown significantly in the last decade. The value of these funds stood at $2.9trn in December 2017, or 38.3% of the global total."

According to investment management firm eVestment, between 2015 and 2016, SWFs around the world withdrew upwards of $85bn from investment houses. This trend has been particularly noticeable in countries such as Saudi Arabia, where net foreign assets held by the kingdom's central bank dropped from $737bn in August 2014 to $529bn at the end of 2016 as the government made use of financial reserves to cover its budget deficit. Despite mid-2017 oil prices still being far below those seen prior to the middle of 2014, experts believe the weaker investment landscape for SWFs could be turning a corner.

In August 2017 Jamal Al Naif, head of Pictet Asset Management for the Middle East, Africa and Central Asia, told Bloomberg that SWFs in the Middle East were beginning to revive their capital spending plans, with investments likely to start increasing at the end of 2017 or in early 2018 as the oil price stabilises.

GLOBAL GIANTS: According to a December 2017 ranking published by the SWFI, the largest fund in the GCC is the Abu Dhabi Investment Authority (ADIA). Founded in 1976, it manages the third-largest amount of assets in the world, behind Norway's Government Pension Fund and China Investment Corporation. Also among the top-10 global SWFs are those overseen by the Kuwait Investment Authority, SAMA Foreign Holdings of Saudi Arabia and the Qatar Investment Authority. In total, eight of the top-20 SWFs in the world are from the GCC.

UAE: ADIA has a portfolio valued at around $828bn, with investments spanning over a dozen asset classes and sub-categories. According to the fund's own data, its 20- and 30-year annualised rates of return in dollar terms were 6.1% and 6.9%, respectively, as of December 2016. One current area of interest for ADIA is India's transport infrastructure, with the fund looking to buy a stake in Hyderabad International Airport and Cube Highways, the operator of road tolls in the country. Concerning European assets, it was reported in May 2017 that ADIA was actively looking for buyers for $1.7bn worth of Paris office buildings.

In addition, the UAE has a number of other large SWFs, with the Investment Corporation of Dubai, Mubadala Investment Company, Abu Dhabi Investment Council, Emirates Investment Authority, Ras Al Khaimah Investment Authority and Sharjah Asset Management also involved in managing the sovereign wealth of the various emirates.

More recently established funds, such as the Abu Dhabi Investment Council, which commenced operations in 2007, have also been tasked with entering investments that support domestic economic growth and facilitate the development of local companies on the international stage.

KUWAIT: Fourth on the list of the largest SWFs in operation is the Kuwait Investment Authority (KIA), considered by some to be the oldest fund in the

8

of the top-20 sovereign wealth funds in the world are from the GCC

With oil prices remaining relatively low, many sovereign wealth funds have had to rein in investments

world, with roots tracing back to 1953. Managing assets of approximately $524bn, the KIA holds high-profile stakes in German car manufacturer Daimler, BP, Vodafone and HSBC.

In August 2017 the KIA sold its 4.8% stake in French energy company Areva for a reported €83m, significantly less than from the €600m it paid in December 2010. The loss in value was attributed to a global shift away from nuclear power after the Fukushima nuclear reactor disaster in Japan in 2011. Despite the loss on the sale, the KIA said it made a profit of KD45.2bn ($149.5bn) in the six fiscal years it held the shares leading up to March 31, 2017.

Going forward, at the beginning of 2017 the KIA announced that it was aiming to increase the allocation of funds managed in-house – from less than 2% to as much as 8% – with plans to invest more in private assets and global infrastructure projects.

SAUDI ARABIA: Important developments have also been taking place at the Public Investment Fund (PIF) of Saudi Arabia. PIF was originally established in 1971 to invest in commercial projects, but for much of its operating life it has been little known, working largely as a no-frills holding company.

However, in March 2015 a decree was issued transferring oversight of PIF from the Ministry of Finance to the Council of Economic and Development Affairs, with the fund's goals brought in line with the kingdom's Vision 2030 development blueprint.

Since 2015 PIF has been among the most visible SWFs in the world. In 2016 alone it invested $3.5bn in Uber, the ride-hailing app, and entered an agreement to invest $45bn in a $100bn-technology fund in partnership with Japan's SoftBank. It also announced plans in May 2017 to contribute $20bn to US private investment firm Blackstone Group to finance infrastructure projects in the US.

In 2018 the Public Investment Fund of Saudi Arabia is expected to benefit from government plans to offer shares representing around 5% of state-owned oil giant Saudi Aramco through an initial public offering.

Its biggest deal, however, is yet to come. In 2018 PIF is expected to benefit from government plans to offer shares representing around 5% of state-owned oil giant Saudi Aramco through an initial public offering (IPO). The proceeds, worth a potential $100bn, would be handed to the fund for reinvestment.

The SWF already has considerable reserves, with the government allocating it SR100bn ($26.7bn) from the central bank in November 2016. One banker told the *Financial Times* in January 2017 that the fund's assets could rise from approximately $190bn to $500bn even before the IPO from Saudi Aramco takes place in late 2018.

In other developments, PIF is expected to be involved in theme park construction with US entertainment operator Six Flags, as well as participating in efforts to develop a domestic defence industry. In May 2017 PIF established Saudi Arabian Military Industries with the aim of reducing the kingdom's reliance on foreign purchases of military equipment. PIF's domestic portfolio includes stakes in Saudi Basic Industries Corporation – one of the world's biggest chemicals manufacturers – and National Commercial Bank, the kingdom's largest lender.

In August 2017 it was reported that PIF had hired Rashed Sharif, former CEO of the investment banking unit at Riyad Bank, as the new head of its domestic investments. In his new role, Sharif will be reporting to Yasir Al Rumayyan, the fund's managing director. In the same month the government announced that it planned to transfer ownership of all of the kingdom's airports to the PIF as part of its efforts to privatise the facilities. Individual companies would be appointed for each one of the country's airports, operating under the management of Saudi Civil Aviation Holding, which itself is a spin-off from the General Authority of Civil Aviation of Saudi Arabia.

BAHRAIN: Bahrain's Mumtalakat Holding Company has accumulated an estimated $10.6bn worth of assets under management since its 2006 inception, according to the SWFI. After Mumtalakat signed

The Abu Dhabi Investment Authority is the largest fund in the GCC a mutual investment agreement with the Russian Direct Investment Fund in 2014, February 2016 saw the holding company make a $250m investment in the Russian management account. Speaking to Reuters in June 2017, Mahmood Hashim Al Kooheji, the CEO of Mumtalakat, highlighted the large pipeline of investment deals that Bahrain has with Russia.

In October 2015 Mumtalakat, along with Blackstone Group and Dubai-based Fajr Capital, bought a significant stake in the UAE's GEMS Education, and in 2016 the SWF acquired notable equity stakes in UK-based water-treatment company Envirogen Group and European health care provider KOS Group. In October 2017 Mumtalakat partnered with sharia-compliant investment management company Arcapita to acquire a 90% stake in health insurance processing firm NAS United Healthcare Services.

MERGERS: On the back of lower global oil prices, there was talk of SWF mergers in 2017, with the creation of larger funds seen as a way to cut costs and limit overlaps from coexisting national accounts. In February 2017, for example, it was announced that Abu Dhabi was close to finalising the merger of its Mubadala Investment Company and International Petroleum Investment Company (IPIC). According to the SWFI, the new entity would be the 14th-largest fund globally, with around $125bn in assets.

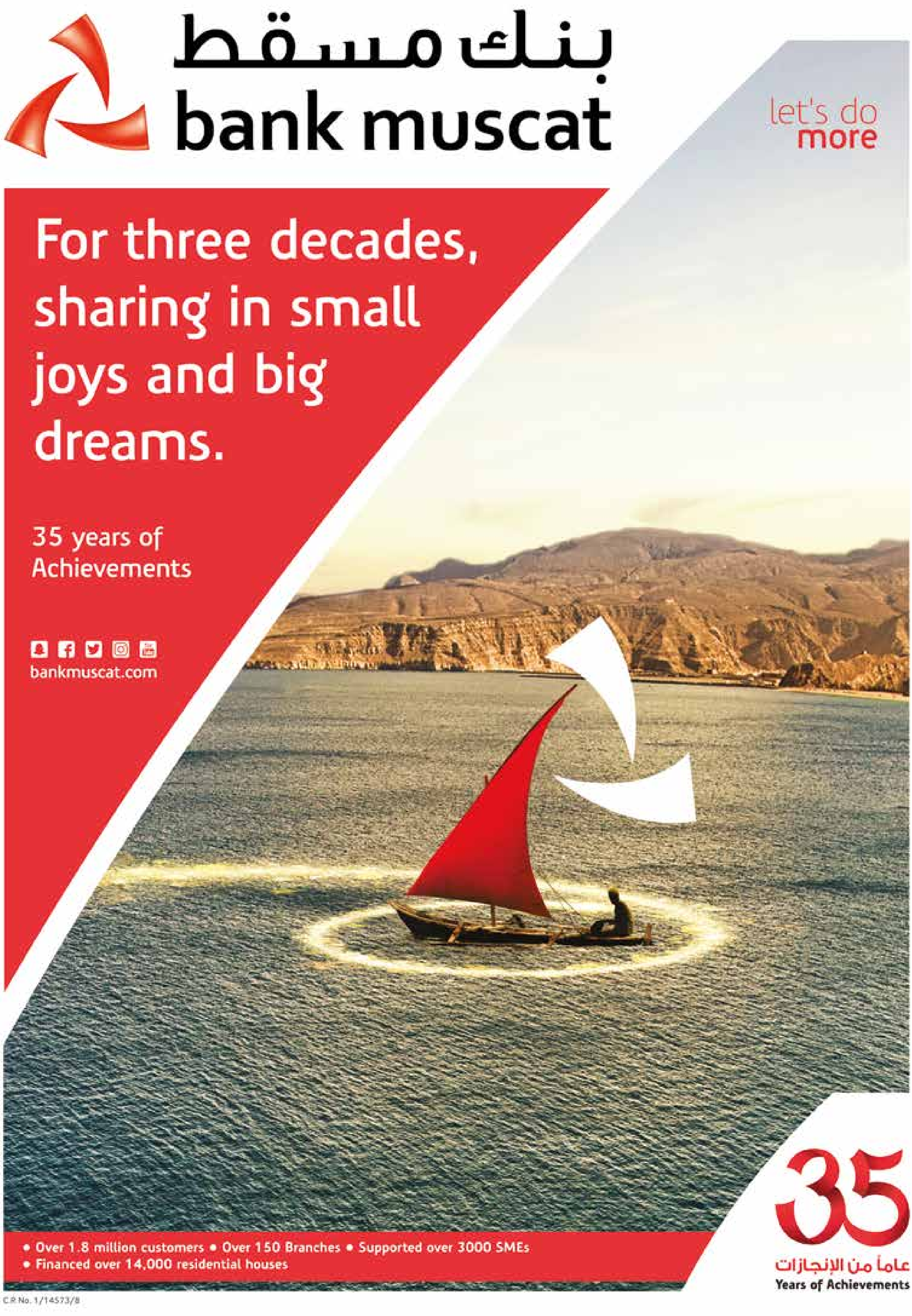
Mubadala is active in 13 sectors and more than 30 countries around the world, and is focused on developing industrial heavyweights in sectors including aerospace manufacturing, ICT, the semiconductor industry, metals and mining, and renewable energy. Meanwhile, IPIC has traditionally focused on oil and gas exploration and production, with stakes in 18 companies around the world in nations such as Kazakhstan, Pakistan and Austria. The new fund is expected to continue to invest in energy, infrastructure, metals, real estate and aerospace, while also expanding into new sectors.

In April 2017 reports surfaced of Oman following suit, with plans to merge the country's two main SWFs. The State General Reserve Fund (SGRF) and Oman Investment Fund would together create an entity with $24bn in assets. The SGRF is the older of the two, established in 1980 to invest and manage the country's financial surplus from its oil and gas revenues. The general fund maintains assets of $18bn, according to the SWFI, while the Oman Investment Fund – founded in 2006 – has $6bn in assets.


Funds may take a more active role in developing local industries

GROWING ROLE: As countries in the GCC push to further diversify their economies away from hydrocarbons, some SWFs have been tasked with promoting alternative domestic industries and aiding in the development of regional companies able to operate at the highest international level. Mubadala Investment Company is one such example, but plenty of other funds could take a more active role in developing local industries in the near future. As investments by SWFs in the region pick up after the jolt of lower oil prices, this will be important progress to follow.

On the back of lower global oil prices, there was talk of sovereign wealth fund mergers in 2017, with the creation of larger funds seen as a way to cut costs and limit overlaps from coexisting national accounts.



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Economy

Oil price recovery to bolster government revenue
Efforts to diversify the economy and income sources
Public-private partnership model increasingly popular
Authorities consider privatising some public assets


The Khazzan gas field opened ahead of schedule in September 2017

Balancing act

Rising oil prices and economic diversification initiatives lead to accelerated GDP growth prospects and lower deficits

Oman's economy benefits from large oil and gas reserves, including a sizeable new gas field that began production in late 2017. Located between Asia and Africa – and adjacent to major international shipping routes – the sultanate's geographic location also makes it a natural regional logistics and manufacturing hub. The authorities are seeking to leverage such advantages in order to diversify the economy and reduce its reliance on hydrocarbons production, particularly in light of the fall in the price of oil over the 2014-15 period. The consequent decline in oil revenue negatively affected growth, as well as government accounts and finances.

However, the authorities have so far been able to fund the deficit without difficulty through international borrowing. Furthermore, a partial oil price recovery in 2017 and 2018 – with Brent crude reaching $70 per barrel in early 2018, hovering near a three-year high – as well as moves by the government to cut expenditure and boost revenue, are reducing immediate pressure on finances.

There are hopes that an economic diversification strategy, which is the ninth five-year development plan, running from 2016 to 2020, will help pick up any remaining slack in the coming years.

GDP BREAKDOWN: According to figures from the sultanate's National Centre for Statistics and Information, oil and gas production accounted for 27.1% of GDP in 2016, agriculture and fishing made up 1.9%, industry 21% and the services sector 53.7%. The figure for services includes public administration and defence, which comprised 14.4% of output.

The contribution of hydrocarbons to economic output has fallen in recent years as a result of the oil price fall – and, to a lesser extent, growth in non-oil sectors – from 46.4% in 2014 to 27.1% in 2016. However, as oil prices moderately recovered, its contribution to GDP rose in the first half of 2017, to 32.5%. Nonetheless, the government is working to increase the role of the non-oil economy through ambitious diversification plans, with a focus on logistics, tourism, fishing, mining and manufacturing.

GROWTH: Macroeconomists tend to focus on real GDP growth – which is calculated by looking at growth in each major sector on a constant-price basis – as the main measurement of a country's economic expansion, in order to account for the effects of inflation and to determine increases in the volume of economic output. In these terms, Oman's economy has been growing at a relatively stable rate in recent years, at 2.5% in 2013, 4.2% in 2015 and 3% in 2016. In the October 2017 update of its World Economic Outlook database, the IMF forecast the figure would fall to -0.02% in 2017 but rebound to 3.7% the following year.

However, nominal GDP growth, which is denominated in current prices, is arguably a more informative metric for countries dependent on hydrocarbons exports, such as Oman, as changes in the value of oil production reflect real changes in their ability to purchase goods from abroad, rather than exaggerating economic expansion, as other types of inflation are sometimes prone to do.

The high degree of dependence on hydrocarbons for economic growth has meant that swings in the international price of oil cause similarly volatile nominal growth in Oman. For example, GDP growth veered from 44.7% in 2008 to -20.5% the following year. It returned to double-digit figures in the first three years of the 2010s, averaging 16.6%, on the back of substantial oil price rises, before flattening out in 2013 and 2014, at 2.9% and 2.7%, respectively.

Following a dip in the price of oil that began in mid-2014 and gathered pace in 2015, nominal GDP contracted by 13.8% in 2015 and by a further 5.1% the following year, with the value of oil and gas production dropping from OR14.5bn ($37.7bn) in 2014 to OR6.97bn ($18.1bn) in 2016. This was solely due to

Hydrocarbons production accounted for

27.1%

of GDP in 2016

In the October 2017 update of its World Economic Outlook database, the IMF forecast GDP growth would fall to -0.02% in 2017 before rebounding to 3.7% the following year.

The national population numbered around 4.65m as of January 2018

There were 2.25m people in the workforce in 2016, of which a substantial portion was expatriates. This group is predominately made up of men from India, Bangladesh and Pakistan.

falls in the value of oil production; gas output rose in value from OR1bn ($2.6bn) in 2014 to OR1.23bn ($3.2bn) in 2016. The non-oil sector saw growth over the period, of 2.8% in 2015 and 2.6% in 2016.

However, oil prices began to rebound from early 2016 onward, and saw another rally at the end of 2017 and beginning of 2018, helping put nominal growth back on a positive track, with the sultanate's GDP expanding by 12.3% in nominal terms in the first half of 2017, according to data from the National Centre for Statistics and Information. The growth was driven largely by a 42.3% rise in oil production value, to OR3.58bn ($9.3bn), or 27.6% of GDP. The value of industrial output was more or less flat, with growth of 0.1%, while the services sector expanded by 6%, driven by growth of 13.5% in the wholesale and retail trade segment, and 7.8% in transport, storage and communications. The IMF forecast that nominal growth for the year as a whole would stand at 8.5%, slowing to 4.6% in 2018.

INFLATION: Inflation spiked in 2008, hitting 12.6%, but fell sharply in subsequent years, bottoming out at 0.1% in 2015. The indicator has risen since then but remains at low levels, standing at 1.1% in 2016 and 1.7% in December 2017. The consumer price index rose by an average of 1.58% in the first 11 months of 2017, according to data from the National Centre for Statistics and Information. Food and non-alcoholic beverage prices were up 0.42% over the period, with positive numbers throughout the second half of the year. The IMF expects annual average inflation to stand at 3.2% for the year as a whole and to remain at this level in 2018.

POPULATION SIZE & GDP PER CAPITA: The national population stood at 4.65m as of January 2018, according to figures from the National Centre for Statistics and Information. Of the total, 54.8% was made up by Omani nationals, and expatriates comprised 45.2%. According to World Bank data, the population grew by 5.2% in 2016, the fastest rate of any country in the world.

GDP per capita stood at $14,982 in 2016, according to figures from the bank, down from $16,627 the year before and a recent peak of $22,135 in 2012. The figure was the lowest among GCC states, albeit more than double the MENA average of $7125, and less than the OECD average of $36,741. However, a relatively low cost of living in Oman means that residents are, in practice, substantially wealthier than such figures imply: in purchasing power parity terms – that is, taking into account what a given amount of money can actually buy in the country in question, compared to other countries – the country had a GDP per capita of $42,737 in international dollars in 2015, above the OECD average of $41,730.

LABOUR FORCE: The size of the employed workforce stood at 2.25m in 2016, according to figures from the National Centre for Statistics and Information, of which 89.6% were working in the private sector. Private sector employment growth has outstripped that of the public sector in recent years, expanding by 35.9% between 2012 and 2016, compared to 20.1% for the public sector over the same period. Private sector employment is dominated by expatriates, who accounted for 88.4% of these workers in 2016. By contrast, citizens of Oman accounted for 83.9% of the 234,000-strong workforce in the public sector in 2016.

There were 1.86m expatriates working in the sultanate as of December 2017, according to National Centre for Statistics and Information figures, an increase from 1.85m at the beginning of the year. At 1.65m individuals, or 88.7% of the total, expatriate workers are overwhelmingly male. Furthermore, they come predominantly from South Asia; citizens

Economic indicators, 2017-20F

	2017F	2018F	2019F	2020F
GDP, current prices (OR bn)	27.66	28.94	30.86	32.32
GDP per capita, current prices (OR 000)	6692.61	6791.88	7022.32	7129.23
Inflation, avg. consumer prices (% change)	3.20	3.20	3.60	3.20
Vol. of imports of goods & services (% change)	0.02	1.93	3.52	2.66
Vol. of exports of goods & services (% change)	-2.32	3.57	6.15	4.06
Population (m)	4.13	4.26	4.39	4.53
General gov't revenue (OR bn)	9.13	9.80	10.72	10.95
General gov't revenue (% of GDP)	33.00	33.86	34.73	33.89
Total gov't expenditure (OR bn)	12.72	13.11	13.57	13.72
Total gov't expenditure (% of GDP)	46.00	45.30	43.97	42.44
Gov't net lending/borrowing (OR bn)	-3.60	-3.31	-2.85	-2.76
Gov't net lending/borrowing (% of GDP)	-13.00	-11.45	-9.24	-8.55
Gov't gross debt (OR bn)	12.30	14.70	16.73	18.80
Gov't gross debt (% of GDP)	44.49	50.79	54.22	58.18
Current account balance (% of GDP)	-14.32	-13.20	-11.18	-9.86

Source: IMF World Economic Outlook Database, Oct 2017






of India, Bangladesh and Pakistan together account for 87.2% of the expatriate workforce.

The female labour force participation rate was 30.2% in 2017, according to World Bank figures. This rate was the second lowest in the GCC but above the MENA average of 23.2%. In December 2017, 8.9% of seats in national Parliament were held by women.

UNEMPLOYMENT: Unemployment has risen slightly in recent years, according to International Labour Organisation data. The body estimated the rate stood at 17.8% in 2017, up from 16.9% in 2014. The figure had previously been steadily decreasing from a peak of 19.5% in 2007. Youth unemployment – for individuals between 18 and 24 years of age – is a particularly substantial challenge, recorded at 52.7% in 2017, up from 45.3% in 2014.

Efforts to boost employment opportunities centre, in part, on strategies to develop small and medium-sized enterprises (SMEs). In May 2017 the publicly owned Oman Development Bank announced that a OR70m ($181.8m) fund it launched the previous February to support SMEs would tackle unemployment through low-interest loans that applicants would not need to start repaying for 12 months.

The government-backed Al Raffd Fund for entrepreneurship also focuses on youth and unemployment; 83% of the financing it has provided since its founding in 2013 has gone to 18- to 45-year-olds, and its Tasees financial programme (one of four it offers) specifically targets jobseekers willing to start their own businesses. Since the end of 2015 banks have also been required to dedicate 5% of their loans to the SME segment, though the target has yet to be reached (see Banking chapter).

FOREIGN TRADE: Oman has historically recorded substantial surpluses as regards trade in merchandise goods. The surplus peaked at OR9.24bn ($24bn) in 2012, as a result of high oil prices at that time. The value of exports peaked the following year, at OR21.7bn ($56.4bn). However, export values have fallen sharply since, hitting OR10.3bn ($26.8bn) in 2016, their lowest level since 2007. Imports also fell in value, allowing the country to maintain a continued – though narrower – merchandise goods trade surplus of OR1.4bn ($3.6bn).

The UAE is the largest re-export, import and non-oil export market

Approximately 89.6% of employed individuals in the sultanate were working in the private sector in 2016

The value of Omani exports (including re-exports) grew 17.8% year-on-year in the first half of 2017, to OR5.84bn ($15.2bn). This was largely driven by a 32.4% rise in the value of oil and gas exports, to OR3.46bn ($9bn), or 59.4% of total exports. Such hydrocarbons exports were dominated by crude oil sales, up 32.2% to OR2.91bn ($7.6bn).

The growth of non-oil exports outpaced that of general exports, up 26.7% at OR1.68bn ($4.4bn), largely driven by rises in the value of mineral, chemical and metal exports (up 43.6%, 36.7% and 33.8%, respectively). Re-exports, in contrast, fell in value, to OR788.3m ($2bn), a drop of 27.6%, while imports grew by 16.6% to OR4.93bn ($12.8bn).

The UAE was the largest non-oil export market in the first half of the year, on sales of OR358.5m ($930.9m), followed by Saudi Arabia (OR244.9m, $635.9m) and India (OR151.4m, $393.1m). The UAE was also its largest re-export and import market, on figures of OR283.8m ($736.9m) and OR2.05bn ($5.3bn), respectively. However, much of the imports figure is likely to be made up of re-exports rather than goods originating in the UAE. This put the UAE ahead of the US at OR587m ($1.5bn) and China with OR246.8m ($640.9m) of imports over this period. The country's largest oil export market in the first 10 months of 2017 was China, with 172.1m barrels, followed by India with 24.4m.

Imaad Al Harthy, acting deputy CEO of the Export Credit Guarantee Agency of Oman (also commonly known as Oman Credit), told OBG that historically, the sultanate's export markets had been geographically constrained, but that it was now seeking to

The government-backed Al Raffd Fund for entrepreneurship focuses particularly on younger individuals; 83% of the funding it has disbursed since its founding in 2013 has gone to adults under 45 years of age.

Non-oil exports were worth

$4.4bn

in the first half of 2017

The female labour force participation rate was 30.2% in 2017, above the MENA region average of 23.2%

As is the case in most GCC countries, Oman pegs its currency to the US dollar, at a rate of $1:OR0.3849. This exchange system has been in place since 1986.

expand and export to countries further afield. Key targets include Ethiopia and Iran, which he said could respectively act as gateways to East African and Central Asian markets. Other target markets include Brazil, China and the UK.

Measures being taken by the agency to boost exports generally include targeted support for the SME segment, for which the Export Credit Guarantee Agency of Oman has developed a service to provide collateral for financing. Al Harthy told OBG that obtaining such funding was the main challenge such smaller firms faced when trying to bring goods to export. In April 2017 the agency also launched a new scheme to support re-exporters.

Other measures to bolster trade include the launch by the sultanate's Customs department in mid-2015 of Bayan, a single-window electronic Customs clearance service. These and other measures have facilitated trade in recent years, with the sultanate's position in the World Bank's "Doing Business" report in the trading across borders category improving from 49th out of 190 countries in the 2013 edition to 11th in the 2018 edition.

CURRENT ACCOUNT: Having remained in surplus since 2010 and peaking at 13% of GDP in 2013, the sultanate's current account balance moved into the red in 2015, to the tune of 15.5% of GDP, as a result of the decline that year in international oil prices. The deficit expanded in 2016, to 18.6% of GDP, according to figures from the IMF.

However, amid a partial recovery in oil prices, the fund expected the deficit-to-GDP ratio to improve in 2017, to 14.43%, and to gradually continue easing over subsequent years. Hettish Karmani, head of research at Ubhar Capital, an investment firm headquartered in Oman, said that increasing levels of economic diversification will help to improve public accounts in the coming years, even in the absence of a full oil price recovery. Bader Al Nadabi, executive director at Al Hae'l Ceramic Company, voiced further support of these endeavours. "While the economic slowdown has undoubtedly brought some hardships, it has given an important boost to the diversification drive, as it has underscored the dangers of relying on oil," he told OBG.

Inward foreign direct investment stock totalled

$19.2bn

in 2016

FOREIGN EXCHANGE SYSTEM: As is the case in most GCC states – with Kuwait a partial exception, aligning the dinar to a basket of currencies – the Omani rial is pegged to the US dollar, at a rate of $1:OR0.3849. This has been in place since 1986.

The aftermath of the 2014-15 oil price dip caused some to worry that Gulf countries, including Oman, could struggle to maintain these pegs. "Certain market commentators expressed concerns about regional GCC pegs holding against the US dollar," Lloyd Maddock, CEO of Ahlibank, told OBG in October 2017. "However, such fears abated in light of the governments' initiatives to diversify their economies, curb spending and subsidies, introduce a value-added tax and avail themselves of international funding, coupled with the modest rise in oil prices." In September 2017 the Central Bank of Oman publicly reiterated its commitment to the peg system, saying the rial was not facing significant pressure in foreign exchange markets.

INVESTMENT INFLOWS: Inward foreign direct investment (FDI) stock in the sultanate totalled OR7.4bn ($19.2bn) in 2016, up OR800m ($2.1bn) over 2015, according to Omnivest. The UK was the largest foreign investor, accounting for around 46% of the total, and hydrocarbons was the leading sector, attracting 48% of total FDI.

FDI inflows have decreased in recent years, in part resulting from the fall in the international price of oil, which prompted some investment outflows. According to figures from the UN Conference on Trade and Investment, total FDI inflows were $142m in 2016, after averaging $1.53bn in the 2011-14 period. This

The central bank reiterated its commitment to the dollar peg in 2017

What would you
change here?
Easily many would say replace the fork with a spoon!
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Foreign direct investment stock stood around $18.55bn in 2016

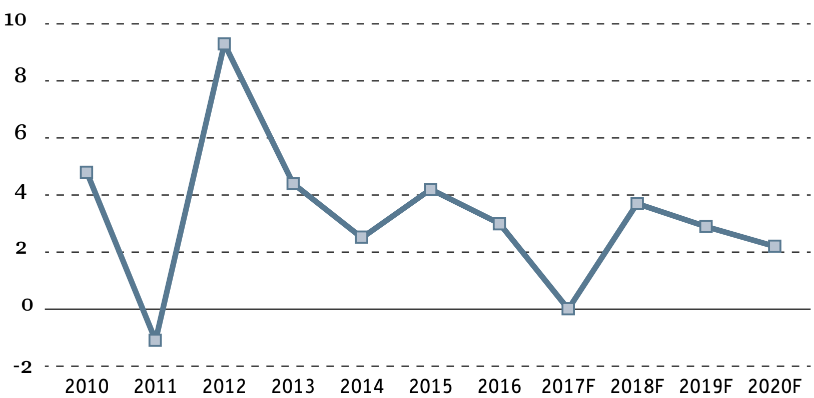
Oil production fell by 3.7% in the first 10 months of 2017 to an average of 970,000 barrels per day, from record levels of 1m during the same period a year earlier.

performance was, nonetheless, an improvement over 2015, when the country had negative inflows of $2.69bn. FDI inward stock stood at $18.55bn in 2016, an increase from $14.99bn in 2010.

DOING BUSINESS: The sultanate ranked 71st out of 190 countries in the World Bank's "Doing Business 2018" report, which measures the ease of doing business across a range of categories and various metrics. The country's relative position has fallen in recent years, from 47th in 2013. Its strongest performance in the 2018 edition was in the trading across borders category, in which it ranked 11th, while its weakest was in the protecting minority investors category, in which it came 133rd.

Improvement in these metrics – particularly in protecting minority investors – will be a crucial part of development. "Oman's diversification efforts must include initiatives that improve the ease of doing business and support SMEs," Redha Juma Mohammed Ali Al Saleh, vice-chairperson for administration and finance affairs, and chairperson of financial, banking and insurance committees at the Oman Chamber of Commerce and Industry, told OBG.

Real GDP growth, 2010-20F (%)



Source: IMF

INVESTMENT LAW: Moves to bolster FDI and improve the business environment include planned changes to key investment legislation. The government, in cooperation with the World Bank, has been drafting a revised version of the country's Foreign Capital Investment Law since 2015, and some reports have suggested that the new version could see a relaxation or even the abolition of the 70% foreign ownership cap currently applied to onshore companies in most sectors. Such restrictions are common in the region, and indeed Oman's local ownership requirements are on the low side, with some states requiring majority-local ownership.

In April 2017 the Central Bank of Oman confirmed that plans to revise the law remained in place, though it did not comment on the content of the planned changes. Karmani told OBG that foreign ownership limits might be relaxed, which he said would help in attracting more investment. Other industry players also believe that relaxation of these requirements would yield positive results for the economy.

ENERGY: Oil production fell by 3.7% in the first 10 months of 2017 to an average of 970,000 barrels per day, from record levels of 1m during the same period a year earlier. The drop followed an agreement reached in December 2016 by the Organisation of the Petroleum Exporting Countries, of which Oman is not a member, and other oil exporters to collectively cut output in order to support international oil prices. In late November 2017 the countries agreed to maintain the cuts to the end of the following year, the second extension agreed upon.

Gas production, by contrast, is expected to have risen substantially in 2017, with September witnessing the launch of production several months ahead of schedule at the Khazzan gas field. The lead partner in the project is UK oil major BP on a 60% stake; the other 40% is held by the state-run Oman Oil Company Exploration and Production. The field should produce a total of 297bn cu metres of gas across two phases. Under the initial phase, which is due to come fully on-stream in 2018, production will be around 28.3m cu metres per day, boosting national output by one-quarter. This will rise to 42.5m cu metres under the second phase.

Hamid Hamirani, senior economist at the Office of the Minister Responsible for Financial Affairs, described the launch of the field as a game-changer. "One of the old challenges for the economy was a lack gas availability for industry. However, Khazzan can now help to fill that gap," he told OBG. He added that this would provide the country with better margins than selling the gas abroad, given what he described as the current oversupply of international energy markets. However, he said that some of the gas would initially have to be exported, while industrial projects using it as feedstock are developed.

DIVERSIFICATION PLANS: Diversifying the economy away from hydrocarbons is a core element of development plans and has been given added impetus by declining oil prices. Under the ninth five-year development plan, the authorities launched the National Programme for Enhancing Economic Diversification, or Tanfeedh (which translates to "implementation"), in early 2016. The programme, inspired by Malaysia's efforts to diversify its economy, has a particular focus on five sectors: manufacturing, logistics, tourism, fisheries and mining. It will follow eight steps, the fifth of which – the implementation phase – is set to begin in 2018.

Pankaj Khimji, director of Omani conglomerate Khimji Ramdas, told OBG he thought that the programme had been well conceived, focusing on some areas of the economy with high growth opportunities, and that these would start to make significant contributions to GDP from around 2020 onward. Awad bin Mohammed Bamkhalif, CEO of Oman & Emirates Investment Holding Company, echoed the potential of the initiative. "I hope that the Tanfeedh programme lives up to its namesake and leads to the swift execution of diversification efforts, as it is now more important than ever," he told OBG.

Other initiatives that are supporting the sultanate's diversification efforts include the 2014 founding of Muscat National Development and Investment Company, which is also known as ASAAS. The organisation is jointly owned by 10 government institutions and is mandated to invest in the tourism, health care, retail, and logistics and transport sectors. The firm has a primary intention to act as a partner to foreign investors with investment horizons in the region of five years, helping, for example, to approve local administrative measures.

ASAAS has focused on travel and tourism, which are ripe for further development, benefitting from Oman's long coastline, year-round warm temperatures and geographically diverse interior, which affords numerous opportunities for outdoor activities and adventure sports. Initiatives by ASAAS in the sector include its establishment of the sultanate's


A long coastline offers various travel and tourism opportunities

first budget airline, SalamAir, which launched its maiden flight in January 2017, and plans announced in late 2016 for a 1.5m-sq-metre leisure and entertainment cluster to be built in Barka. The entity had invested OR100m ($260m) in the industry as of early 2018, and there are plans to raise this by a factor of 10 over the next decade.

MINING: OBG spoke with several observers who identified mining as a particularly promising sector. Interest in the industry is expected to increase in the wake of a soon-to-be-revised mining law. Among other measures, this will establish a one-stop shop for operators seeking mining licences, and will lengthen licence periods. In October 2017 the authorities announced they would unveil a new strategy to develop the sector in 2018. "Oman is rich in natural resources such as chromite, copper and building material aggregates. Currently, however, mining is mostly focused on lower-margin bulk

Tanfeedh, part of the sultanate's ninth five-year plan, running between 2016 and 2020, aims to diversify the economy away from hydrocarbons. It focuses on manufacturing, transport and logistics, tourism, labour and finance.

Transport, storage and communications growth drove a 6% rise in the services sector in the first half of 2017

Special economic zones offer benefits to investors, including 100% foreign ownership, reduced Omanisation requirements, 10-year corporate tax holidays and exemptions from Customs duties.

minerals such as limestone and gypsum," Maddock told OBG. "The new mining law is eagerly awaited and it should facilitate more investment in the sector by international players partnering with local mining operators. A UK consultancy, SRK, is currently preparing recommendations for sector development, after which the new regulations will be announced."

SPECIAL ECONOMIC ZONES: A key element of the sultanate's long-term diversification plans is a network of free zones at the ports of Sohar and Salalah, and at Al Mazunah near the Yemeni border. Such zones offer benefits, including 100% foreign ownership, reduced Omanisation requirements, 10-year corporate tax holidays and exemptions from Customs duties. The Sohar and Salalah free zones are operated by companies under Asyad, a holding company responsible for grouping state-owned companies, formerly known as the Oman Global Logistics Group until a rebranding in mid-2017.

Another major investment hub is in development, in the form of a port and special economic zone at Duqm, located approximately midway along the coast between Muscat and Salalah. The area's regulatory framework is more detailed than those of the free zones, and allows the free zone authority to issue its own secondary legislation in areas such as land rights, Customs duties and licensing, but otherwise offers broadly similar incentives and exemptions to investors. Port and dry-dock facilities have already been completed at the site. Headline investment projects at the zone include the eventual construction of a 230,000-barrel-per-day refinery by a 50:50 joint venture between Oman Oil Company and Kuwait Petroleum, a partnership agreement for which was signed in April 2017.

The zone is also attracting large-scale investment from China. Both Duqm specifically and Oman in general are strategically located across the Gulf of Oman from the Pakistani port of Gwadar, which makes up one end of the China-Pakistan Economic Corridor, a series of infrastructure projects throughout Pakistan under the wider agenda of China's Belt and Road initiative. Oman is also well located to serve as a gateway to both the Middle East and East Africa for Chinese firms.

Oman Wanfang, a consortium of six Chinese companies from the country's northern Ningxia Hui Autonomous Region, is developing a Chinese-Omani industrial park in the city, in which it says Chinese firms intend to eventually invest a total of $10.7bn. A $138m construction materials storage facility is due to be completed at the facility by early 2019, to be followed by a methanol plant, built at a cost of $2.8bn, among nine projects in total.

The authorities plan to develop the port and special economic zone into a major regional logistics and trans-shipment hub. A key advantage in this respect is its geographic location: it is closer to international shipping lines in the Indian Ocean than ports located inside the Straits of Hormuz. Being situated outside this area also means that ships docking there are not at risk of being affected by any closure of the straits – through which a substantial portion of the world's oil is transported – reducing insurance costs. "Duqm's strategic location, with deep waters and proximity to international shipping lines, is a big attraction, as are tax breaks available for free zone companies, low prices and less stringent Omanisation requirements," Karmani told OBG. "Oman also has good relations with everyone, and low levels of political and conflict risk, which gives investors a sense of security."

REGIONAL TIES: Another major potential investor in Duqm and Oman more generally is Iran. Underscoring this, in January 2016 Iran Khodro Industrial Group, the country's largest carmaker, signed a memorandum of understanding to conduct a feasibility study on the construction of a $200m

The country's location is ideal for a logistics and trans-shipment hub vehicle-assembly facility in the Duqm Special Economic Zone. The announcement came against the backdrop of wider hopes for increased trade and investment ties between the two countries in the wake of the 2015 international agreement to resolve the dispute over Iran's nuclear programme, which Oman helped forge by hosting preliminary secret talks between Iran and the US.

INCREASED TRADE: Such hopes have partly come to fruition, with trade between the two countries nearly doubling from $650m in 2015 to $1.2bn in 2016. However, US President Donald Trump has voiced disapproval of the nuclear deal, and some US sanctions that remained in place following the conclusion of the deal effectively restrict banks' abilities to deal with Iran, which has made it difficult for local banks to move money to and from the country. Nevertheless, the Omani government reiterated its desire to strengthen trade ties with Iran during a visit by Yusuf bin Alawi bin Abdullah, Oman's minister of foreign affairs, to Tehran in July 2017.

The sultanate has also made efforts to maintain good relations with its neighbours and increase trade with Qatar in the wake of the economic blockade of the country imposed by the UAE, Saudi Arabia, Bahrain and Egypt in June 2017. "The commercial relationship between Oman and Qatar strengthened in 2017," Osama Maryam, CEO of Al Hosn Investment Company, told OBG. "Qataris have now become especially interested in investing in Oman's education, mining and food sectors, among others."

Omani-Qatari trade grew approximately 20-fold in the three months following the imposition of the economic embargo, as Qatari logistics firms shifted their operations from Dubai – where most Qatar-bound cargo stops to be transferred from larger vessels onto smaller ships – to Oman, with a particular focus on the Port of Sohar.

OUTLOOK: The post-2014 fall in oil prices is likely to see the economy remain under pressure in the coming years. Government finances will feel a pinch as debt repayments kick in from 2019 onward. However, the partial recovery in prices in 2017 and 2018, as well as successful moves to bring down the fiscal break-even oil price through spending cuts and tax rises, will reduce such pressure in the months and years ahead. The implementation of these measures will need to be carried out in a way that continues to support growth (see analysis). "Given that Oman's private sector has not yet reached the maturity level of those in more advanced economies, there should be a fair balance between increases in corporate and consumption taxes," Stephen Thomas, CEO of Renaissance Services, an Omani offshore vessel fleet support services firm, told OBG.

Over the longer term, moves to diversify the economy look set to develop various non-oil sectors, and bolster the sultanate's status as a regional transport and logistics hub. This is expected to boost employment, non-oil exports and government revenue.

A new mining development strategy is set to be unveiled in 2018

Omani-Qatari trade grew roughly

20-fold

in the three months following the economic blockade on Qatar

Khalifa Al Barwani, CEO, National Centre for Statistics and Information

All connected

Khalifa Al Barwani, CEO, National Centre for Statistics and Information (NCSI), on developing sophisticated data practices

How is Oman using data-powered services to achieve its development and diversification targets?

AL BARWANI: The sultanate is in a transition period defined by moving from simply collecting data to creating services that are powered by it. Like most countries, entities in Oman mostly store their data on collection, but the new global norm is to then add value to it by creating derivative services. In an increasingly digitised world people and businesses require direct access to data in a comprehensive and usable format. Data-powered services have the potential to contribute to Oman's diversification efforts and its economic plans, such as the sultanate's Vision 2040, by empowering communities, businesses and entire sectors, ranging from logistics to manufacturing and beyond.

In what ways can the sultanate use mobile data to create big data solutions?

AL BARWANI: The UN Statistics Division has recognised Oman's ambition when it comes to using mobile big data as part of its official statistical system. Indeed, the NCSI is exploring a partnership with Oman's mobile network operators (MNOs) by which MNOs would provide the NCSI with anonymous data. This data could then be used to generate assessments of the size and mobility of the population, as well as inbound and outbound tourist numbers, and detailed analysis of the most-visited areas in the sultanate. This would help better inform public and private sector decision-making.

How will Oman's e-census operate, and in what ways is it expected to help people and businesses?

AL BARWANI: The sultanate aims to launch its first e-census by 2020, which will establish a system by which information will be recorded and continuously updated for three societal categories: people, establishments and buildings. The first will record information about citizens and residents, and their socio-economic background; the second will monitor establishments, such as companies, NGOs and non-profits, in relation to their area of activity and staff; and the latter will assess buildings with regard to their location, and the nature and number of their inhabitants.

What will differentiate Oman's e-census from a traditional one is its method of data collection. Rather than gathering information through a one-time survey every few years, the e-survey system will source information from the various government entities that interact with each of the three societal categories. The information gathered by these entities will then be centralised into a database managed by the NCSI. In turn, each person, establishment and building will have a profile associated with an identification number. These profiles will constitute administrative records accessible by government authorities that may need such records for processing requests. This system should preclude the requirement for people and businesses to submit the same information to different entities, and should thus simplify approval processes. As a result, the e-census will put Oman on the path to smarter government.

What measures are currently in place to safeguard data collected for the e-census?

AL BARWANI: Identifiable profiles on people, establishments and buildings will only be accessible to government agencies that need them for administrative purposes. Though the same data will be used to generate statistical records and census reports, these records and reports will be anonymised, and will only provide aggregate and meta data.

That said, investing in data protection is an ever-increasing necessity as hackers are becoming more adept in their methods. The NCSI is working with the Information Technology Authority to protect against any illegal accessing of data repositories. Moreover, the Oman National Computer Emergency Response Team provides cybersecurity guidelines and services to all government entities submitting data for the e-census.


Independent power projects account for 70% of domestic generation

Partners in prosperity

Extension of public-private partnerships to underpin growth

There are approximately $2bn worth of public-private partnerships (PPPs) in the planning or implementation phase in Oman, according to research by Middle East Economic Digest published in October 2017. The sultanate pioneered the regional development and use of such projects in the utilities sector in particular, and PPPs now account for the bulk of electricity generated in the country and are the preferred model for building new generation capacity throughout the GCC region.

Against a backdrop of reduced hydrocarbons revenue, the authorities are seeking to extend the model to other sectors in order to reduce capital expenditure budgets, with areas such as health care and education likely to benefit. In order to help develop such activities, the government is working on a dedicated PPP law, as well as a one-stop shop to help attract private investors. However, segment experts caution against the potential of overly prescriptive regulations that would have the potential to stymie innovation in the field.

INDEPENDENT UTILITY PROJECTS: PPPs are already well established in the power-generation, water and desalination segments, where various independent power projects (IPPs), and independent water and power projects (IWPPs) are up and running. Indeed, Oman has been a PPP pioneer for utilities, and is home to the Al Manah power station, which was the first electricity plant in the GCC to be privately funded, built and operated, upon its launch in 1996. Similar such projects followed, and a law underpinning the implementation of PPPs in the power and water segments – the Sector Law, which unbundled the power sector and established a single unified entity, the Oman Power and Water Procurement Company – was passed in 2004.

The model has been remarkably successful, with IPPs now providing more than 70% of domestic power generation. The largest existing power plant in the country, the 2000-MW Sur facility, is also an IPP, owned and operated by Phoenix Power Company. This capacity is set to continue rising: according to Apicorp Energy Research, three more IPPs are due to be launched in 2018-19 in the sultanate, with a combined generation capacity of 2665 MW.

The largest of the three, the Sohar 3 project, is also the biggest IPP to have been tendered in the sultanate to date. It will have an initial capacity of 1710 MW and is due to launch in 2019. A second plant will later be added, boosting capacity to 3319 MW. All three projects are being developed by a consortium led by Japan's Mitsui & Co, ACWA Power of Saudi Arabia, and Omani holding firm Dhofar International Development and Investment.

In May 2017 the Oman Power and Water Procurement Company announced plans to launch a tender for a solar IPP with at least 200 MW of generation capacity – the sultanate's first large-scale solar power venture – which it expects to come on-line by 2020. The firm is also seeking to procure a minimum of 1600 MW of generation capacity through a mixture of both new projects and extensions of projects whose contracts are set to expire.

Furthermore, Oman Power and Water Procurement Company has plans in the pipeline to launch a hydrocarbons IPP in 2024 and a coal-powered project in the years following that. The authorities are seeking to encourage additional competition in the sector by launching a spot market for electricity in 2020. Operational trials of the market are anticipated to begin in 2019.

SUPPORTING FRAMEWORK: Various factors are responsible for the success of power and water PPPs in the sultanate. "The form of privatisation adopted for Oman IPPs and IWPPs is quite comprehensive. For example, the Electricity and Related Water Sector Law permits 100% foreign ownership of IPP and IWPP companies, and there is no government

There are
$2bn
worth of public-private partnerships in the planning or implementation phase

Three additional independent power projects are to be launched in 2018-19, with a combined generation capacity of 2665 MW.


Independent power or water projects are obliged to list 40% equity stakes within four years of establishment

shareholding requirement, something that is unusual in the region. The existence of long-term capacity and output contracts also means that if the plant is operated properly, investors can be sure of recovering all their fixed costs and returns on investments," Mary Mackintosh Allan, partner at legal firm Curtis, told OBG. "Furthermore, the independence of the regulator is robustly upheld, and the sector's regulatory framework is well structured."

In addition to bolstering power supply without adding strain to government finances, IPPs and IWPPs have been helping develop capital markets. Projects are obliged to list 40% equity stakes on the Muscat Securities Market – the country's stock market – within four years of their establishment. This has been a key driver for the development of the exchange in recent years, acting as one of the main sources of listings. In 2015 the initial public offering of Phoenix Power was the largest listing witnessed on the Muscat Securities Market in years (see Capital Markets chapter).

IPPs are also becoming increasingly popular throughout the region in general, accounting for an estimated 34% of installed power generation capacity the GCC in 2015, up from 23% in 2009, according to research from Strategy&, the global strategy consulting team at PwC. The firm said that while regional use is not yet as widespread as it is in Oman, "IPPs have almost entirely displaced traditional public power plants as sources for new electricity generation" in the GCC.

ATTRACTIVE MODEL: A number of players would like to see the application of PPPs be extended to other sectors. "They have already worked well in the utilities sector, and they should be used to finance and construct infrastructure such as highways and ports that could eventually be privatised," Panjak Khimji, director of Khimji Ramdas, one of the sultanate's largest diversified conglomerates, told OBG.

In 2016 the government announced that it intended to establish a one-stop shop for companies seeking to establish public-private partnerships.

Such hopes appear likely to come to fruition in the coming years. PPPs are becoming more attractive as low oil prices put pressure on government finances. With current expenditures difficult to cut due to political sensitivities, capital expenditure has borne the brunt of fiscal consolidation, and PPPs offer the promise of financing for public infrastructure without requiring government borrowing.

The authorities are taking a variety of steps to help facilitate a broader application of PPPs in the sultanate. In October 2016 the government announced that it intended to institute a one-stop shop for companies seeking to establish PPPs, which it has also cited as one of the financing sources for projects under the sultanate's ninth five-year economic diversification strategy (see overview).

NEW LAW: In a strong indication of plans to expand the use of the model, in April 2017 a government official said that a PPP law had been drafted and would be approved soon. However, this had yet to take place as of early 2018. Allan told OBG that she believed the PPP law would likely leave the current framework for IPPs and IWPPs unchanged. "There is a general consensus that the current system has been very successful for those PPP forms, and the authorities are unlikely to want to disturb that."

Rather, she said, the legislation changes would likely focus on sectors including health care – for which she said there appeared to be particularly strong investment appetite – as well as schools and prisons, and would likely establish new bodies to approve and supervise such projects. These are likely to operate under UK private finance initiative-type models, whereby private firms finance, construct and operate assets on behalf of the state, which pays them fees to provide services to the public.

However, adaptability may be an important feature to ensure that the scheme remains attractive to investors. "There is often a need to design a structure that is appropriate for particular sectors, and even particular projects," Allan told OBG. "A one-size-fits-all approach could therefore risk acting as a straitjacket on designing effective structures for individual PPPs, and restricting implementation and innovation, as has happened to a degree in some other countries in the region."

The government is considering funding various projects using PPPs. According to local media reports in 2016, a OR300m ($779m) medical city was to be built in Barka, a coastal city in northern Oman. This could also extend to transport.

"The authorities are looking at using the private sector to develop new infrastructure projects," Hettish Karmani, head of research at investment firm Ubhar Capital, told OBG. This could support both public and private sector growth.

In March 2017, for example, state-owned railway operator Oman Rail announced it was also considering using a PPP model for the construction of a 625-km railway line linking the port of Duqm with mineral-rich areas in the interior of the country.

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Fiscal consolidation is reducing reliance on hydrocarbons revenue

Back to black

The government is seeking to narrow the budget deficit amid oil price rises and economic diversification efforts

Credit ratings downgrades in 2017 do not appear to have affected investor appetite for debt issues, uptake of which has been strong, even for transactions that came after the ratings actions.

From the late 1990s until 2014 Oman's fiscal balance had consistently remained in positive territory, according to IMF figures, with the sole exception of a small deficit of 0.3% of GDP registered in 2009. However, amid a decline in international oil prices towards the end of 2014, public finances moved into the red for the year, to the tune of 1.1% of GDP. As the oil price slide picked up pace in 2015, the deficit grew, hitting 21.6% of GDP the following year. This was accompanied by a decline in hydrocarbons' contribution to total government revenue, from 84.3% in 2014 to 68.2% in 2016.

RATINGS DOWNGRADES: Lower oil prices and their impact on government finances have resulted in a number of downgrades in the sultanate's sovereign debt ratings. In May 2017 Standard & Poor's cut their rating for Oman by one notch, to "BB+", making it below investment grade. Moody's followed suit two months later, cutting their rating for long term issues and senior unsecured debt – though in its case the rating remained within the investment-grade range, at "Baa2". Standard & Poor's followed with a further downgrade in November, to "BB", with a stable outlook. In December the third major international rating agency, Fitch, cut its rating by a notch to "BBB-", its lowest investment-grade rating, with a negative outlook, saying it expected government spending to be higher than budgeted.

FINANCING REMAINS AVAILABLE: However, such downgrades do not appear to have affected investor appetite for recent debt issues, uptake of which has been strong, even for transactions that came following the credit ratings changes in 2017.

Between 1997 and 2016 the government did not tap into international bond markets. However, since mid-2016 the authorities have been seeking to finance the deficit primarily through international borrowing, in part to avoid unbalancing the local banking sector and crowding out private sector borrowing by drawing down the sultanate's substantial domestic deposits (see Banking chapter). In June 2016 the government raised $2.5bn through the issue of a mixture of five- and 10-year eurobonds. The issue followed a $1bn syndicated loan from 11 regional and international banks, which was arranged in January 2016.

In March 2017 the sultanate returned to the market with the sale of $5bn worth of eurobonds, which covered 90% of its demand for foreign financing for the year. This was composed of a mixture of five-, 10- and 30-year tranches. Despite the issue totalling around twice the size of market expectations, it was oversubscribed by a factor of eight, which is an indicator of relatively strong investor appetite for paper from the sultanate.

The government followed this with a $2bn *sukuk* (Islamic bond) sale in May 2017, which was its first issue of sovereign Islamic debt. High levels of demand for the instrument helped bring down the profit rate from an initial proposal of 270 basis points to 235 above the mid-swap rate. Despite this, the issue was oversubscribed by a factor of three. In August 2017 the sultanate was reportedly in talks with banks to arrange further loans and issues, and in January 2018 it issued its largest bond ever, worth $6.5bn. This was interpreted as a sign of higher oil prices, leading to increased investor confidence in energy-exporting countries.

In conversations with OBG, market observers said that with two of three investment grade-level ratings still in place and with international investors continuing to chase yields, the country should remain able to finance the deficit by borrowing. "The government still has room to borrow and should be able to sustain current levels of debt issue for some time, as debt to GDP remains low, and in our view oil prices are likely to improve further," Hettish Karmani, head of research at Ubhar Capital, told OBG.

In January 2018 the country issued its largest bond ever, worth

$6.5bn

IMPROVING SITUATION: Indeed, despite recent downgrades, there are signs that public finances are taking a positive turn. The 2017 budget aimed to reduce the deficit to 12% of GDP, and in the October 2017 update of its World Economic Outlook database, the IMF forecast that the authorities would come close to hitting this target, predicting a figure of 13%. The IMF anticipates the deficit will decline further in 2018, to 11.5% of GDP, and gradually continue shrinking over the 2019-22 period.

In alignment with such expectations, public finances improved in the first nine months of 2017. According to figures from the National Centre for Statistics and Information, government revenue was up 20% over the same period a year earlier, to OR5.97bn ($15.5bn). This was largely a result of a 34.8% rise in the value of net oil revenue (OR3.31bn, $8.6bn), due to higher oil prices; the average export price for the sultanate was $50.60 per barrel during the first nine months of 2017, up 38.3% year-on-year. Total public expenditure also rose, but at a slower rate of 4%, to OR8.43bn ($21.9bn), which allowed for a narrowing of the deficit to OR3bn ($7.8bn), from OR4.43bn ($11.5bn) during the same period of 2016.

While the oil price recovery has helped to improve public finances, fiscal consolidation is also reducing reliance on oil revenue. The IMF puts the break-even oil price for the government budget at around $83.60 a barrel in 2017, down from $88.90 the previous year and from above $100 several years ago. The IMF forecast the figure will continue on a downward trajectory to $76.30 a barrel in 2018. Karmani told OBG he thought it could go as low as $70 in coming years, thanks to factors such as subsidy cuts and increased gas production projects coming on-line (see overview and analysis). "The government is also focusing more on public-private partnership projects, which should require less expenditure on the investment side," he told OBG.

The 2018 budget plans for a deficit of OR3bn ($7.8bn); however, in January 2018 the price of Brent crude hit a three-year high of $70 per barrel, indicating that government revenue was set to be higher than anticipated, as the budget had assumed $50 per barrel. If oil prices remain around this level for the remainder of the year, the country could break even or even run a surplus for the first time since 2014.

SUBSIDY CUTS: Such improvements in the break-even oil price and other fiscal indicators are the result of a range of measures taken in recent years to boost public finances. Prominent among these have been utility price increases, which curbed subsidy spending. In January 2015 the government doubled the price of gas for industrial consumers, and the following year the authorities moved to reform fuel subsidies, with domestic prices linked to international oil price movements. In March 2016 the government also raised water prices for

The 2018 budget expects a $7.8bn deficit, based on an oil price of $50 per barrel; however, in January 2018 Brent crude hit a three-year high of $70, indicating government revenue could be higher than anticipated.

In February 2017 the government amended the income tax law to increase the rate of tax on corporate profits from 12% to 15%, and broaden the scope of withholding tax.

state-owned, commercial and industrial clients, and in January 2017 electricity prices were raised for large consumers, defined as those using more than 150 MWh of power per year. The new tariffs reflect the hourly cost of producing electricity, which incentivises more efficient energy use.

TAX RISES: In a further bid to raise revenue, in February 2017 the government issued a decree amending the country's income tax law. Prominent among these changes was broadening the scope of withholding tax and increasing the tax on corporate profits, from a previous rate of 12% to 15%. Local investment firm Ubhar Capital told media it expected the corporate tax rise to generate an increase in public income of approximately OR33m ($85.7m).

Many prior tax exemptions were also eliminated, though a five-year exemption from corporate tax for manufacturing firms remains in place, subject to certain conditions. An exemption from corporate tax for the first OR30,000 ($77,900) of profits was abolished; however, a 3% rate was introduced for certain small establishments with fewer than 15 employees, registered capital of less than OR50,000 ($130,000) and gross income of under OR100,000 ($260,000). The changes also saw the extension of the sultanate's withholding tax to cover dividends, interest payments and payments for services.

The elimination of the exemption on the first OR30,000 ($77,900) of income, and the introduction of the 3% tax rate for smaller companies will bring a substantial number of businesses under the tax umbrella for the first time. Speaking to OBG, Adnan Haroon, managing director of Universe Chartered Accountant, an audit, accounting and consulting firm, said it would take time for these businesses to adapt to the tax system. "Many small companies will not be aware of the new taxes and will not know how to go about paying them, as this will be the first time for many of them to do so," he told OBG.

POTENTIAL EFFECTS: Haroon said the broadened tax base would not only bolster and diversify public revenue, but also develop small and medium-sized enterprises (SMEs), forcing them to keep proper records and accounts, thus improving their management and access to finance. "The more the economy is documented, the more opportunities banks and other financial institutions – including SME funds – will have to lend, which will be better for economic development and diversification," he added.

Some others warn the rises could negatively affect investor sentiment. "The government must certainly generate more tax revenue, but it also needs to avoid deterring foreign direct investment inflows," Mukhtar Hassan, chairman of local investment firm Al Barij, told OBG. "Focusing less on corporate taxation and more on consumption taxation would be a better tool when it comes to reaching these goals." He argued that while the tax system is competitive in global terms, the country should work to compete with its regional neighbours, which generally operate low- or no-corporate-tax environments.

Sanjay Tiwari, acting CEO of Al Anwar Holdings, echoed this sentiment. "Though the recent increase of the corporate tax rate was necessary and relatively small, a major component of a country's attractiveness is the perception of a competitive tax rate, and any increase in corporate taxes chips away at that perception," he told OBG.

Contrary to this, Pankaj Khimji, director of Omani conglomerate Khimji Ramdas, said he thought the rises were the right decision. "Oman must move away from being a rentier state and start to collect taxes from individuals and businesses like other countries," he told OBG, arguing that the increased rates would not reduce the country's attractiveness to investors, given its high levels of security and infrastructure.

VAT INTRODUCTION: As part of more general regional plans to establish a harmonised consumer tax system, the government is also planning to introduce a value-added tax (VAT), at a rate of 5%. Observers estimate that the move should generate around $500m per year for the government. GCC countries initially agreed to implement a VAT beginning in January 2018, but this has been postponed in a number of member countries, including Oman. In late December 2017 it was announced that VAT would not be fully implemented in the sultanate until 2019. By mid-2018 it is expected that the tax will be applied to certain products.

As with the aforementioned increases in corporate taxes, Haroon said that VAT implementation would likely prove challenging for smaller enterprises. "Many companies are not geared up for it, and even with the delay, implementation will not be easy," he told OBG. However, he said that Oman would be able to benefit and learn from the experiences of the UAE and Saudi Arabia in this respect

The public deficit is usually financed through international borrowing

Government fiscal assets were worth 67.9% of GDP at the end of 2016

– both of which successfully implemented the VAT law in January 2018 – and that such challenges would amount to little more than teething troubles.

GOVERNMENT ASSETS: The government's ability to borrow and its borrower ratings are supported by substantial fiscal assets, which Moody's estimated to be worth 67.9% of GDP at the end of 2016. These include two sovereign wealth funds: the State General Reserve Fund and the Oman Investment Fund.

The State General Reserve Fund is primarily focused on foreign investment and has assets estimated at about $18bn, according to the Sovereign Wealth Fund Institute. Meanwhile, the Oman Investment Fund works mainly as an anchor investor for major domestic projects, with estimated assets of $6bn. In April 2017 the authorities were reported to be considering a merger of the two funds, following a similar step taken by GCC peer Abu Dhabi.

PRIVATISATION PLANS: The government has been considering partially privatising a portion of its assets to raise further revenue. In April 2017 it announced plans to sell stakes in several downstream subsidiaries of the state-owned Oman Oil Company, including an unspecified drilling unit and Salalah Methanol Company, via listings on the country's stock exchange, the Muscat Securities Market.

In late 2016 the authorities announced plans to sell a 49% holding in Muscat Electricity Distribution Company through a combination of a stock market float and a private sale, but the following June it said that "regional economic conditions" were causing these plans to be reconsidered. Observers told OBG that such sales are likely to begin in late 2018 (see Capital Markets chapter). Other potentially promising candidates for such partial privatisation include national flagship carrier Oman Air – though this is unlikely to happen in the near term – and the 51% stake the authorities hold in the sultanate's largest telecoms operator, Oman Telecommunications.

The implementation of a value-added tax is anticipated to generate

$500m

per year for the government

The State General Reserve Fund is focused on foreign investment and has assets estimated at about $18bn, while the Oman Investment Fund works mainly as an anchor investor for major domestic projects, with estimated assets of $6bn.

Banking & IFS

Islamic banking segment undergoes rapid expansion

Non-bank lenders maintain healthy profit margins

Basel III regulatory framework set to be implemented

New financial technologies allow for greater inclusion

The Central Bank of Oman is the sole regulator of the sector

Foundation to build on

Strong fundamentals are allowing banks to expand services

The young Islamic banking industry, after having encountered some early growing pains, is expanding rapidly and moving towards sustained profitability.

Oman's banking sector appears to have ridden out the recent oil price and economic downturn largely unscathed. While concerns over liquidity arose in the wake of the oil price slump given the government's status as an important depositor, the situation improved in 2017 as the Omani state borrowed from abroad to avoid withdrawing funds or pushing up funding costs through heavy local borrowing.

The sector is top heavy, with the leading bank by assets much bigger than its nearest competitors, which has given rise to talk of consolidation. This has yet to happen, though, with plans for two institutions to join forces recently called off. However, the non-bank lending segment saw a merger in 2017.

The burgeoning sharia-compliant banking industry, meanwhile, after encountering some growing pains from the outset, is expanding rapidly and moving towards sustained profitability.

INDUSTRY PLAYERS: The Omani banking sector consists of seven conventional Omani banks, two Islamic banks, two specialised banks operated by the government (Oman Housing Bank and Oman Development Bank), and nine foreign banks. Local banks dominate the industry, with foreign institutions accounting for around 6% of assets, according to figures from the Central Bank of Oman (CBO), which also regulates the sector.

Bank Muscat was by far the largest bank in terms of assets as of September 2017, on a total of $28.9bn. As of end-August 2017, it had a market share of 34.7%, according to data from the bank. The institution's leading shareholder is Oman's Royal Court, which holds 23.6%. Shares in the bank float on the Muscat Securities Market (MSM), the national stock exchange, on which it was the largest listed firm by market capitalisation at end-2017.

The banking sector consists of seven conventional Omani banks, two Islamic banks, two specialised banks operated by the government and nine foreign banks.

The second-largest bank is Bank Dhofar, with assets of $10.6bn as of the third quarter of 2017. Dhofar International Development and Investment Company is the institution's largest shareholder, with a stake of 28%. The bank is also listed on the MSM.

In third place was the National Bank of Oman (NBO), on a figure of $9bn. The main backer of the bank, which is also listed on the exchange, is Qatar's Commercial Bank, which holds a 34.9% stake in NBO.

The fourth bank by assets is Bank Sohar, at OR2.6bn ($6.8bn) as of September 2017, followed by HSBC Bank Oman, in fifth, with assets of $6.3bn. HSBC Bank Oman is also the largest foreign-backed institution operating in the market, with HSBC Middle East Holdings, a unit of the parent company, London-based HSBC, holding a majority 51% stake in the bank. Both Bank Sohar's and HSBC Oman's shares also trade on the MSM.

CONSOLIDATION: Consolidation has been a hot topic in the sector in recent years, with some industry figures describing the market as overbanked. Bank Muscat's dominant share of the market also forms an incentive for other banks to merge in order to gain similar economies of scale and better compete with the dominant institution, as does the need to compete with regional and international banks to finance large projects in the country and elsewhere.

However, long-running negotiations between Bank Dhofar and Bank Sohar, the second- and fourth-largest institutions in the market by assets, respectively, were called off in October 2016, after their shareholders failed to agree on terms. Based on September 2017 figures, the resulting institution would have had combined assets of $17.4bn, equivalent to 60% of Bank Muscat's asset base.

BANKING ASSETS: The assets of conventional banks were worth a combined OR27.7bn ($71.9bn) as of November 2017, according to the CBO. The figure was up from OR27.1bn ($70.4bn) at the end of 2016. This in turn was down from OR28.2bn ($73.2bn) in 2015, due to a 20.1% drop in the value of securities held by banks, led by a 41.9% decline in the value of foreign securities and a 34.2% fall in that of domestic Treasury bills. Including Islamic banks and the Islamic windows of conventional banks, total assets stood at OR31.4bn ($81.5bn) in November 2017, up from OR30bn ($77.9bn) at the end of 2016.

LENDING: The value of conventional bank lending in the sultanate stood at OR20.2bn ($52.5bn) as of September 2017, up 2.4% from OR19.7bn ($51.2bn) at the end of December 2016. The latter figure had risen 7.6% from OR18.3bn ($47.5bn) a year earlier.

Lending has been growing faster than wider economic expansion: bank credit was equivalent to 86.8% of GDP at end-2016, up from 74.8% in 2015 and 57.1% in 2014. This was driven in part by the fall in nominal GDP in 2015 and 2016, but the indicator had also been rising before then, from 48.8% in 2012.

Retail credit forms the largest share of lending in the sultanate, accounting for OR7.9bn ($20.5bn) at the end of 2016, equivalent to 40.1% of the total. Retail credit is tightly regulated, with the amount banks can lend to customers capped at 50% of their commercial loan books, and interest on such loans limited to a maximum rate of 6%. The construction sector was the largest commercial borrower, on a 2016 figure of OR2.3bn ($6bn).

While there have been concerns about tightening liquidity in recent years, banks appear to have retained sufficient room to further expand lending. The lending ratio, excluding government soft loans, relative to deposits and banking capital, stood at 80.8% at the end of October 2017, below the maximum rate of 87.5% imposed by the central bank.

FUNDING BASE: Deposits dominate the funding base of Omani banks, and wholesale financing accounted for just 7% of sector funding in 2016. The value of conventional banks' deposits was up from OR18.3bn ($47.5bn) at the end of 2016, standing at OR18.6bn ($48.3bn) as of November 2017. Demand deposits accounted for 30% of the total. The private sector accounted for the bulk of deposits, on OR12.5bn ($32.5bn), or 67% of the total. The government also provides a substantial proportion, worth OR4.9bn ($12.7bn), or a share of 26.3%. This has been the source of some concern in recent years, as the fall in the oil price since 2014 and the consequent emergence of substantial fiscal deficits gave rise to fears that the authorities could draw down their deposits, putting pressure on liquidity.

However, the government has indicated that it intends to maintain its deposits through measures such as borrowing from abroad to fund the deficit precisely to avoid such a situation. While state deposits fell in early 2016 to around OR4.6bn ($12bn), they have otherwise been fairly stable at close to or above OR5bn ($13bn) over 2017.

INTEREST RATES: Weighted average interest rates on rial-denominated lending stood at 5.2% as of November 2017, up from 5.1% at the end of 2016.

The rate has been fairly constant in recent years, ranging from 4.7% to 5.4% in the three-year period beginning in December 2013; the rate was in decline leading up to May 2016, before it started to gradually increase again. The rial deposit rate, meanwhile, stood at 1.7% in November 2017, up from 1.5% at the end of 2016. The deposit rate has been on the rise since January 2016, when it stood at 0.9%, driven in part by competition for deposits as liquidity in the sector tightened, in addition to interest rate hikes by the US Federal Reserve.

PROFITABILITY: Omani banks collectively netted pre-tax profits of OR438m ($1.1bn) in 2016, almost unchanged on a figure of OR439m ($1.4bn) the previous year, according to CBO figures. The sector registered an average return on equity (ROE) of 10.5% and a return on assets (ROA) of 1.5%. Both indicators have been on a slight downward trend over the medium term, with ROE and ROA down from 12% and 1.6%, respectively, in 2012. More recent sector-wide figures were not available as of January

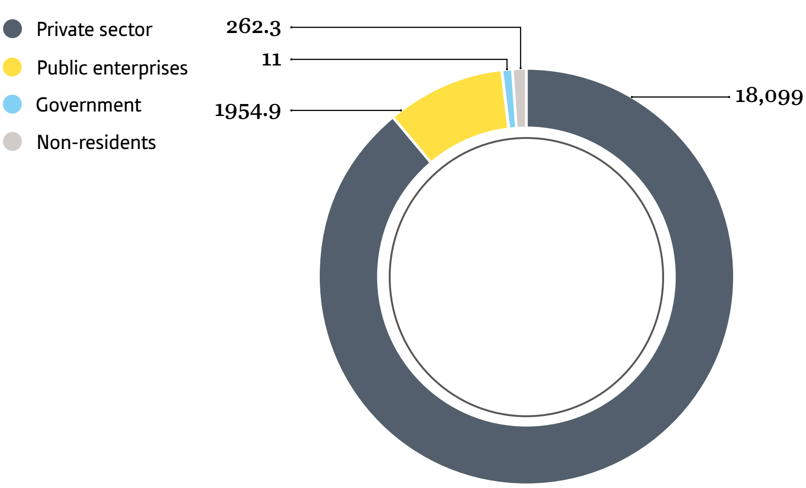
Deposits continue to dominate the funding base of domestic banks

The value of conventional bank deposits stood at

$48.3bn

as of November 2017

Conventional bank lending by sector, October 2017



Source: CBO

Non-performing loans accounted for 1.8% of gross loans at end-2016, up marginally from 1.7% in 2015

Banking system liquidity increased by
30-40%
in 2017

2018; however, profitability indicators fell at Bank Muscat, the largest financial institution in the country, during the year to September 2017, with ROA down from 1.64% to 1.59% at the end of 2016, and ROE down from 12.5% to 11.1%.

Higher funding costs are among the factors that have put downward pressure on profits recently. Lloyd Maddock, CEO of Ahlibank, told OBG that despite an improvement in banking system liquidity in 2017, the cost of funding had yet to normalise to historic levels. As a result, he said this had squeezed net interest margins during 2017, though Maddock believed the sector would see improved net interest margins in 2018 and 2019, which would go a long way in supporting profitability.

LIQUIDITY: As previously noted, the large share of bank deposits accounted for by the government prompted concerns that the deterioration in public finances as a result of the 2014-15 oil price fall could see large withdrawals by the state, leading to a liquidity crunch or heavy government borrowing on local markets, crowding out private sector credit. The government has, however, managed this in large part by borrowing from abroad to avoid having to spend locally held cash: in 2016 the authorities issued $2.5bn in eurobonds, following this with a $5bn eurobond and a $2bn *sukuk* (Islamic bond) in 2017. Banks have similarly been borrowing from abroad. "Liquidity started to tighten in 2016 due to a combination of factors resulting from the reduction in oil prices, which impacted government revenues," Maddock told OBG. "Subsequent initiatives by the central bank and the government to avail themselves of overseas funding and implement supportive legislation have to led to an improvement."

Andrew Long, CEO of HSBC Oman said that he was not greatly concerned about the prospect of a fall in government deposits. "Before the government draws from bank deposits in any material way, it will first draw from CBO reserves, look to sovereign debt raising options, cut expenses and look to increase tax revenue. So it is unlikely that the government will dramatically draw from bank deposits," he told OBG.

The regulatory authorities have also taken various measures to boost liquidity and encourage continued lending in recent years. In September 2015 the central bank froze the issue of certificates of deposit until the oil price situation improved, in order to encourage banks to extend credit, rather than parking funds with the central bank. In April 2016 the CBO modified its rules to allow banks to count some holdings of government securities – namely Treasuries, development bonds and sukuk, worth up to 2% of the deposits of the bank in question – towards their reserve requirements: that is, the proportion of deposits they are obliged to keep with the CBO, which stands at 5%. Previously, such reserves were required to be kept in cash.

The move effectively freed up liquidity in the banking system and encouraged banks to buy more government debt. "With the relaxation in the reserve requirement stipulation, approximately OR400m ($1bn) was freed up for banks to ensure that all legitimate credit requirements of the economy were met adequately," Tahir Salim Al Amri, executive president of the CBO, told OBG.

In October 2017 the CBO told OBG that various indicators showed that banking system liquidity had increased by 30-40% since the beginning of the year, and that banks retained excess funds; CBO figures put the credit-to-deposit rate at 107.3% at the end of September 2017. This was the highest level registered during the year, but was below the end-2016 figure of 107.9%. Nonetheless, the sector remains significantly below the CBO's maximum lending ratio, and banks retained an excess of OR500m ($1.3bn) in cash reserves above requirements in 2016. With oil prices on the rise, reaching $62 per barrel for Brent crude as of January 2018, a return to tight liquidity in 2018 appears unlikely.

INDICATORS: Despite the downturn witnessed by the national economy and other GCC countries since the 2014-15 oil price crash, the banking sector appeared sound in 2016. Non-performing loans (NPLs) accounted for 1.8% of gross loans at the end of December, only marginally up from 1.7% a year earlier, according to figures from the CBO's "Financial Stability Report" for the year. The net NPL rate stood at 0.5%, and 70% of the value of NPLs was provisioned for by banks. Restructured loans were worth around 1% of gross loans.

However, special-mention loans – which are loans that have not become delinquent but are characterised by imprudent lending practices, such as a lack of adequate documentation – comprised 5.8% of gross loans and rose by 23% in 2016, suggesting a possible increase in the NPL ratio down the line. Indeed, in September 2017 ratings agency Moody's said it expected the figure to rise to 3% by the end of the year. In line with such expectations, the NPL

The credit-to-deposit rate stood at 107.3% at the end of September 2017, the highest level registered during the year, but below 107.9% at the end of 2016.

figure at Bank Muscat rose to 3% at the end of the third quarter of 2017, and up from 2.91% at the end of 2016. Nevertheless, in comparative terms such figures remain on the lower side.

The low NPL rate is underpinned by a variety of important factors, including the fact that a large proportion of borrowing is made up of personal loans, which are strictly regulated through, for example, multiple borrowing limits and requirements for salaries to be paid into the borrowing accounts. Additionally, many personal loans are made to government employees, whose jobs are generally seen as stable and secure.

The sector's capital adequacy ratio (CAR) stood at 16.8% of risk-weighted assets as of December 2017, according to CBO figures, comfortably above the Basel III requirement of 12% and the CBO's mandatory minimum of 12.625%. This figure was up from 16.1% in 2015 and at its highest level since at least 2012. Eight banks registered CARs of above 20% in 2016 and all exceeded 12%.

REGULATORY DEVELOPMENTS: A significant regulatory change on the horizon for the sector is the implementation of the International Accounting Standards Board's comprehensive ninth International Financial Reporting Standard (IFRS 9), which came into effect at the beginning of 2018.

Changes introduced by the standard include taking expected losses on financial assets such as loans into account to a greater extent in financial statements, which requires provisioning for potential bad loans even if they appear to be recoverable.

The CBO has requested that banks in the sultanate submit pro forma final statements to help evaluate the likely impact on the sector and will put in place transitional measures recommended by the Basel committee if this is judged to be large.

However, its initial assessments suggest this will not be required, as NPL levels remain manageable and banks have continued to maintain good levels of provisioning. "The impact of IFRS 9 will vary by bank,

International Financial Reporting Standard 9 came into effect in 2018

but it should be limited overall, and we may even need to provision less as a result of the changes," Maddock told OBG. However, Younis Mohammed Al Belushi, investment manager at Oman-based Al Madina Investment, told OBG that he thought the introduction was likely to make some banks more risk-averse when allocating loans.

The central bank in 2015 launched a new regulatory framework for systemically important banks, to be initially applied to Bank Muscat, as the largest bank by assets in the sultanate. Elements of the new regulatory regime include a 1% capital surcharge, the submission every year by affected banks of recovery and resolution plans, upgraded stress tests and enhanced on-site supervision.

The central bank is also working on a bank resolution framework for all institutions, based in large part on the Financial Stability Board's Key Attributes of Effective Resolution Regime, which is close

The sector's capital adequacy ratio stood at

16.8%

of risk-weighted assets in December 2017

At 68%, the rate of banked Omanis is high for the region but below developed market rates of nearly 100%

The sultanate is in the process of implementing the Basel III regulatory framework for banks, which is due to be fully in place by 2019.

to being completed. The framework is based on a process flow that kicks in once banks breach capital conservation buffers, allowing them to be rescued if they remain viable, or wound up in an orderly manner while maintaining financial stability if not.

FINTECH: Various initiatives based on new financial technologies are also helping to spur banking sector development, with support from the regulatory authorities. In July 2017 the CBO launched a new interbank mobile switching and clearing system, MpClear, which allows for purely mobile-based, bankless transactions for a wide range of payments, including business-to-business, business-to-person, person-to-merchant and person-to-government (see analysis). The CBO has also granted initial approval to two banks to use blockchain technology – a distributed digital ledger of transactions, on which cryptocurrencies such as Bitcoin rely – for certain business lines, principally focused on remittances. In November 2017 the bank held a four-day symposium on the technology.

BASEL III: The sultanate is in the process of implementing the Basel III regulatory framework for banks, which is due to be fully in place by 2019. However, in practice, the sector largely already meets the main metrics, comfortably exceeding Basel III's CAR requirements, for example. Other aspects of the framework include a liquidity coverage ratio (LCR) that is being phased in on a staggered basis to reach 100% by 2019, and a net stable funding ratio that will be implemented at a rate of 100% from 2018. However, Omani banks also comfortably exceed these requirements.

Other regulatory developments under way include a capital conservation buffer of 0.625% of risk-weighted assets introduced by the CBO in 2014, which is gradually being raised to reach 2.5% by 2019. The introduction of the requirement is helping to push banks to raise more capital, often in the form of perpetual bonds, several of which have been issued in local debt markets in recent years. Industry figures say banks are having no trouble raising such capital where needed.

In 2016 the central bank issued a regulation allowing it to require banks to put in place a counter-cyclical capital buffer of up to 2.5% of risk-weighted assets if it deems that credit is expanding at too rapid a pace, though, as of January 2018 it had yet to put this measure in place for any bank.

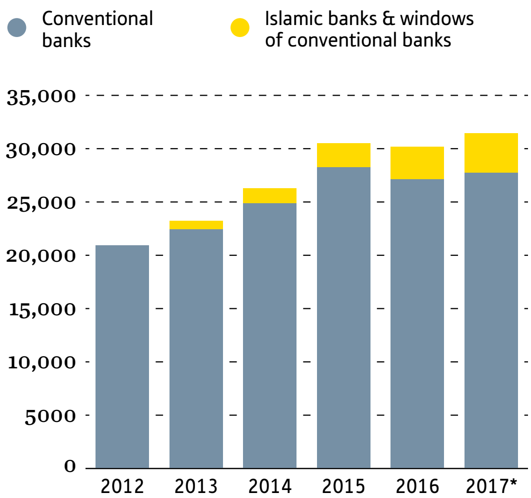
In November 2016 the central bank temporarily relaxed earlier requirements that had set the bank provisioning rate for restructured loans at 15% for 2016, reducing the rate to 5% for the year. It plans to increase this in five-percentage-point increments annually to return to 15% by 2018.

ISLAMIC BANKS: Oman's Islamic banking industry is relatively young, having effectively launched in 2013 when the CBO licensed the country's first two sharia-compliant banks: Al Izz Islamic Bank and Bank Nizwa. This followed the implementation of an Islamic banking regulatory framework the previous year. Al Izz and Nizwa remain the only two standalone Islamic banks in the country.

Conventional banks are permitted to operate sharia-compliant windows under the framework, which six currently do, namely Bank Muscat (whose Islamic window is known as Meethaq), Bank Dhofar (operating the Islamic window Maisarah), NBO (Muzn), Bank Sohar (Sohar Islamic), Oman Arab Bank (Al Yusr) and Ahlibank (Al Hilal). Such windows accounted for 70% of segment assets at the end of 2016.

The CBO has operated a sharia board that advises it on related matters since 2014. It does not permit some products that Islamic banks are allowed to sell in other parts of the GCC as it does not consider these sharia-compliant, including, for example, commodity *murabaha* (cost-plus financing). While the segment is in its infancy, it has nonetheless

Banking sector assets, 2012-17* (OR m)



Source: CBO *as of October

developed substantial clout. "Islamic banking is growing faster than the rest of the industry, and it may represent up to 20% of total banking assets by 2020," Khalid Al Kayed, CEO of Bank Nizwa, told OBG.

The value of assets held by the sultanate's Islamic banks and the Islamic windows of conventional banks stood at OR3.7bn ($9.6bn) as of November 2017, equivalent to 11.5% of total banking sector assets. This figure has grown rapidly in recent years, having risen from OR3.1bn ($8bn) at the end of 2016 and OR2.3bn ($6bn) a year before that. The sector accounted for 10.4% of total sector assets at the end of 2016, and 11% of total financing and lending.

The bulk of segment assets were Islamic financing, worth a total of OR3bn ($7.8bn) as of November 2017. Financing in turn was dominated by lending to the private sector, worth OR2.8bn ($7.3bn). "The segment has witnessed tremendous progress since its inception," Sohail Niazi, chief Islamic banking officer at Bank Dhofar's Maisarah Islamic Banking Services, told OBG. "When Islamic banking was launched in Oman, the expectation had been that it could reach perhaps 5% of banking assets within five years, but the segment has achieved more than double that in a shorter period, which has taken other countries 15 to years to reach," he added.

GROWTH FACTORS: He attributed the rapid growth to factors including pent-up demand for Islamic banking services, as well as room for expansion in the banking penetration rate, as only 68% of Omanis have bank accounts – a high rate for the region but below developed market rates of close to 100%. "Furthermore, it will continue to grow more rapidly than the conventional banking segment, and while it is maturing in some respects, once it has had more time to develop, the Islamic segment will be better able to compete with conventional counterparts."

Segment deposits totalled OR2.9bn ($7.5bn) as of November 2017. Government deposits, at OR1.4bn

Six of the sultanate's eight Islamic institutions were profitable in 2016

Regulatory authorities have supported the Islamic finance industry by allowing banks to invest in foreign sukuk

($3.6bn), are even more important to the Islamic segment than they are to conventional banks, constituting 48% of the total, compared to 26.3% for the conventional segment.

INVESTMENT CHALLENGES: A challenge for the segment is a shortage of investable sharia-compliant assets in Oman, with just two corporate sukuk currently listed on the MSM and no government sukuk issued domestically. However, the regulatory authorities have sought to support the sector in this respect, allowing Islamic banks to invest in foreign sukuk. Niazi said that new investment opportunities were also developing. "Sharia-compliant investment options are limited, and the segment needs to work on this if it wants to sustain its growth," he told OBG, saying the Islamic institutions need to become more active in terms of originating, organising and investing in such asset classes. "However, the Capital Market Authority has launched real estate investment trusts (REITs). Furthermore, there have been several recent sukuk issues, and as local corporates become more familiar with sukuk as a tool, the pace of issues will increase," he added.

Islamic windows and banks initially struggled to raise deposits from institutional investors due to a paucity of products and the lack of absolute certainty in the level of profit rates. The introduction of a range of Islamic liability products, and greater understanding of the structure and returns of such products, has since resulted in an influx of funds.

Having recorded losses in the years immediately following its launch, the segment is consolidating its profitability, recording pre-tax profits of OR13.6m ($35.3m) in 2016, up significantly from OR1.6m ($4.2m) the previous year. Six of the eight Islamic institutions operating in Oman – five windows and one fully fledged bank – were profitable on a pre-tax basis for the year, with Bank Nizwa marking its first year in the black. The bank built on this in 2017,

Deposits in Islamic banks were worth
$7.5bn
as of November 2017

The creation of a deposit insurance scheme has been proposed to help regulate the Islamic banking sector

Non-bank lenders held assets of

$2.9bn

at the end of 2016

posting pre-tax profits of OR2.7m ($7m) for the first nine months of the year, compared to a loss of OR500,000 ($1.3m) in the same period a year earlier.

NEW INSTRUMENTS: In order to further facilitate the development of the Islamic banking segment, the CBO is working on the creation of liquidity-management tools such as sharia-compliant overnight deposits and repos for Islamic banking entities, which are not currently available and are expected to have a substantial positive impact.

Another regulatory initiative being pursued is the creation of a deposit insurance scheme for the Islamic banking segment, along *takaful* (Islamic insurance) principles. As of the beginning of 2018 the proposed scheme was under review and awaiting final approval. The plan is an innovative one, with few such Islamic insurance-based schemes currently in existence outside of banking sectors that are fully Islamic – such as those in Iran.

NON-BANK LENDERS: As of end-2017 there were six finance and lending companies (FLCs) operating in Oman. Together they operated 43 branches across the country, up from 40 in 2015.

The segment held assets of OR1.1bn ($2.9bn) at the end of 2016, according to the CBO, up 4.8% on 2015 figures. Asset growth for the segment was down from 12.0% a year earlier, and 16.2% in 2013. Lending and leasing operations account for around 95% of FLCs' assets, on OR1bn ($2.6bn) in 2016. The segment's NPL rate stood at 5% for the year, up from 4.3% in 2015. The net NPL rate was 2.9%.

As in the banking sector, profitability indicators have been declining recently. FLCs recorded ROE and ROA of 13.6% and 3.3%, respectively, in 2016, down from 14.6% and 3.7% the year before. The CBO attributed the fall to rising bank financing costs and to growing competition. Most FLC financing comes from banks, with segment borrowing from these and other financial institutions worth OR688.7m ($1.8bn) at the end of 2016. "The risk that tightening liquidity in the banking sector will squeeze leasing company profits still exists, but is less severe than in 2016," Sunil Pherwani, general manager at Oman Orix Leasing Company, told OBG.

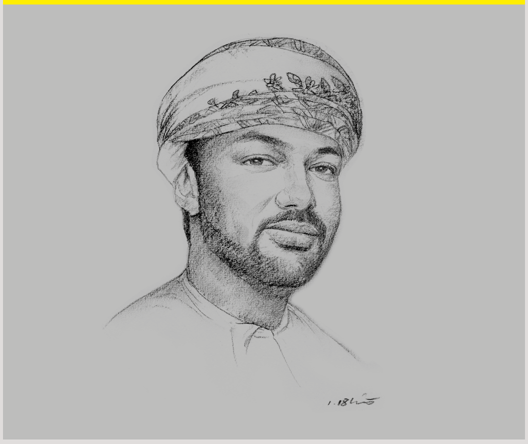
To support the segment, the CBO has allowed FLCs to start accepting six-month term deposits from corporate clients, though in its 2016 FSR the bank said that companies had yet to raise much in the way of financing through the measure; and the segment also issues little regarding traded bonds.

While in decline, the CBO reported profit levels in the segment remain healthy. However, FLCs could struggle to maintain current levels of returns in light of growing competition to the sector from banks – and in particular from the advancement of Islamic banks and windows, which like FLCs, predominantly engage in asset-based financing.

The CBO also suggested consolidation among FLCs could provide substantial value to shareholders. In keeping with this, non-bank lender National Finance in May 2017 announced plans to merge with Oman Orix Leasing Company. The CBO gave final approval to the deal in December 2017, and a final merger agreement is expected in February 2018.

OUTLOOK: The banking sector is already conservatively regulated, which has helped maintain its soundness despite the economic downturn caused by the fall in global energy prices. New regulatory requirements should further consolidate the stability of the industry. The recent improvement in oil prices is expected to help underpin liquidity in the financial system in the coming years. Meanwhile, technological developments and pressure from the authorities will drive financial inclusion. Islamic banking is set to grow rapidly, further increasing its share of industry lending, and supported by moves to bolster the sector, such as liquidity-management tools and the proposed deposit takaful scheme.

Two banks were granted initial approval to use blockchain technology



Tahir Salim Al Amri, Executive President, Central Bank of Oman

Stimulating diversity

Tahir Salim Al Amri, Executive President, Central Bank of Oman (CBO), on meeting the credit needs of the economy

What is the CBO doing to enhance liquidity management for the Islamic banking segment?

AL AMRI: Liquidity management in the Islamic banking industry has been a big challenge as the non-sharia elements of conventional instruments make them unsuitable for the segment. There has been an increasing number of *sukuk* (Islamic bonds) issuances from Islamic countries as well as other jurisdictions, reflecting their popularity and ability to meet large financing needs. Sukuk issuances from government entities and the private sector, however, fluctuate depending on need, liquidity and risk appetite. As for Oman, it may be noted that the government's first sharia-compliant sovereign sukuk was oversubscribed. There have been some private issuances, too; and one of the Islamic banking entities has issued a *musharaka*-based (joint venture) sukuk, and another issuance is currently in process.

Short-term liquidity management, as of now, is being done through interbank transactions, mostly *wakala*-based (agency). Islamic banking entities can also use the Sukuk secondary market to address short-term liquidity needs. The CBO is currently engaged in the consultative process of establishing liquidity management tools, and the initial progress in this regard has been satisfactory.

There are numerous sharia compliance requirements that need to be ensured, and they include appropriate practices and processes, as well as legal concerns and other facilitations. Wakala arrangements and collateralised partnerships are currently under product review, and we look forward to addressing this market gap as soon as possible.

How has the government's fiscal policy impacted broader liquidity conditions?

AL AMRI: The local economy is currently witnessing a slowdown along with fiscal deficits. The slowdown has reduced credit demand, while fiscal deficits have led to an increase in the government's financing requirements. A part of the government debt has been issued in domestic currency using the space created by the deceleration in credit growth.

Hence, we feel that the government's budgetary needs have helped in balancing liquidity in the banking system. The government debt management strategy in Oman, however, weighs options of domestic and external debt issuances judiciously so that liquidity and credit requirements are not adversely impacted. The CBO also closely monitors the impact of government debt on liquidity conditions in the banking sector and takes appropriate measures to mitigate any such problem.

What tools does the CBO have at its disposal to stimulate non-oil activity?

AL AMRI: The monetary conditions of the US get mirrored in most of the GCC countries due to their currency pegs to the US dollar. Accordingly, US interest rate hikes lead to corresponding hikes in GCC economies, which dampens money supply growth. Though interest cost is one of the factors that influences non-oil economic activity, Oman's infrastructure and its huge economic potential could overcome the interest factor. Nevertheless, the CBO ensures that appropriate liquidity is available in the banking system so that the credit needs of all segments of the economy are met. The CBO also provides special dispensation with regard to credit disbursement for some special segments, such as small and medium-sized enterprises (SMEs), which play an important role in non-oil activity and economic diversification. Presently, banks are advised to follow liberal lending policies for SMEs, with a mandate to extend a minimum of 5% of their total credit to them. The CBO can tweak the regulatory limits, such as the lending ratio, if need be to promote credit expansion within the non-oil sector.

Abdul Razak Ali Issa, CEO, Bank Muscat

Next big thing

Abdul Razak Ali Issa, CEO, Bank Muscat, on the impact of recent changes to monetary policy and advances in mobile banking

What policies has the Central Bank of Oman (CBO) pursued to relax reserve requirements and stimulate greater liquidity in the banking system?

ALI ISSA: The banking sector in Oman is governed by policies defined by the CBO. The CBO reduced the reserve requirement in the form of cash balances from 5% to 3%, and allowed banks to hold 2% in the form of government securities. This helped to create extra liquidity in the market. The CBO's prudential framework for liquidity risk requires banks in the country to have an appropriate liquidity management strategy that fully supports their scope of operations. Additionally, each bank is required to carry out a liquidity stress test on a quarterly basis.

The Omani banking sector has both adequate liquidity and the financial strength to continue supporting economic diversification and development projects, which will positively contribute to the economy in the coming years. Moreover, the asset quality of Omani banks is strong, as gross non-performing loans have been contained at below 2%. The quality of banking assets has not witnessed any significant deterioration, and the delinquency rate went up only marginally from 1.9% in 2015 to 2.1% during 2016.

How likely is it that the government's budgetary needs will impact liquidity in Oman?

ALI ISSA: The government has embarked on a prudent borrowing plan, and continues to successfully tap both domestic and international markets to cover the budget deficit. The government plans to finance fiscal deficits by expanding its long-term borrowing in the domestic market through government bonds, *sukuk* (Islamic bonds) and by raising external borrowing. At the same time, domestic borrowing facilitates financial deepening and also develops a yield curve. When the government does raise resources from domestic sources, the government and the CBO closely coordinate to tap the market at the appropriate time and closely monitor any impact such borrowing would have on the liquidity condition of banks.

How have banks in Oman complied with initiatives to help small and medium-sized enterprises (SMEs) gain access to credit?

ALI ISSA: According to CBO data, the Omani banking sector had extended a little over 3.5% of total credit to the SME segment as of August 2017. With a view to enabling banks to achieve the 5% target, banks have been allowed to reckon non-funded credit up to a maximum of 1% of the overall 5% target.

What impact will the implementation of MpClear, the mobile payment clearing and switching system, have on financial inclusion?

ALI ISSA: MpClear is enhancing inclusion by easing the use of and promoting electronic payments in Oman. In conformity with international standards, MpClear provides security and convenience for financial transactions through mobile phones. MpClear is set to emerge as a convenient electronic payment tool for cash transactions in Oman.

What prospects are there for greater use of big data analytics in the sector?

ALI ISSA: Customer data analytics is an integral tool for the success of organisations. Customers are now empowered with connectivity and access to information about where to shop, what to buy and how much to pay, and they can access this information anywhere at any time. This necessitates awareness about how customers will behave when interacting with organisations, and suitable measures need to be adopted to meet their requirements.

A clear understanding of the buying habits and lifestyle preferences of customers helps to anticipate their requirements, which in turn allows organisations to carry out their objectives more successfully.

The number of bank branches stood at 16.3 per 100,000 people in 2016

Branch out

A series of reforms have boosted financial inclusion

A May 2017 survey published by Oman's National Centre for Statistics and Information found that 56% of Oman's residents have accounts or deposits with banks operating in the sultanate, and this figure grows to 68% when only Omani citizens are counted. Omanis benefit from good access to financial infrastructure. The number of bank branches stood at 16.3 per 100,000 people in 2016, above the international average of 12.5% and surpassing many of its peers in the GCC, such as the UAE (12.4), Qatar (11.7) and Kuwait (14.3).

Conventional banks operated 470 branches throughout the sultanate in 2016, up from 468 the year before, according to the Central Bank of Oman (CBO), while the total ATM network consisted of 1181 machines, up from 1024 in 2012.

ENCOURAGING INCLUSION: A number of measures underpin high levels of financial inclusion, such as provisions of the country's labour law obliging employers to pay salaries into bank accounts.

Large companies and government institutions have been compliant with this for many years, though implementation was initially patchier among blue-collar workers, and small and medium-sized enterprises (SMEs) prior to 2013. However, since then the CBO has been working with the Ministry of Manpower to ensure compliance, the levels of which have increased as a result.

The launch of sharia-compliant banking has also helped boost financial inclusion, giving an alternative to people who did not want to engage with the interest rate-based banking sector for religious reasons. The number of Islamic bank branches stood at 70 in 2016, up from 60 in 2015 and 32 in 2013, the year the sector launched.

In order to further encourage bancarisation, in 2016 the CBO started to link permission for new branch openings to adequate provision of financial services in underbanked areas such as border areas and remote, rural regions in the interior. In addition, the central bank is working to increase public awareness of the benefits of engagement with the formal banking system. In April 2017 it launched an nationwide awareness campaign that includes roadshows with the Oman Banking Association and presentations in schools.

The development of financial technology has unlocked further potential to expand this reach. In July 2017 the CBO launched a new mobile payment switching and clearing system, MpClear, which the central bank described as the first such system in the GCC. It provides unified switching and clearing services among local banks' individual mobile-banking platforms, and allows for the transfer of funds using only a mobile phone number, thus allowing unbanked individuals to conduct money transfers.

"Banks are active in mobile and internet banking, and this offers a solution to remote areas, which are not yet adequately served by physical branches," Lloyd Maddock, CEO of Ahlibank, told OBG. However, he said he did not expect to see mobile banking use to develop to the extent witnessed in some African countries. "Sector regulators in the region encourage digital platforms but are less likely to allow the sector to develop as fully it has in other emerging markets," Maddock added.

SME LENDING: The authorities have also taken measures in recent years to boost access to financing for SMEs. A CBO requirement that banks devote a minimum of 5% of their commercial lending books to SMEs came into effect at the end of 2015. In practice, however, the sector has yet to reach the target, with the rate standing at around 3.5% in October 2017 according to figures cited by the CBO.

As of January 2018 the regulator is not penalising banks for failing to meet the requirement, but it is considering doing so in the future if the environment changes and SME financing requirements increase.

The ATM network consisted of
1181
machines in 2016

Although banks are required to devote at least 5% of their commercial lending books to small and medium-sized enterprises, that figure stood closer to 3.5% as of October 2017.

Khalid Al Kayed, CEO, Bank Nizwa

Attractive alternatives

Khalid Al Kayed, CEO, Bank Nizwa, on the rising popularity and dynamism of Islamic banking

How do banks in the sector differ from conventional institutions, and how are they being supported by the Central Bank of Oman (CBO)?

AL KAYED: There are many elements that differentiate Islamic banks and conventional banks. First and foremost is the idea that their activities are exclusively based on sharia principles, whereby profit is generated through a profit-and-loss sharing model. Furthermore, Islamic banking tends to create links with the real sectors of the economic system by using trade-related activities. As a result, funds are linked with real assets and therefore contribute directly to economic development. The entire process is subject to a high degree of supervision, with both internal and external auditors, sharia supervisors, a board of directors, an independent internal sharia supervisory board, and the central bank's higher sharia authority.

The CBO plays an important role not only in regulating Islamic banks but also in supporting their development. Its most prominent contribution in this regard was the issuance of the Islamic Banking Regulatory Framework (IBRF) that was published before such entities began operating commercially. The IBRF is a comprehensive guideline for Islamic banks and windows that has set a benchmark for others to follow. Apart from this, the CBO regularly supports Islamic banks whenever they require guidance and advice in light of changing economic and operating factors, which is why the Islamic banking sector in Oman, including conventional banks, is financially sound and stable.

What has been the impact of Islamic banking and financial services on the Omani economy?

AL KAYED: Islamic banking assets constitute 11.5% of total banking assets as of September 2017, and grew by 16.8%, or OR520m ($1.35bn), whereas conventional banking assets grew by 2% – OR552m ($1.43bn) – in the first nine months of 2017. This shows that Islamic banking has outperformed its counterpart, which is a significant achievement and testament to the potential of growth in the sector. Islamic banking is growing faster than conventional banking, and the expectation is that it will represent 20% of assets held in the banking system by 2020.

Islamic finance caters to all financing needs, including those related to individuals, corporates and capital market instruments such as *sukuk* (Islamic bonds), among a wide range of other areas. Despite the relatively recent start of Islamic finance in the sultanate, sukuk have already been issued, the first of which was in 2013.

All of this is a testament to our view that Islamic finance has great potential to grow and contribute to all sectors of the economy. The sharia-compliant segment is important for Oman, as it contributes to the diversification of the economy.

How can the CBO address the lack of sharia-compliant instruments that can serve as high-quality, short-term liquid assets for Islamic banks?

AL KAYED: There has been significant development regarding the issuance of sharia-compliant, high quality assets contributed by both corporates and the government. However, in order to generate liquidity and to use those instruments for liquidity management purposes, the CBO should issue short-term, sharia-compliant instruments that are either sukuk- or *wakala*- (agency) based, and become a player itself in the interbank market by creating an Islamic window that would manage the surpluses or deficits among banks through wakala arrangements. This will make Islamic banks more competitive by allowing for better returns to investors and will also reduce undue pressure on balance sheets related. With that being said, I am confident that the CBO has plans to take action regarding this matter soon.

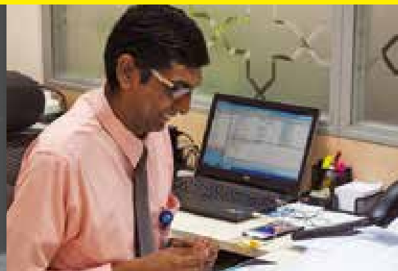
Capital Markets

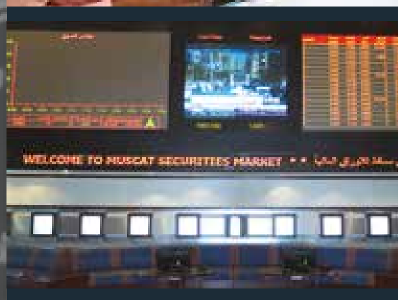
Listings resurge in 2017 due to regulatory changes

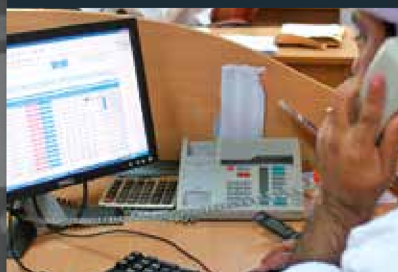
Performance affected by subsidy cuts and tax hikes

Real estate investment trusts coming to the market

The government issues its first international sukuk







Industrial firms are the most heavily represented on the exchange

Renewed interest

Performance is set to improve as listing activity picks up and new products launch

Financial stocks accounted for

36.4%

of market capitalisation at end-2017

The sultanate is home to a well-developed stock exchange, the Muscat Securities Market (MSM), which was founded in 1988. The equity market has seen a decline in initial public offering (IPO) activity in recent years; however, it witnessed a resurgence in 2017 thanks to government-driven offerings, more of which are set to take place in 2018. On the debt side, there has been a recent uptick in issues and listings, while the *sukuk* (Islamic bond) market also now appears to be developing.

CAPITALISATION: The MSM's overall market capitalisation stood at OR17.95bn ($46.6bn) at the end of 2017, according to figures from the exchange. The regular equity market accounted for OR4.6bn ($11.9bn) of the total, the parallel market for OR3.4bn ($8.8bn), the debt market for OR2.6bn ($6.8bn) and closely held companies for OR7.1bn ($18.4bn). Overall capitalisation was up from OR17.29bn ($44.9bn) at the end of 2016, a rise of 3.8%. The capitalisation figures for the regular and parallel equity markets were both down for the year despite several IPOs having taken place, due to falls in valuations. However, those of both the debt and closely held companies markets were up. Non-Omanis owned 28.07% of the MSM's market capitalisation at the end of 2017, up from 27.83% at the end of the previous year, according to MSM data.

EQUITY MARKET STRUCTURE: As of mid-January 2018 a total of 117 equities were listed on the MSM, 28 of which were listed on the regular market, 75 on the exchange's parallel market and 14 on its "under monitoring" market. By sector of activity, industrial companies were the most heavily represented on the exchange (across all markets), on a total of 42 listed firms, followed by service companies on 38 and finance on 37. However, in terms of the value of their market capitalisation, this order was reversed: financial stocks accounted for 36.4% of the total market capitalisation at the end of 2017, followed by services with 28.2% and industrial companies on 11.1%.

After rising by 7% in 2016, the MSM30 fell by 11.8% in 2017 as the economy slowed and GCC financial markets experienced negative sentiment.

Bank Muscat, the sultanate's biggest bank by assets, was also the largest stock by market capitalisation at the end of 2017, on a value of OR1.07bn ($2.8bn). It was closely followed by Oman Telecommunications, one of the sultanate's two main telecoms operators, on OR903.8m ($2.3bn). In third place was Bank Dhofar with a capitalisation of OR501.2m ($1.3bn).

RECENT PERFORMANCE: The MSM30 – the index of the 30 most liquid stocks trading on the MSM – witnessed positive performance in 2016, rising by 7%. Net profits of listed firms were also up by 7% over the year, to OR763m ($2bn). Listed companies paid dividends of OR491m ($1.3bn), including OR424m ($1.1bn) of cash dividends, up 3% on 2015, according to Capital Market Authority (CMA) figures. This gave a dividend yield of 4.5%, down from 4.8% a year earlier and in line with the (unweighted) average for capital markets across GCC member states.

However, in 2017 the MSM30 decreased by 11.8%, closing at 5099.28, as the Omani economy slowed and the GCC financial markets witnessed negative sentiment. Despite the positive performance in 2016, the index also remains down from a peak of 7540 in September 2015, with the downturn having begun in the wake of the sharp fall in international oil prices in late 2014 and 2015. In 2017 all four sectoral indices also fell. The worst performer was the sharia index, a grouping of 15 sharia-compliant companies, which was down 17.9%, followed by services (-13.6%) and industry (-7.8%). The best-performing sector was financial services, which dipped by 2.6%.

Lo'ai Bataineh, CEO of Ubhar Capital, attributed the market's downturn to developments including recent cuts in government subsidies that led to fuel price rises, as well as the increase in corporate tax from 12% to 15%, which he said had a major impact and, among other factors, would lead to a likely fall in profits at MSM-listed firms of around 8-10%. In addition, the tax changes also extend the country's withholding tax to stock dividends, reducing effective market returns for investors. Younis Mohammed Al Belushi, investment manager at Al Madina Investment, said that the current poor performance of that market was also related to factors such as geopolitical risk and a lack of liquidity, which was undermining performance across the board.

Some of the sectors that dominate market capitalisation have also been hit by specific developments. The telecoms sector was affected by a rise in royalty fees companies are obliged to pay to the government, from 7% of revenue to 12%, announced at the end of 2016. The change affects Oman Telecommunications, the second-largest listed firm by market capitalisation at the end of 2017, and Ooredoo Oman, the sultanate's second network operator, which had the fourth-largest market capitalisation of listed firms at the end of 2017, on OR342.4m ($889.1m). The manner in which power companies report deferred tax liabilities has also been affected by the new tax framework, pushing down profits. Industrial firms have additionally been affected by an increase in gas prices imposed two years ago as well a hike in electricity tariffs charged to large consumers brought in at the beginning of 2017, hitting two of their main feedstocks.

REASONS FOR OPTIMISM: As regards the outlook for future performance, Al Belushi said that this would depend largely on geopolitical developments in the region. "In terms of particular sectors, bank profits are likely to be under stress next year due to the implementation of International Financial Reporting Standard 9, though this is already priced in," he told OBG. "However, the service sector looks attractive, and the rise in steel prices has not been reflected in share prices, which could be an opportunity for investors." Hettish Karmani, head of research at Ubhar Capital, was optimistic about wider market performance. "The year 2018 will be a better year for the MSM," he told OBG. "One-off events such as the tax rises have already been factored in, and oil prices are picking up, with OPEC output cuts likely to stabilise or further improve them. GDP growth will also be substantially higher in 2018, thanks to developments such as the full launch of the BP Khazan gas project. Furthermore, banks will do well, as increased oil prices will help liquidity, and the insurance sector will be boosted by the implementation of rules mandating that private companies provide their employees with health insurance," he said (see Insurance chapter).

According to industry figures, the banking industry looks to be particularly good value at the moment, giving rise to potential for positive performance. The banking capital adequacy ratio is very stable, compared to some other Gulf countries, and the central bank is conservative as regards lending standards. Factors helping to explain the cheap valuation of banks include geopolitical concerns and worries about the economy's vulnerability to a further oil downturn, suggesting that a prolonged period of oil price stability and the resolution of tensions over issues – such as those related to Iran and the economic blockade imposed on Qatar by the UAE, Saudi Arabia, Bahrain and Egypt in June 2017 – could encourage a resurgence in the stock prices of banks.

The first sukuk was listed on the Muscat Securities Market in 2013

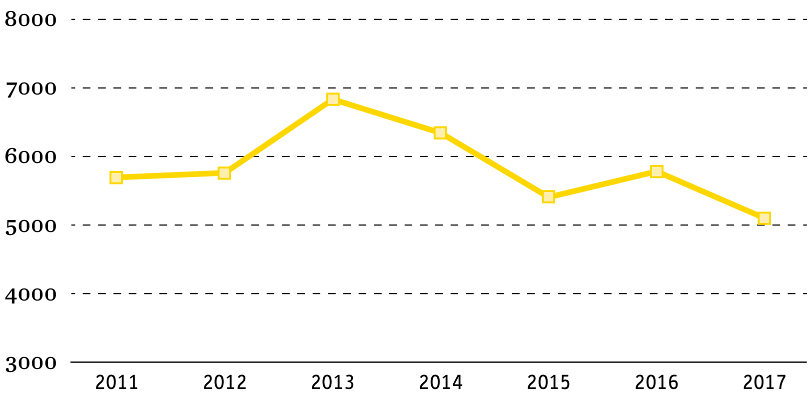
Sameer Kattiparambil, associate vice-president for research at stockbroker EFG Hermes, also cited growing activity at Duqm, where a port and a new special economic zone are currently being developed, as another reason for optimism, noting for example the announcement in April 2017 that Oman Oil Company and Kuwait Petroleum International would build a $7bn refinery and petrochemicals complex there as one of several major projects under way or in the pipeline. "Construction contracts for such projects will be divided among local sub-contractors, providing them with growth, and will also give a boost to construction materials companies, which could generate some positive momentum in the market," he said, describing this as the main positive trend he saw affecting the market over the next one to two years.

TRADING & LIQUIDITY: According to figures from the MSM, market turnover during 2017 increased by 3.5%

In 2017 market turnover increased by

3.5%

MSM 30 performance, 2011-17*



Source: MSM

*end of period close

to OR993m ($2.6bn) from OR959m ($2.5bn) in 2016. The three most heavily traded stocks in 2017 based on value were Bank Sohar on a figure of OR105.1m ($272.9m), followed by Bank Muscat with OR101m ($262.3m) and Ominvest at OR87.2m ($226.4m).

In 2009 the government launched the Investment Stabilisation Fund with the aim of boosting confidence and liquidity in the country's capital markets. However, liquidity has remained fairly tight despite such measures, as a result of factors including the large role played by institutional investors such as pension funds, which tend to adopt a buy-and-hold strategy.

Al Belushi said another factor pushing down liquidity recently was the introduction in 2016 of new capital adequacy requirements for brokerages, which led them to start enforcing so-called T+3 settlement requirements – rules obliging buyers to settle purchases via brokers within three days of the transaction, effectively limiting the ability of retail investors from borrowing to speculate.

However, Karmani said he thought that liquidity in the market was likely to improve in the near future, for similar reasons to those that led him to predict better market performance in 2018 – namely better overall economic performance on the back of higher oil prices and stepped-up gas production.

BROKERAGE MARKET: There are currently 17 licensed brokerage firms operating in the sultanate. Of these, Ubhar Capital had the largest market share in 2017, on a figure of 21.6%, according to MSM data, followed by Gulf Baader Capital Markets with 18.5% and United Securities on 11%.

The number of brokerages has fallen in recent years in the face of stiff competition. However, Karmani told OBG that the number remained high for the size of the market, and that it was likely to see a level of consolidation in the near future, in particular among some smaller and less active brokerage firms.

DEBT MARKET: There were 26 bonds and sukuk listed on the MSM as of late 2017, with a combined value of OR2.6bn ($6.8bn). A total of 15 were government bonds, with a market capitalisation of OR2.3bn ($6bn), maturity periods ranging from five to 10 years, and coupon rates from 3.5% to 5.75%. The remaining 11 were corporate issues, valued at a combined OR321.4m ($834.6m), all of which were issued by financial institutions (mostly banks) with one exception, an *ijara*, or leasing sukuk, issued by Modern Sukuk on behalf of real estate developer Tilal Development Company (TDC). Excluding a number of perpetual bonds issued by banks, these were of shorter average maturity periods than listed government bonds, ranging from three to five years, and offered higher coupons, of between 3.5% and 7.75%.

The year 2016 saw six listings on the market, split evenly between government and corporate issues, including one perpetual bond, raising OR336.2m ($873m), OR300m ($779m) of which was accounted for by government instruments. As of late November 2017 there had been seven further listings year-to-date (including one of a bond issued the previous

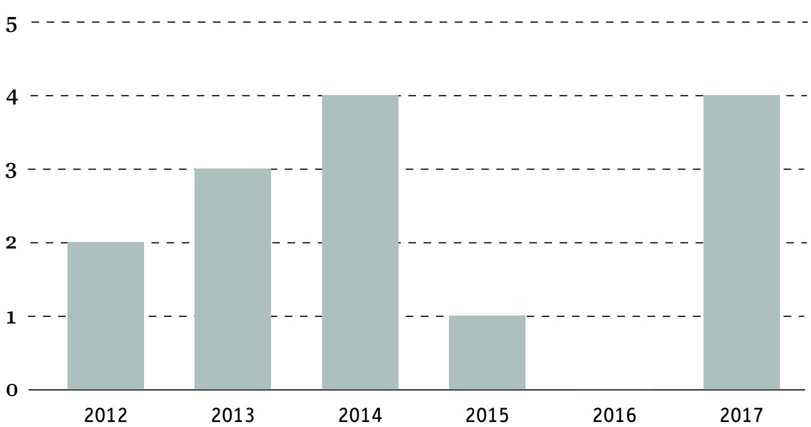
There were 26 bonds and sukuk listed on the bourse as of late 2017

year), comprising four government bonds, two perpetual bonds, a conventional bond and a sukuk. The government listings were worth OR600m ($1.6bn) and the corporate listings OR336.2m ($873m), pointing to a significant increase in debt issues from both sectors, though the corporate debt market in particular remains small. Kattiparambil said that this was in part due to the fact that financing was available from banks, which private companies tend to prefer due to the costs and increased transparency requirements involved in issuing and listing bonds.

Trading levels in the market tend to be low, due to its overwhelming dominance by institutions such as pension funds that adopt a buy-and-hold strategy and the relative lack, in contrast to the equities market, of an active speculative retail market. However, Al Belushi told OBG in November 2017 that the market had seen increased activity over the last six months or so. "The levels are not high, but represent a notable increase," he told OBG. "The rise is partly a result of

In 2009 the government launched the Investment Stabilisation Fund with the aim of boosting confidence and liquidity in the capital markets. However, liquidity has remained fairly tight due to factors such as the large role played by institutional investors.

Number of IPOs, 2012-17



Source: CMA

The equity market witnessed a resurgence in 2017 thanks to an increase in government-driven offerings

The product range of the exchange is expanding, with the government announcing in early 2018 it would allow the establishment of real estate investment trusts, which will be licensed and supervised by the Capital Market Authority.

the fact that the equity market is currently risky for investors, and bond yields are close to equity dividends despite the lower risks involved."

The TDC sukuk was the first Islamic bond to be listed on the MSM when it was issued in 2013. The instrument, which has an issue value of OR50m ($129.8m) and a coupon of 5%, is due to mature in 2018. While the market was quiet for several years afterward, another listing followed in June 2017, in the form of an OR44.6m ($129.8m) issue – also with a 5% coupon – by Meethaq, the Islamic banking window of Bank Muscat. The instrument also has a five-year tenor.

INCREASING APPETITE: In addition to publicly listed instruments, the market also sees private placements of debt, including a private $76m sukuk issue by local conglomerate MB Holding that took place in mid-2016.

Al Belushi told OBG that the firm was currently working on several such private placements, focusing on sukuk. "Investment appetite is good: interest rates are going up, and investors are becoming more risk averse and looking for secured investments with good rates," he said, adding that there was particularly strong interest from the GCC at the moment. "GCC investors often want to put money in the stock market, but it isn't very liquid so fixed income and particularly sukuk are attractive to them," he said. "GCC countries are likely to continue to invest in fixed income here and indeed to step up investments," he told OBG.

Other local debt issues have entered the pipeline and appear set to follow. In March 2017 Maisarah Islamic Banking Services, the Islamic window of Bank Dhofar, told local media that it was arranging a series of sukuk issues on behalf of local real estate, construction, logistics and hospitality conglomerate Golden Group, worth a total of OR200m ($519.3m). Furthermore, in November 2017 the CMA approved the programme and said that the first issue would be a private placement worth OR50m ($129.8m), with a profit rate of 6.5% and a tenor of five years.

In May 2017 the government raised $2bn through a sukuk issue that was oversubscribed by a factor of nearly 3.5. This followed a $5bn, three-part conventional bond offering in March of that year.

The government and local firms are also issuing debt on international markets. In May 2017 the government raised $2bn through a sukuk issue that was oversubscribed by a factor of nearly 3.5. This followed a $5bn, three-part conventional bond offering earlier in March of that year. Industry players noted that the government was able to mitigate the budget deficit and simultaneously ease pressure on the rial by issuing various types of financial instruments in 2017.

In November 2017 power firm Mazoon Electricity also issued a $500m, 10-year sukuk that was oversubscribed by a factor of more than 10. The instrument is listed on the Irish Stock Exchange.

PRODUCT DEVELOPMENT: The MSM's investment product offering is largely limited to basic conventional capital markets products such as equities, bonds and sukuk, and mutual funds. However, its product range is expanding. In March 2017 the CMA said that it had produced draft regulations on the introduction of real estate investment trusts (REITs), covering conventional and sharia-compliant trusts. In early 2018 the government announced it would allow the establishment of REITs, which will be licensed and supervised by the CMA. Al Belushi told OBG that interest in the investment class had been piqued by their high initial demand in Saudi Arabia and there was strong appetite for REITs in the country, both from potential listers and investors. Indeed, several institutions are preparing to list once the regulations are in place. He said that his firm also expected strong interest in derivatives, and particularly options, from institutional investors. "Pension funds take large positions in companies and being able to hedge their risks would be very attractive to them."

Another product currently lacking from the market is exchange-traded funds (ETFs) – investment funds that usually track an index (as opposed to being actively managed) and that are bought and sold like stocks. Kattiparambil said that the introduction of ETFs had been under discussion for several years, and he believes specific product approval from the CMA could be attained without changing the regulations. However, there do not currently appear to be any active plans for their introduction.

OUTLOOK: After a recent slowdown, the resumption of IPO activity in 2017 is set to continue in coming years, as more power companies float on the market and the government seeks to divest stakes from some state-owned entities through listings (see analysis). New investment vehicles such as REITs, which are being launched, will further help to boost activity on the MSM. Private Omani companies such as family-owned businesses are likely to wait for market conditions to improve before they start to consider public offerings. However, such an improvement may soon be on the horizon, as factors such as the recent partial recovery in oil prices, expected higher GDP growth in 2018 and the return of liquidity to the banking sector, which accounts for a significant part of market capitalisation, appear to augur better market performance in the coming months and years.

Abdulaziz Mohammed Al Balushi, Group CEO, Omnivest

Attractive terms

Abdulaziz Mohammed Al Balushi, Group CEO, Ominvest, on the strategies being used to revitalise the economy

How have credit ratings affected the sultanate's ability to finance its budget deficits?

AL BALUSHI: Despite its weakening fiscal position and rating downgrades, Oman has been able to secure funding at attractive terms primarily because of its low debt-to-GDP ratio of 29%, political stability, strong economic ties to GCC countries and plans on economic diversification away from oil. Another main reason for Oman to be able to tap global bond markets is low global interest rates.. The yield on ten-year US treasuries is currently at 2.26%, which is not much more than inflation in the US. Central banks in Europe and the US have kept rates low and are avoiding increases for now.

In this context, global bond investors' appetite for yield on riskier sovereign bonds has grown. Countries hit hard by low oil prices, such as those in the GCC, have been key beneficiaries of this trend. When Oman approached the international market in March 2017 to issue a three-tranche $5bn bond at five-, 10- and 30-year maturities, it was oversubscribed by four times. While bond interest rates surpassed those of other GCC countries (3.9% on five years, 5.4% on 10 years and 6.5% on 30 years), it was still attractive considering the economic situation and credit rating downgrades.

Therefore, despite downgrades, Oman has been able to finance its budget deficits largely through international bonds and borrowings. In 2016 it borrowed OR4bn ($10.4bn), which funded 90% of the budget deficit of OR5bn ($13bn). In 2017 Oman issued $7bn worth of both conventional bonds and *sukuk* (Islamic bonds) on the international market, which are expected to fund 90% of 2017's OR3bn ($7.8bn) deficit.

How much of its financing needs can the country obtain from sukuk in the short to medium term?

AL BALUSHI: The recent debut sovereign sukuk issuances in the local and foreign markets were a step towards developing the sultanate's Islamic finance industry and setting a benchmark for future issuances. The strong demand from local and foreign investors underpins the attractiveness of sukuk as an alternative to conventional bonds and gave the government a brand new channel through which to raise money.

Of Oman's $7bn international debt issuances in 2017, $2bn, or 29%, has been from sukuk, while the remainder has come from conventional bonds. More issues by the government will help develop the secondary market for sukuk and give further investment options to local Islamic institutions. This will also help fund the budget deficit. With global interest rates still at low levels, Oman's government is now able to tap the global sukuk markets at favourable rates and secure funding to bridge expected deficits over the next two years.

What steps would be necessary to successfully privatise some state-owned companies?

AL BALUSHI: As Oman looks to diversify the sultanate's economy and raise money amid lower crude oil prices, the government is considering options for the privatisation of state-owned companies. However, the state's privatisation plans through initial public offerings and secondary listings have been delayed because of unfavourable market conditions. These include adverse market sentiment, a decline in liquidity and low valuations. Oman is also studying options for privatising parts of its state-owned energy infrastructure, for example, by selling off some downstream assets, such as Salalah Methanol Company. However, the sultanate is not considering selling its upstream assets.

When well executed, privatisation can bring economic growth, higher employment and improved fiscal balance. Oman needs clear plans for privatisation, like alleviating the debt burden by using proceeds to improve fiscal balance; increasing efficiency, productivity and competitiveness of government-owned enterprises; and stimulating private savings, while directing them towards long-term investments to strengthen the local capital market and the economy as a whole.

Initial public offerings conducted in 2017 raised a combined $439.4m

Back on track

The exchange has seen a rising number of listings

Equity listings activity in the sultanate has been muted in recent years. After having steadily risen in number from two in 2012 to four in 2014, only one public offering took place in 2015 – though the listing, of Phoenix Power Company, was the largest in recent years, raising OR563.1m ($1.5bn), more than double the combined value of all initial public offerings (IPOs) over the previous three years. In 2016 there were no IPOs, although eight private placements took place. The fall was in line with a general decline in public offerings across the GCC region, which witnessed three IPOs in 2016, compared with 17 in 2014, according to figures cited by Oman's Capital Markets Authority (CMA).

However, the year 2017 saw a revitalisation of listing activity, with a total of five IPOs launched, of which four were completed and one listing was pushed into 2018. The total amount raised in these offerings was OR169.2m ($439.4m).

Further IPOs are expected in 2018. Recent offerings and those in the pipeline are being driven largely by the state, mostly in the form of companies obliged to float shares as part of regulatory requirements, although the government also has plans for privatisations of state-owned entities via IPOs.

INSURANCE FLOATS: A revision of the country's insurance law in 2014, among other changes, obliged all national insurers to hold the status of public joint-stock companies and to be listed on the Muscat Securities Market (MSM) by mid-2017. To support the process in March 2017 the CMA reduced the minimum equity stake required to be listed from 40% normally to 25% for insurance firms seeking to float on the MSM under the new requirements.

When the requirements were brought in there were seven unlisted domestic insurance firms operating in Oman. However, two of these – sister companies Muscat Insurance and Muscat Life – were merged in early 2017 into their already-listed parent company Muscat Holding (subsequently rebranded as Muscat Insurance Company) in July 2017, meaning the underwriters themselves did not have to list.

Of the five remaining firms, Vision Insurance and Al Ahlia Insurance were the first to hold IPOs, beginning in early July 2017, followed by Oman Qatar Insurance in September. National Life and General Insurance (NLGI) followed suit in late October 2017, while Arabia Falcon Insurance is expected to launch its offering shortly (see Insurance chapter).

Sameer Kattiparambil, associate vice-president for research at stockbroker EFG Hermes, said that investor appetite for the insurance listings had not been very strong, which he partly attributed to low market liquidity. Vision Insurance failed to meet its subscription target, with 50% of its offering being taken up. The Al Ahlia and Oman Qatar Insurance IPOs performed better, achieving subscription rates of 2.43 and 1.4, respectively. The OR21.2m ($55.1m) IPO of NLGI, which closed on November 20, 2017, was 1.01 times subscribed. Price performance for these stocks has been mixed, with Vision Insurance and Al Ahlia Insurance's share prices remaining more or less flat on their opening prices, while Oman Qatar Insurance's price was slightly down. Industry figures attribute the slow take off of the stocks so far to poor general market performance and the floats having been offered at high valuation multiples.

UTILITY SECTOR OFFERINGS: Another sector currently witnessing high levels of IPO activity is utilities, again driven by regulatory requirements. Independent power projects and independent water and power projects are now obliged to list a 40% stake on the MSM (increased from 35% in 2014) within four years of their establishment. This requirement has given rise to a fairly steady supply of IPOs in the sector, including one in 2013 of Al Sharqiyah Desalination, two in 2014 (Al Sawadi Power and Al Batinah Power) and one in 2015 (Phoenix Power).

Recent offerings and those in the pipeline are being driven by the state, mostly in the form of regulatory requirements that oblige companies to float shares, although the government also plans to privatise state-owned entities.

A revision of the insurance law in 2014 obliged all national insurers to hold the status of public joint-stock companies and to be listed on the Muscat Securities Market by mid-2017.

More listings are in the pipeline, with as many as six power generation and water desalination companies expected to launch their initial public offerings by 2021.

The IPO of Phoenix Power, which was well received by the investment community, was oversubscribed by a factor of 18.9. The firm, which operates the country's largest power plant, sought to raise OR56.3m ($146.2m) by offering a 35% stake.

The latest IPO came in December 2017 when Muscat City Desalination Company (MCDC), the operator of the country's largest desalination plant, launched an IPO for a 35% equity stake in the company. Three of its shareholders, Sumitomo Corporation of Japan, Malaysian firm Malakoff International and Spain's Cadagua, reduced their holdings in the firm through the offering. The company offered an 8.3% yield on dividends for the first five years of the listing, relative to the offer price, well above the sector average of 5.9%. MCDC closed its OR6.5m ($16.9m) offering on December 18, 2017, raising OR122m ($316.8m). Local media reported that in the first category, small investors and those who applied for a maximum of 500,000 shares, would get a minimum of 1000 shares and 3.1% for all additional share applications, while institutional investors would receive 4.14% of the shares they applied for in category two.

More IPOs are also in the pipeline, with as many as six power generation and water desalination companies expected to launch their IPOs by 2021, local media reported in early January 2018.

PRIVATISATIONS: The government is set to further spur IPO activity through the partial privatisation of state-owned assets via the stock market. In late 2016 the government said it would divest a 49% stake in Muscat Electricity Distribution Company, via a combination of an IPO and a private placement, though in June the following year officials said that the sale was being reconsidered due to "regional economic conditions". However, in April 2017 the authorities announced that they also planned to float stakes in several state-owned downstream oil and petrochemicals companies, including Salalah Methanol Company and an unnamed drilling firm. Oman Oil Company, through which the government owns its stake in some such firms, had previously been reported to be seeking advice from investment banks on floating some of its assets. The plans do not cover the main oil and gas producer in the country, Petroleum Development Oman. Hettish Karmani, head of research at Ubhar Capital, said he thought that such offerings would likely start to take place towards the end of 2018 or in 2019.

Another firm seeking to list in the near future is the newly established mining company Mining Development Oman. The company is a joint venture between the State General Reserve Fund, Oman Investment Fund, Oman Oil Company and the Oman National Investments Development Company, all state-backed entities. In March 2017 Sheikh Abdullah bin Salim Al Salmi, executive-president of the CMA, told media that the firm plans to sell a 40% equity stake in itself to the public via an IPO. The offering has been delayed, with the company initially planning to conduct the offering by mid-2016.

Younis Mohammed Al Belushi, investment manager at Al Madina Investment, said that he thought the MSM, which is a government entity and which was converted to company status, as well as the sultanate's capital market depository, will go public in the future. He told OBG that in his view both would likely to be able to pay good dividends and should therefore perform well. He added that privatisations of government entities more generally would be positive for the development of the market, subject to pricing, telling OBG they would help to bring in liquidity from the retail market in particular.

BEYOND GOVERNMENT-DRIVEN LISTINGS: The authorities have also been encouraging other companies to consider public offerings. However, industry figures say that market performance is weighing on the likelihood of IPOs for the time being. That said, market conditions appear set to improve in 2018, offering hope for a new wave of listings of companies beyond those being privatised by the government or mandated to list by the authorities.

Market analysis & data provided by Ominvest

Bank Muscat stock price, Nov 2016-Dec 2017 (OR)

Staying strong

Banks

The Omani banking sector comprises a total of 16 conventional banks, of which seven are locally incorporated and nine are foreign banks. Apart from conventional lenders, there are also two fully fledged Islamic banks. Bank Muscat is the largest bank with a market share of around 45% by assets. It is the biggest listed company on the Muscat Securities Market, with a market capitalisation of $2.8bn and one of the most dominant franchises in Oman with a large network of branches, clients and employees.

ATTRACTIVE PRICES: The weak macro environment in the sultanate has caused significant downward pressure on the stock prices of listed banks. Bank Muscat's stock price is down by 41% from its peak in 2014, and trading at 400 baizas ($1.04) per share. The decline is mostly attributable to foreign selling as foreign investors have reduced their ownership from around 20% in 2014 to 12% currently. Foreign ownership and trading volumes in other listed banks in Oman remain low. Overall, stock prices of listed banks are now at attractive levels as they trade at a steep discount to regional peers and offer high dividend yields.

Despite share price weakness amidst a weak macro environment, the banking sector remains fundamentally strong given that it is meeting the regulator's capital adequacy requirements as reflected by the Basel capital adequacy ratio of 16.8%. At the same time, the quality of bank assets has not witnessed any material deterioration as the delinquency rate is low.

During the first nine months of 2017, sector loans grew by 5.7% and deposits by 5.8% compared with the same period in 2016. Asset growth decelerated in 2017 due to lower demand for credit as business and consumers were cautious in the current macro environment. The aggregate earnings of the top-seven banks declined by 2.1% in the first nine months of 2017 due to pressure on interest spreads and a decrease in non-interest income. Liquidity, meanwhile, improved in 2017 as deposit rates have stopped climbing and hence banks' cost of funds is stabilising. The Central Bank of Oman has ensured that there is enough liquidity in the system so that banks are not constrained to lend to various segments. The Omani government's international borrowing in 2017 through a $5bn conventional bond and a $2bn *sukuk* (Islamic bond) has also helped improve liquidity in the market.

Growth of Islamic banks has outpaced conventional banking expansion. Total financing by Islamic banks and windows increased by 29% in the first nine months of 2017. Islamic deposits also recorded a 39% rise over the same time period. Islamic assets now account for 12% of the banking sector's total.

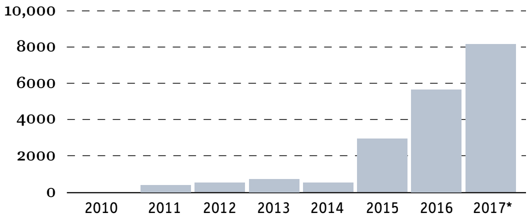
Credit rating agency Moody's downgraded the long-term local and foreign currency deposit ratings of the top-six banks in August 2017. The downgrade was underpinned by Moody's view on the weakening fiscal capacity of the government to provide support to banks. However, it also noted that lenders maintain solid asset quality, healthy capital buffers and a relatively low market funding reliance.

To improve capital position, smaller banks in Oman raised capital during 2017 through perpetual bonds and rights issues. Oman Arab Bank, Ahlibank and Bank Sohar issued perpetual bonds of OR20m ($51.9m), OR50m ($129.8m) and OR100m ($259.7m) at coupon rates of 7.75%, 7.5% and 7.75%, respectively. The issues were well received by the market and were oversubscribed. The perpetual bonds offer a good investment opportunity for long-term investors as banks in Oman are well regulated and resilient to systemic risks.

LOOKING AHEAD: The government's diversification plan through the Tanfeedh programme and a rise in oil prices are expected to drive a pick-up in capital expenditure by both the government and the private sector. This will in turn lead to growth in banks' lending activities to the manufacturing, tourism and logistics sectors, which have been highlighted in the Tanfeedh programme to diversify Oman's economy.

Market analysis & data provided by Ominvest

Total sovereign debt issuance, 2010-17* ($ m)



*as of Dec

Healthy demand

Bonds

For the first time since 1997, the government of Oman issued $2.5bn foreign bonds in June 2016 with maturities of five years and 10 years. Later, in September 2016, the government expanded the size of the issue to $4bn. During 2016 Oman joined several other governments and companies in tapping the global bond market to fund budget shortfalls after price of crude oil plunged by more than half from its peak in 2014. Oman's budget deficit ballooned to OR5.3bn ($13.8bn) in 2016, significantly higher than the budgeted OR3.3bn ($8.6bn).

During the first nine months of 2017 the deficit narrowed to OR3bn ($7.8bn), a 32% decline compared to the same period in 2016. This was driven by a 30% recovery in oil prices to an average of $50.60 per barrel in the first nine months of 2017, up from $38.90 in the same period of the previous year.

ISSUING FURTHER DEBT: In 2017 the government continued with its borrowing programme. In March it issued a $5bn bond in tranches of five, 10 and 30 years. It was double the size that most investors were expecting and received an overwhelming response by international investors, as order books totalled $20bn, four times the size of the issue.

Following the successful bond sale, Oman issued its inaugural $2bn international *sukuk* (Islamic bond) in May 2017. At $6.9bn, the order book was again oversubscribed by more than three times.

Since issuance, prices and yield of Oman's bonds have remained stable. The 30-year bond was issued at a yield of 6.5% in early 2017, and its yield was at around the same level as of year end.

In addition to bond sales in the international market, there have also been a number of issuances in the local debt market. There were three government bond issues totalling OR300m ($779m) in 2016 and four issues amounting to OR600m ($1.6bn) in 2017. For five-year bonds, yields at issuance rose from 3.5% in early 2016 to 5.25% as of mid-2017.

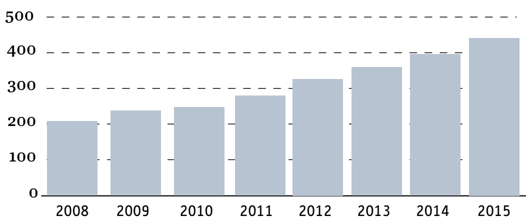
INVESTOR CONFIDENCE: Investor interest in the bond and sukuk issuances during 2016 and 2017 demonstrate healthy demand despite credit rating downgrades by S&P and Moody's during the year. S&P downgraded Oman's rating to BB+, or junk status, in May 2017 from BBB- previously, citing concerns over the sultanate's weak external reserves due to the prolonged drop in oil prices.

Despite Oman's weak fiscal position, investors' confidence in the sultanate's bonds is buoyed by a low debt-to-GDP ratio, the government's efforts to diversify the economy away from hydrocarbons through the Tanfeedh programme and a stable geopolitical climate. Another reason for the government's success in issuing international bonds at attractive rates is low global interest rates. Although interest rates in the US have started to rise and are expected to rise further by 2018, they are still low by historical standards. The benchmark 30-year Treasury yield in the US is at 2.8% currently, still much lower than around 4% in early 2014 and above 5% before the financial crisis of 2009. While rates are set to increase in the US, Europe is still maintaining near-zero interest rates to stimulate a sluggish economy. Hence, in the current environment, investors in the developed market are hungry for higher-yield issues in emerging and frontier markets.

Oman's sovereign bond and sukuk issuances are healthy as they will stimulate its small capital markets and incentivise the development of new financial instruments. With an increase in sovereign issuances by the government, Oman's private sector may also be encouraged to tap into the debt market. This will help relieve pressure on the country's banking sector as the drop in oil prices has reduced the sector's liquidity. The Capital Markets Authority, the regulator, fully supports a vibrant fixed-income market, which is essential to the development, financial stability and diversification of the economy.

Market analysis & data provided by Ominvest

Gross insurance premiums, 2008-15 (OR m)



Source: CMA Annual Report 2015

Highly competitive

Insurance

The insurance market in Oman has continued recording healthy growth despite the financial challenges and the impact of falling oil prices in the past two years. The market consists of 22 insurance companies, including a re-insurer company and *takaful* (Islamic insurance) companies which started operations in 2014. The overall industry has expanded at a compound annual growth rate (CAGR) of 9.6% between 2011 and 2016, and its total gross written premiums (GWPs) reached OR450.3m ($1.2bn) in 2016.

Oman's takaful insurance segment was formally launched in 2014, and there are currently two firms operating in this segment. Gross direct premiums of takaful insurance companies stood at OR42.06m ($109.2m) in 2016, an increase of 8.7% compared to OR38.7m ($100.5m) in 2015. Takaful insurance represented 9% of the gross direct premiums of the total insurance industry in 2016.

The insurance sector in Oman is highly competitive and dominated by four local companies and one foreign company. Their combined contribution in the general and life segments stands at around 60%, and they control almost 60% of sector GWPs.

PERFORMANCE: Insurance companies recorded 3% growth in gross direct premiums in the first quarter of 2017, reaching OR134.7m ($349.8m) compared to OR131m ($340.2m) in the same period of 2016. This growth is considered reasonable in light of the current economic situation and given the financial measures undertaken to minimise the impact of lower oil prices, which had led to a slowdown in government project executions and activities of the private sector.

MARKET STRUCTURE: General insurance represents 85% of overall GWPs, while the life segment accounts for the remaining 15%. The health and motor insurance segments are the largest, accounting for 26% and 36% of total GWPs, respectively. Other insurance segments such as engineering, construction, medical and real estate have experienced decent growth.

Insurance penetration in 2016 reached 1.61% of GDP (life insurance penetration was 0.24% and non-life insurance penetration 1.37%). National insurance companies had a market share of 73.5% of sector GWPs, while foreign insurers held a market share of 26.5%. The retention ratio of insurance companies stood at 57% compared to 56% in 2015. Meanwhile, the retention ratio of takaful companies increased to 53.6% in 2016 compared to 50% in 2015.

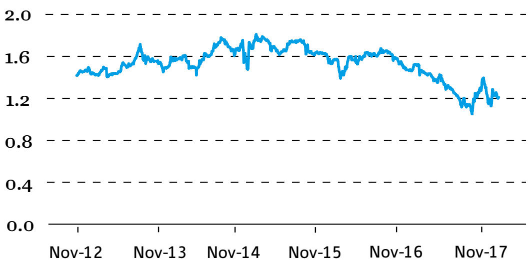
INVESTMENT: The Capital Markets Authority has also introduced steps to strengthen the financial position of insurance firms operating in Oman. Royal Decree No. 39 of 2014 enforced a minimum requirement for paid-up capital of OR10m ($26m) for national insurance companies and branches of foreign companies operating in Oman. The rule is designed to enhance the solvency of these companies.

LISTINGS: In 2017 four insurance companies listed on the Muscat Securities Market through initial public offerings (IPOs), offering 25% of their share capital to comply with the requirements of Royal Decree No. 39 of 2014, which amended the insurance law requiring, among other things, licensed insurance companies to be established as general joint-stock companies.

These companies were Al Ahlia Insurance, Vision Insurance, Oman Qatar Insurance and National Life and General Insurance. Al Ahlia Insurance's OR7.5m ($19.5m) IPO closed on August 2, 2017 and was oversubscribed 2.4 times, with strong demand from retail and institutional investors. The share price moved up by 10% on the first day after listing. Vision Insurance, which closed its IPO on August 7, 2017, attracted demand for only 49.48% of the total offering of 25m shares. Oman Qatar Insurance's IPO closed on October 5, 2017 and was oversubscribed 1.4 times. National Life and General Insurance's OR21.2m ($55.1m) IPO, the largest IPO among the insurance firms, closed on November 20, 2017 and was fully subscribed. Arabia Falcon Insurance Company's IPO is expected soon.

Market analysis & data provided by Ominvest

Omantel stock price, Nov 2012-Dec 2017 (OR



Changes ahead

Telecoms

The telecoms market experienced a continued rise in revenue and investments in 2016, with growth rates of approximately 5.6% and 30.9%, respectively.

Total mobile subscribers increased to 6.86m with a growth of roughly 3.3%. Ooredoo saw an uptick of 3.9% in mobile and fixed customers, while Omantel recorded a growth of 7.4% in subscribers.

ANALYSIS OF BUSINESS: Omantel's share price declined in the third quarter of 2017 to its lowest level in three years. However, the news regarding the acquisition of a 21.9% stake in Zain Group, a leading mobile operator in eight MENA countries, and nomination of four new board members had a positive impact on the share price. The acquisition was coordinated to diversify Omantel's revenue stream away from a single country and to expand internationally. Omantel's revenue increased by 3%, supported by growth in fixed and mobile broadband. It maintains a market share of 58.9% in the mobile segment and 77.2% in fixed telephone, continuing to dominate the market.

Ooredoo's share price declined to OR0.526 ($1.37) at the end of 2017 from OR0.66 ($1.71) a year earlier. As of mid-January 2018 the share price was yet to reach its three-year-average price of approximately OR0.665 ($1.73). Ooredoo managed to grow its customer base by 4% in the first nine months of 2017. In the third quarter of 2017 its revenue rose by 1.2%, supported by the increase of mobile and fixed-data products sales. The company improved its network by upgrading its 4G coverage from 55% to 90% of the population.

Revenue in the first nine months of 2017 was up slightly for both Omantel and Ooredoo compared with their performance in the same period in 2016. This was offset by an increase in expenses, which led to reduction in net profits. Royalties, which are paid annually to the government based on a percentage of the licensee's gross revenue, were raised to 12% in 2017 from 7% previously. The corporate tax rate also increased from 12% to 15%, affecting the net profitability of companies.

THIRD LICENCE: Recently, a third licence was offered in a bidding process that was later scrapped in favour of a local consortium. The local company is said to be backed by the government's wealth fund and a strategic partner. A new operator will contribute to the sector by increasing competitiveness, which will drive the current operators to provide better services, prices and offers.

NEW ACT: The Telecommunications Regulatory Authority (TRA) is drafting a new telecoms act that is expected to cope with the technological revolution and market dynamics of the telecommunications sector globally. Recent regulatory changes appear to be supporting sector growth and competitiveness in the local market for the main telecoms companies as well as for customers. Also, with the new royalty and corporate tax rates, companies will have to adjust in order to improve their financial position. In addition, the TRA has been implementing access and interconnection regulations aimed at easing the entry barriers to the market with the objective of improving market competition. A third mobile network operator will enhance competitiveness in favour of customers and at the expense of the existing operators which have to accommodate to the new rates that notched up their expenses.

Moreover, the country's existing operators are experiencing strong pressure in the traditional telecoms market from over-the-top (OTT) companies, which raises the questions of when and how will they adapt to these technological advances. One way to compete with this pressure is to focus on the thriving business division of fixed broadband services that the OTT players rely on. The TRA recorded a 54.77% penetration rate as of the second quarter of 2017, as the number of subscribers increased from 52,630 to 314,921.

Another underlying issue faced by every sector of the economy is the overall decrease in spending behaviour caused by lower international oil prices and the economic environment. As such, investment and growth opportunities are likely to decrease in the short term.

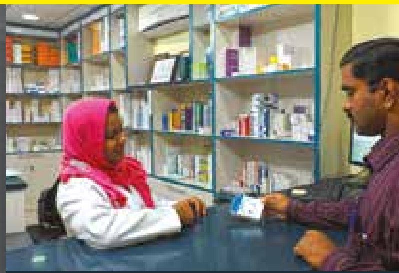
Insurance

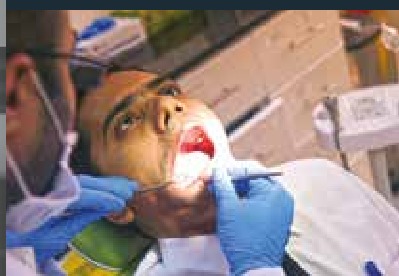
New regulations rolled out for brokers and firms

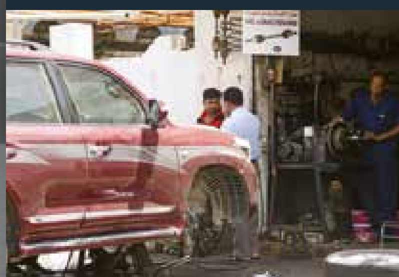
Foreign players making a strong showing in life

Mandated health cover drives sector development

Rising cost of motor claims affecting profitability







Motor was the largest policy line in 2016, with 35% of total premiums

Ready to rebound

Growth likely to accelerate as sector adapts to changes

Per capita premiums stood at

$262

in 2016

The Omani insurance market has witnessed robust growth in recent years, which has helped gradually boost penetration rates. As in many countries, compulsory motor insurance has long been the leading branch in the sector, but previously underdeveloped segments including life and health are now expanding rapidly; the former has seen significant gains as foreign insurers expand their presence, while the latter is set to receive a further boost as the obligation for private companies to provide health coverage for their employees is enforced. Additionally, new regulations for companies and brokers, which may add to confidence in the sector, have been implemented.

INDUSTRY PLAYERS: According to the Central Bank of Oman (CBO), 22 insurance companies operated in Oman in 2016, but this fell to 20 in 2017 as the result of two mergers. The largest company by market share in 2016, the latest year for which data is available, was National Life and General Insurance Company (NLGIC), which accounted for 22% of gross direct premiums, according to industry regulator the Capital Market Authority (CMA). The firm, a 98%-owned subsidiary of local holding company Oman International Development and Investment Company (Ominvest), has increased market share rapidly over recent years – in 2013 it held only 15% of the total – and is particularly dominant in life coverage; in 2016 the firm claimed 74% of the sector, up from 65% in 2015.

Dhofar Insurance, holding 12% of total direct premiums in 2016, held the second position in the market after NLGIC. The oldest of the major players, Dhofar had been the market leader in the sector as recently as 2013, when it held 17.3%. Leading shareholders in the company include Dhofar International Development and Investment Holding Company, with a stake of 25.1%.

Axa Insurance, the local subsidiary of the French company, was the third-biggest player in the country with 11% of direct premiums, making the firm the largest foreign insurance company operating in the market by premium volume. Axa, which held only 5.6% of the total market share in 2013, making it the sixth-largest firm, has made significant gains in recent years.

REINSURANCE: Oman Reinsurance, established in 2008, is the only domestic firm operating in this segment. It registered premiums of OR9.1m ($23.6m) in 2016, up 19% on the previous year. Bahrain-headquartered Trust International Insurance and Reinsurance is the main shareholder in the firm and upped its stake to a majority position in December 2016. Oman Reinsurance has made losses in recent years, however, it showed a significant reduction in its loss ratio in 2016, from 98% in 2015 to 55%, which could augur a return to profitability in the near future.

PENETRATION: In 2016 per capita premiums, comprised of non-life premiums of $231 and life premiums of $31.50, stood at $262, according to figures from Swiss Re Sigma's most recent report, "World Insurance in 2016". This ranked Oman 57th in the world and last of the five GCC countries for which data is provided (Bahrain was not included in the report). Kuwait was listed as second lowest in this category amongst the GCC countries with a figure of $280 in per capita premiums and Qatar the highest with $1228. Moreover, Oman's penetration as a percentage of GDP was 1.83%, showing a positive trend from 1.57% in 2015 and 1.3% in 2014. The 2016 figure places the country at 67th in the world and third in the GCC, behind the UAE and Qatar at 2.87% and 1.86%, but ahead of Saudi Arabia and Kuwait at 1.55% and 0.89%, respectively.

PREMIUMS: The value of total gross direct premiums stood at OR450.2m ($1.2bn) in 2016, up 2% on the previous year, according to CMA figures. Non-life contributed to 85% of that figure with sales of OR382.6m ($993.5m), down 2% from 2015; while the life segment comprised OR67.6m ($175.6m) in premiums, showing an increase of 28% from the previous year. Overall market growth in 2016 was down on the previous year, most likely as a result of the country's oil price-linked economic downturn. However, the sector showed a robust compound annual growth rate of 10% in the medium term, between 2011 and 2016.

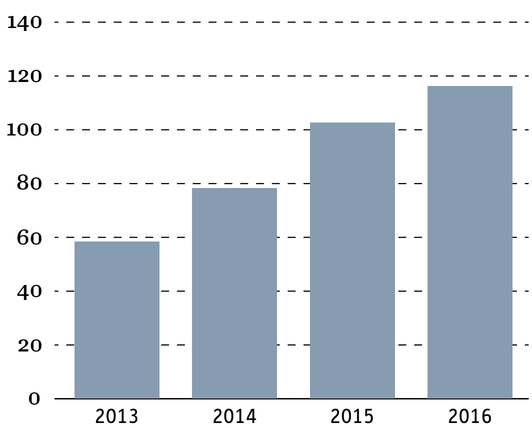
GROWING FOREIGN PRESENCE: Omani insurers dominate the market, accounting for 73.5% of total gross direct premiums in 2016, according to the CMA. This was due to their leading position in the general insurance segment, in which they held a market share of 79.7%. However, foreign insurers controlled the life segment, holding 62% of the market with premiums of OR42m ($109m), indicative of an increase that more than doubled 2015's figure of OR20.7m ($53.8m). Foreign firms also saw better top-line performance in 2016, with overall premiums rising by 9%, compared to a decline of 1% by national firms. As a result, foreign companies' national market share grew to 26.5% of total premiums sold in the country from 24.7% a year earlier.

LEADING LINES: Motor was the largest policy line in the sector in 2016, accounting for 35% of premiums, a decrease from 37% the year before, the CMA reported. Total motor premiums declined 3% from 2015 to OR157.9m ($410m), a fall that was driven by a 13% drop in the value of comprehensive motor premiums to OR94.1m ($244.3m), but mitigated by an increase of 16% in third-party insurance to OR63.9m ($165.9m). The drop in the overall value of motor was likely in part a consequence of falling new vehicle purchases, due to the oil price-related economic downturn. Imports of passenger motor cars fell in value from OR1bn ($2.7bn) in 2015 to OR582m ($1.5bn) in 2016, according to the National Centre for Statistics and Information.

The second-largest segment of the coverage market was health, making up 26% of the total, up from 23% in 2015. This was due to a 13% rise in the absolute value of health premiums, to OR116m ($297.7m). The sector will surely develop as the mandatory coverage by employers, started in 2018, takes effect (see analysis).

LIFE INSURANCE: Life insurance made up the third-largest portion of the segment in 2016 with 15% of total insurance premiums, up from 12% a year earlier. The segment has registered consistent gains in recent years, with a compound annual growth rate of 44.4%

Health insurance premiums, 2013-16 (OR m)



Source: CMA

for the period between 2011 and 2016, though this is also indicative of the ample room life has to grow in the country. The value of group life premiums fell 19% in 2016, to OR34.5m ($89.6m). However, this was more than made up for by a 211% rise in the value of individual premiums, to OR33.2m ($86.2m), resulting in a 28% rise in overall life premiums. This boost in sales of individual coverage was fuelled by foreign firms, which jumped ahead of national companies with a 302% increase from 2015. Meanwhile, group sales declined by 7%, giving foreign companies a 103% increase on the previous year of all premium sales. Comparatively, domestic firms rose 7% in individual sales, while declining 24% in group, resulting on an overall 21% fall from 2015. Axa, by far the largest player in the segment, recorded life insurance premiums of OR29.3m ($76m), or 43.3% of total life sales in the country in 2016, according to CMA figures. Life insurance is the only branch in the sector in which foreign companies have the largest market share, though national companies still dominate group sales.

"The life market is looking up, though the sector is still disproportionately dominated by life products taken out to cover mortgages and other loans," A R Srinivasan, CEO of Arabia Falcon Insurance, told OBG. "Uptake of savings-based products by contrast remains low, due to factors such as the downturn in the economy and cultural issues. However, in five to eight years, as the country moves into a different part of the economic cycle and the nuclear family becomes more developed, the propensity to save will likely grow and boost the popularity of savings products."

TAKAFUL: There are two insurance companies operating in Oman in the *takaful* (Islamic insurance) segment. Al Madina Insurance Company and Takaful Oman opened in 2014, after the sultanate's decision in 2011 to allow the Islamic finance sector to have a regulatory distinction between conventional and sharia-compliant functionality – unlike in the banking sector, other firms are not allowed to operate Islamic windows. While Takaful Oman was launched as a new entity, Al Madina had existed as a conventional provider since 2006.

The market developed rapidly to start with: gross direct premiums rose from 6% in 2014 to around 8.8% in 2015. However, takaful share growth slowed in 2016 to 9.3% of total national premiums, or OR42.1m ($109.3m). Al Madina accounted for 64.6% of segment premiums in 2016 and Takaful Oman for the rest. Even more so than conventional insurance, the Islamic segment is currently dominated by general business, which accounted for 90% of premiums, versus 10% for family premiums. The segment's retention ratio is slightly below that of the market as a whole, at 53.6%. In discussion with OBG in January 2018, the CMA expressed confidence the takaful segment would grow as it moved beyond this initial stage, citing that for the first three quarters of 2017 their contribution was approximately OR34.4m ($89.3m) with a total market share of 9.4%.

"Oman is very much a price-driven market, and if conventional insurers offer lower prices, which is generally the case, clients will tend to go for that. However, there are exceptions, and takaful companies benefit

In 2016 foreign companies held 62% of the life segment, with premiums of $109m, a figure that more than doubled the performance of the previous year.

A 3% drop in the overall value of motor premiums in 2016 to $410m was likely caused in part by a decline in new vehicle purchases, due to the oil-price related economic downturn.

The industry is regulated by the Capital Market Authority, which is a government entity but has administrative and financial independence.

from some advantages such as the fact that Islamic banks only work with their firms," Philip K Philip, CEO of Muscat Insurance Company, told OBG.

REGULATION: The industry is regulated by the CMA, which is a government entity but has administrative and financial independence. In 2014 considerable changes to the sector's legislative framework were implemented – national insurers were obligated to become public joint stock companies, hold public stock offerings and list their shares on the Muscat Securities Market (MSM) within three years; and capital requirements were doubled from OR5m ($13m) to OR10m ($26m). When asked about the new requirements by OBG in January 2018, the CMA explained that the move was to enhance financial capacity of firms, increase transparency through increased disclosure requirements and build confidence in them, which would also improve credit ratings. Moreover, the increase in capital requirements was not only to develop firms' ability to retain risks on their books, but also to drive consolidation in the sector, which has a large number of insurers given the small size of Oman's population and levels of penetration. The enhanced standards have led to the merger between Falcon and Arabia Insurance in May 2017, as well as the merger of Muscat Insurance and Muscat Life into their already listed parent company, Muscat National Holding Company – renamed Muscat Insurance – to comply with the rules obliging firms to be listed joint stock companies. Falcon and Arabia attracted combined premiums of OR19.6m ($50.9m) in 2016, which would rank the merged entity as the 10th largest in the sultanate. "All companies that are required to list on the MSM have now held, or are in the process of holding their initial public offerings [IPOs], and if there had been any intentions for further mergers, these would have happened before the stock offerings," Muscat Insurance's Philip, told OBG, while adding that he still believed that the number of companies operating in the industry was large for the size of the market.

Another important recent regulatory change was the announcement in August 2017 by the country's Ministry of Health that legislation requiring private sector companies to provide mandatory health insurance for employees would be enforced from January 2018 onwards (see analysis).

BROKER STANDARDS: In April 2017 the CMA also issued new regulations for brokers, which include the imposition of a minimum capital requirement of OR100,000 ($259,670), changes to laws regarding insurance brokerage licences and a raise in minimum bank guarantee requirements. Additionally, corporate insurance premiums must now be paid directly to the insurance firm, which then pays the commission, to avoid situations where claims are made on policies of which the insurer has not received any payment. "Brokers have been known to keep premiums owed to insurance companies and some continue to do so," Nasser bin Salim Al Busaidi, CEO of Oman United Insurance, told OBG. He said that regulatory change alone would be unlikely to resolve the problem and that insurance firms needed to take stronger measures to discourage the practice. The changes also seek to reduce conflicts of interest in the segment, by prohibiting brokerage founders from simultaneous employment with other brokers, insurance companies and insurance agents, and restricting the size of the equity stake a broker may hold in an insurance firm from 10% to 5%.

In January 2018 the CMA told OBG that, additionally, new investment regulations were under way concerning takaful and the underwriting process. Moreover, other legal changes in the pipeline include solvency law modifications to the risk-based model, as well as a complete revamp of insurance law to meet market needs and international best practices.

IPO: With four insurers – Dhofar, Oman United, Al Madina Takaful and Takaful Oman – already listed, the 2014 regulatory changes left seven insurers in need of floating shares on the MSM by the deadline of August 2017. Muscat Insurance and Muscat Life met their obligations by merging with their parent company in July 2017, leaving five firms. In order to facilitate the IPOs, in March 2017 the CMA announced that it would relax its minimum equity stake floatation requirement, from its standard rate of 40% to 25% for insurance firms listing on the MSM. The first IPOs to take place ahead of the deadline were those of Vision Insurance and Al Ahlia Insurance, both of which began in early July 2017. The Vision offering was subscribed at a rate of 50%, ahead of the firm's listing on the MSM the following month. Al Ahlia's IPO raised OR18.2m ($47.3m) or 2.43 times what it was seeking. The two were followed by Oman Qatar Insurance, which launched its stock offering in September 2017 with a subscription rate of 1.4. The largest insurance company in the country by assets, NLGIC, was listed in December 2017 with its IPO having closed subscription just before. Speaking in early November 2017, Srinivasan told OBG that Arabia Falcon's IPO would probably happen towards the end of that month. However, as of early 2018 the IPO had yet to take place (see Capital Markets chapter).

INVESTMENTS: The total value of investments held by the insurance industry stood at OR564m ($1.5bn) in 2016, up 12% on the previous year, according to CMA figures. The bulk of such investments, OR401.9m ($1bn), or 71.2% of the total, were held in the form of bank deposits. Equities accounted for 10.6% of the total, over 80% of which were in Omani shares with the rest invested in foreign companies. Other areas of investment included 6.7% in government bonds, 6.1% in corporate bonds and 4% in real estate. The value of returns on investment stood at OR12.6m ($32.7m), up 19% on the 2015 figure, for an effective overall return rate of 2.2%, compared to 1.2% the previous year.

Industry figures say that investment opportunities for local firms are limited, due to factors including restrictions imposed by the regulator – such as obligations to keep 75% of funds in liquid or semi-liquid securities, as well as a 25% cap on non-rial-denominated investments and a 20% cap on real estate investments – and a lack of liquidity of local markets. Holdings in bonds, equities and term deposits are all capped at 30% of total funds under investment, and those in mutual funds at 20%. "Insurance firms are very limited in terms of what they can invest in, and we have proposed that the regulator consider relaxing some of the restrictions by, for instance, allowing firms to invest more in foreign assets and real estate," Philip told OBG, though he added that there was a good supply of bonds from local financial institutions. Speaking in November 2017, Srinivasan of Arabia Falcon told OBG that good rates had been available on term deposits with banks in recent times, but that these appeared to be falling as liquidity returned to the banking market (see Banking chapter).

Property was one of several areas that saw a jump in net loss ratio

The value of paid claims fell by 7.7% in 2016 to
$696.7m

CLAIMS: The value of claims paid in 2016 fell by 7.7% on the previous year, to OR268.3m ($696.7m), according to the CMA. This was driven by a 10% fall in the value of general insurance claims to OR237.7m ($617.2m). However, firms' outstanding reserves rose, suggesting anticipation of a rise in claims. While motor claims were up slightly by 2% from the previous year, other non-life segments saw sharp falls; property, marine and engineering fell 85%, 44% and 16%, respectively.

About 77% of premiums earned in the motor segment in 2016 were paid back in the form of claims, meaning that motor disproportionately dominated payouts, accounting for 56% of the total, while only taking in a 35% share of premiums.

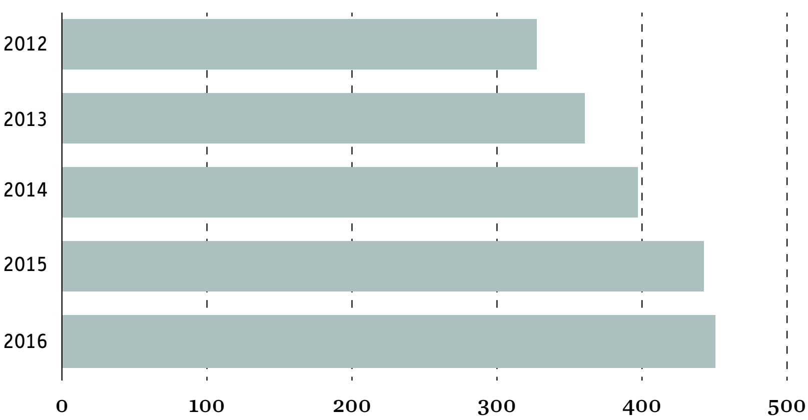
Meanwhile, life and health claims were up by 11% and 30%, though this reflects growth in the segment more than a proportionate rise in claim rates.

While the number of motor claims rose minimally in 2016, their cost has gone up. "The value of compensation awarded by courts for injuries is increasing dramatically, giving rise to awards that are higher than the amounts insurance companies have been budgeting for claims," Srinivasan told OBG.

Moreover, in 2016 motor coverage had a high net loss ratio, about 77% of premiums earned were paid back in the form of claims; meaning that motor disproportionately dominated payouts, accounting for 56% of the total, while only taking in a 35% share of premiums, the CBO reported. Nevertheless, there may be other factors affecting the motor segment not seen in the numbers. "The authorities recently introduced new penalties for traffic violations, increased fines, and installed new equipment such as radar traps and speed cameras, all of which have reduced the number of accidents," Philip told OBG. "However, severity is more of an issue for the sector than frequency, and severe accidents continue to take place."

PROFITABILITY: Profits in the industry have been declining in recent years. CMA figures put total industry net income at OR8.74m ($22.7m) in 2016, down 44% from OR15.6m ($40.5m) the previous year, from a sector which had earnings ranging in the previous three years from OR24.1m ($62.6m) to OR29.3m ($76.1m). This decline was underpinned by a sharp rise in net loss ratios, from 57.4% in 2015 to 69.5% in 2016. Third-party motor, property, health, marine and engineering all saw jumps in net loss ratios of 10 percentage points or more. The rise in such ratios appeared to be driven largely by increases in insurance companies' net outstanding claims reserves for general insurance, largely in the motor and health segments, from OR86.4m ($224.4m) in 2015 to OR98.9m ($256.8m) in 2016, suggesting that claims are set to rise. The decline in returns was mostly amongst Omani insurers, who saw profits fall from OR12.2m ($31.7m) in 2015 to OR3.4m ($8.8m) in 2016, with loss ratios rising from 57.8% to 70.2%.

Direct premiums, 2012-16 (OR m)



Source: CMA

By contrast, the profits of foreign insurers have held reasonably steady since 2012, and in 2016 exceeded those of national insurers for the first time in at least five years, standing at OR5.3m ($13.8m).

RETENTION: Overall insurance firms retained 57% of premiums in 2016, up from 56% the year before, passing the rest on to reinsurance companies, according to the CMA. Foreign insurers, mostly backed by international companies with more financial capability, were able to keep more risk on their books, with a retention rate of 70%, in contrast to 52% by national providers. As would be expected, firms largely kept smaller, diversified contract values on their own books – for example, 83% of motor premiums were retained and 58% of health – while passing on the bulk of risk in segments dominated by high-value individual contracts such as property, marine and engineering insurance to reinsurers. The inability of firms to keep such contracts damaged profitability in 2016, as these latter segments had amongst the lowest claim rates in the industry.

DISTRIBUTION: Insurance companies operated 176 direct branches across the country in 2016; agents, 132 branches; and brokers, 77. Brokers, of which there were 37 active in Oman, collected premiums worth OR113.6m ($295m) in 2016, or 25.2% of the total value of national premiums. The figure was down on 2015 levels by 9%.

Bancassurance is emerging as an increasingly important and developing distribution channel. For instance, Ominvest, which owns a 98% stake of NLGIC and a share in Al Ahlia Insurance, also owns a 51% stake in Oman Arab Bank (OAB) and holdings in two financing firms. OAB in mid-2016 signed an agreement with NLGIC to offer six new bancassurance products. Additionally, in 2014 Bank Muscat, the country's largest financial institution, and AIG entered into a 10-year agreement to market non-life products, which was bolstered in December 2016 when they launched a phone payment service for motor bancassurance.

However, the channel is not without its challenges. "Banks tend to be willing to insure widely, and proposal forms aren't always completed properly, which sometimes leads to conflicts between insurance firms and clients signed up by banks," Al Busaidi told OBG, emphasising the need for insurance firms to be selective of clients and to follow proper procedures. Furthermore, products that tend to dominate bancassurance markets elsewhere, such as monthly life insurance savings products, are not well developed in Oman, further holding back the channel's growth.

OUTLOOK: In the near-term growth in the non-life sector has been tempered by the economic situation. However, other segments including life and health have been witnessing strong growth in recent years that appears set to continue, in particular, given plans for the compulsory rollout of health coverage schemes by private sector employers (see analysis). "Overall, the next one to two years should be positive for insurance firms, driven by growth in lines such as life and health, and most companies are making plans to expand," Sameer Kattiparambil, associate vice-president for research at stock brokerage EFG Hermes, told OBG.

Gross direct health premiums led industry growth in 2016, rising by 13%

A healthy move

Hopes are high as legally mandated coverage is enforced

In August 2017 the Ministry of Health announced that private sector companies would be obliged to begin providing insurance for their employees starting in 2018. The move has set up the health coverage market, which has expanded in recent years, to generate even faster top-line growth. Speaking to OBG in January 2018, the regulator, the Capital Market Authority (CMA), expressed confidence that the move would increase penetration and enhance medical service quality. However, insurance companies say that competitive pressures in the market mean that margins are currently low, and that the impact on insurance firms' profits will depend on whether the authorities set minimum premiums when implementing the requirements.

DOMINANT PLAYERS: Oman's health insurance market is currently dominated by the country's largest insurance firm, National Life and General Insurance Company. The firm registered health coverage premiums of OR85.6m ($222.3m) in 2016, or 73.8% of total segment premiums, according to figures from the CMA. French insurer Axa and local company Oman United followed in second and third place, with figures of OR6.7m ($17.4m) and OR5.2m ($13.5m), respectively.

RAPID EXPANSION: The health segment is in the midst of a rapid growth spurt. Gross direct health insurance premiums rose by 13% in 2016 to OR116m ($301.2m) making it the fastest-growing insurance line for the year, according to CMA figures. This followed growth of 31% the previous year, when it was the second-fastest-growing line nationally. Segment premiums have nearly doubled since 2013, and the proportion of total premiums accounted for by the segment has grown from 16.2% in 2013 to more than 25.8% in 2016.

MANDATORY COVERAGE: However, levels of health insurance penetration still remain fairly low, having started from a small base, though this appears set to change. Rules mandating companies to provide coverage already existed but were not enforced. In September 2017 the ministry pointed out to local media that only 10% of foreign workers and 9% of Omanis employed in the private sector were covered. The enforcement is not a surprise: the Oman Chamber of Commerce and Industry had informed companies in November 2016 that such a change was coming. The requirements, occurring under a phased implementation programme, should have a major impact on health care provision.

BOTTOM LINE IMPACT: The move appears to represent good news for insurance companies, suggesting a major boost in premiums is on the horizon. However, some providers say that the impact of the change will be limited by the existence of intense competition, which will lead to low profit margins in the segment. "Health insurance is a high-volume business, and lots of companies have been trying to expand in the segment in order to make up for top-line shortfalls," A R Srinivasan, CEO of Arabia Falcon Insurance, told OBG. "As a result, the market has become very competitive, with firms offering policies at uneconomic levels."

Underscoring this, the segment's net loss ratio stood at 92.5% in 2016, up from 82.4% in 2015. This was the largest of any industry branch other than third-party motor insurance, another highly competitive sector, due in part to its mandatory nature. "Health insurance traditionally is not profitable, as it is more a matter of insuring a claim than insuring a risk," Philip K Philip, CEO of Muscat Insurance Company, told OBG. "The system is also at risk of abuse by certain stakeholders, and there is a need for something of a cultural change to fix that," he added, saying also that he hoped the new rules would improve performance of this line of business.

The nature of the regulations around the requirement could determine whether the segment remains characterised by low margins following the change. "If the regulator fixes a minimum premium at a reasonable level, health may become more profitable." Srinivasan told OBG. "However, if they allow the market to set rates, we will see companies continue to fight for business as they are doing now, pushing down margins."

The health segment's net loss ratio was up from 82.4% in 2015 to

92.5%

in 2016

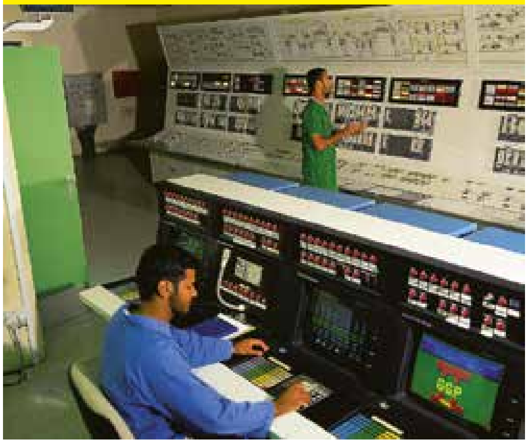
Energy

Oil output eases in line with international agreements

First phase of Khazzan tight gas field comes on-stream

Construction of crude oil storage facility forges ahead

Government incentives to encourage oil exploration



International oil companies are prominent in exploration and production

Powering ahead

As new developments come on-stream, revenues generated from hydrocarbons are set to pick up in 2018

The strong headwinds of 2017 in Oman's oil and gas sector have spurred authorities to develop new sources of revenue. Despite recovering to 2015 levels of $55 a barrel, the steep fall in prices that saw Omani crude fall from $103 per barrel in 2014 to $40 in 2016 has squeezed state finances and added urgency to diversification efforts. On the back of a drop in crude output – following an agreement with the Organisation of the Petroleum Exporting Countries (OPEC) – overall economic growth in Oman was estimated to have remained flat in 2017, at roughly -0.02%, its weakest performance since 2011. However, the IMF forecast GDP growth would recover to 3.7% over the course of 2018, as gas production expands and the non-oil economy steadies.

Similarly, the National Bank of Kuwait forecast in October 2017 that the GDP of Oman's hydrocarbons would decline 2.9% for the year, before increasing by 3.4% in 2018. The upside projection reflects the impact of the September 2017 launch of phase one of BP's Khazzan tight gas development, one of the largest unconventional narrow reservoir projects to take place in the Middle East.

NEW ORDER: Hydrocarbons revenue in the sultanate accounted for 68.2% of total government revenue in 2016, according to the IMF, down from 84.3% in 2014. Despite achieving record production that year, total government revenue from hydrocarbons dropped by 67% from 2014 to 2016 as a result of lower oil prices. Meanwhile, oil revenue accounted for 27.4% of nominal GDP in 2016, decreasing from 34.1% in 2015 and 46.4% in 2014, according to US Energy Information Administration (EIA) statistics.

Large-scale projects, such as BP's Khazzan gas field, have buoyed the oil and gas sector through the oil price downturn, but by the third quarter of 2017 the total number of rigs in Oman had declined by 14% year-on-year, according to the Baker Hughes rig count. With fewer wells being drilled, and operators prioritising cost containment in a low oil price environment, many contractors and oil field services (OFS) companies are finding themselves under pressure to step up efficiency and optimisation efforts to lower the cost of production.

SECTOR STRUCTURE: The Ministry of Oil and Gas (MOG) oversees the sector and acts as counterparty to exploration and production-sharing agreements (EPSAs) with exploration and production (E&P) companies. These concession agreements grant firms the rights to explore, appraise, develop and exploit oil and gas. Because petroleum resources that have not been extracted are owned by the state, the right to import, export, transport, store, distribute, process or market petroleum substances is subject to a separate licence that must be granted by the MOG. The ministry therefore has the authority to negotiate individual commercial terms of EPSAs with private and public sector operators.

International oil companies (IOCs) have a prominent role in Oman's E&P activities as well. Major players include Occidental, BP, Shell, Total, Partex and DNO. However, state-owned companies account for most of the sultanate's hydrocarbons industry.

National oil and gas companies involved in upstream activities include Oman Oil Company (OOC), which is responsible for pursuing investments in the energy sector both inside and outside of Oman, as well as its subsidiaries like OOC Exploration and Production (OOCEP). Founded in 2009, OOCEP operates several blocks and is a minority partner in a number of joint ventures as well, including the Khazzan tight gas project operated by BP, the Mukhaizana field and Block 9, both operated by Oxy, and offshore Block 52, where Italian operator Eni holds a majority stake. Omani companies making up the downstream landscape include Oman Oil Refineries and Petroleum Industries Company (ORPIC), responsible for Oman's refining sector, and

Oman's hydrocarbons GDP is forecast to rise by

3.4%

in 2018

Oil and natural gas revenues in the sultanate accounted for 68.2% of total government revenue in 2016, with oil revenue accounting for 27.4% of nominal GDP that year.

There were 35 producing gas fields in 2016, with 24 new wells drilled

Oman is reviewing proposals to sell shares, merge units and also cut costs in certain state companies, consistent with a coming privatisation and public-private partnership law, which, as of early 2018, had yet to be introduced.

Oman Liquefied Natural Gas (OLNG), which operates the sultanate's three liquefaction trains near Sur.

ASSET SALES: Perhaps taking note of the restructuring of national oil companies in neighbouring Saudi Arabia and Qatar, Oman is reviewing proposals to sell shares, merge units and also cut costs in certain state companies. In particular, OOC was reportedly seeking advice from banks in 2017 over the selling of its energy assets and the issuance of public stock in certain portfolio businesses, such as Salalah Methanol Company. This approach is consistent with a coming privatisation and public-private partnership law that is expected to be introduced in 2018. As of early 2018, however, detailed information regarding the government's potential initial public offerings had not yet been released.

In order to reduce the budget pressures caused by lower oil prices, the government has also targeted raising international finance as a means of funding national initiatives. Alternative financing arrangements employed by state companies include a $2bn loan financing deal secured by OOC in July 2017, and an export finance agreement that funded most of the 2016 and 2017 spend for Petroleum Development Oman (PDO), among others. While they still need to take steps to adapt to new market conditions, it is expected that PDO and larger IOCs will be capable of obtaining financing to maintain production levels. The impact will be felt more by medium-sized operators that have to rely on backing from IOCs, and by smaller players that may find it difficult to obtain financing in the oil price downturn.

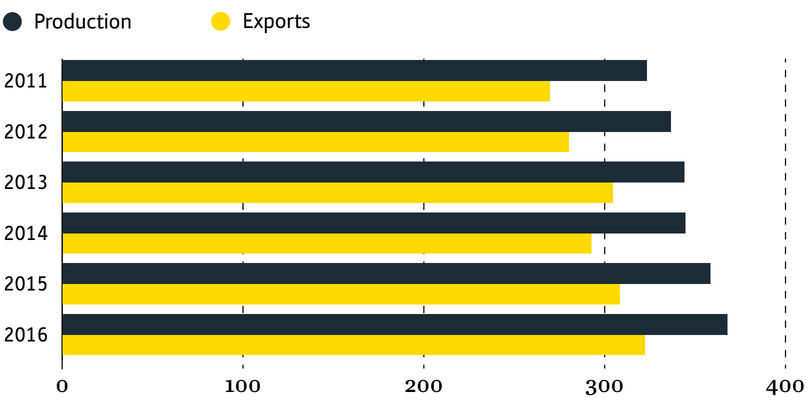
PETROLEUM DEVELOPMENT OMAN: PDO, Oman's largest hydrocarbon producer, extracts around 70% of the sultanate's crude oil and approximately 2.5bn cu feet of natural gas per year from a concession area that spans 100,000 sq km, which is equal to roughly one-third of the country's total geographical area. The government has a 60% share of the company, with the other 40% divided among Shell (34%), Total (4%) and Partex (2%). Gas fields and processing plants are operated exclusively by PDO on behalf of the government.

Production numbers at PDO have always been strong, backed by successful explorations that the company has been able to quickly pull on-stream. In 2016 oil exploration companies drilled a total of 53 exploration wells, and PDO alone was responsible for 29 of these. In 2017 the company was reportedly considering turnkey drilling as a substitute for day rate contracts and recently awarded a contract to Halliburton for the Lekhwair field on the premise that the wells would be drilled at a substantially cheaper cost. PDO's rig count in Oman stood at 46 as of the end of 2017, and this count is expected to remain the same throughout 2018.

PDO aligns its strategy to government priorities and maintained a daily average oil production of 600,200 barrels per day (bpd) in 2016, up from 588,900 bpd in 2015 and well ahead of its production schedule of 600,000 bpd in 2019. "Three or four years ago our objective was 600,000 bpd flat for the next 10 years," Amran Al Marhubi, technical director at PDO, told OBG. "We were at 550,000 bpd, and our objective was 600,000 bpd by 2018. We achieved that two years early, reaching it by 2016, so now our objective is to grow to 650,000 bpd by 2019."

Like the vast majority of the oil and gas industry, PDO had not predicted the mid-2014 downturn in global oil prices and embarked on two major projects worth over $4bn – the Rabab Harweel Integrated Project (RHIP) and the Yibal Khuff project – the second initiated within months of the oil price decline. The RHIP has the potential to add more than 500m barrels of oil equivalent to reserves, through integrating sour gas processing facilities, associated gathering and injection systems and export pipelines. The Yibal Khuff project is another large and technically complex scheme centring on the simultaneous development of a number of sour oil and gas reservoirs. First oil is projected for 2020, with peak average production targets of 20,000 bpd and

Oil production & exports, 2011-16 (m barrels)



Source: CBO

a gas plateau of 6m cu metres per day over 18 years. Despite market pressure to rein in capital expenditures, the firm and its shareholders are committed to seeing through both projects to commission on schedule in 2019 and late 2020, respectively.

To that end, another option for quick operational savings that has been rejected by PDO officials is cutting back on an organic growth drilling programme. "You may be cash flow positive in the first year from reduced activity, but you are certainly cash flow negative in the second year, and even more significantly negative by the fourth or fifth year," Al Marhubi told OBG. The company is instead focused on saving through efficiency initiatives, working with contractors to take out unnecessary costs. In practice, this has meant considering different contracting strategies and steering clear of engineering, procurement and construction (EPC) contracts where possible. Almost $500m has been saved on the company's two mega-projects using this strategy. According to Al Marhubi, this approach has ensured that PDO sees the benefits of procurement rather than an EPC contractor. Looking beyond 2020, the PDO project folder is set to be full, but made up of smaller initiatives that are focused on drilling and incremental growth. The company is reportedly considering rig fleet renewal as a means of integrating new technologies and automation.

OIL OUTPUT: Before topping 1m bpd in 2016, Oman's annual petroleum and other liquids production had peaked at 972,000 bpd in 2000 before dropping to 715,000 bpd in 2007, according to data from the EIA. The figure began rising again with the increased adoption of enhanced oil recovery (EOR) techniques and a string of successes in exploration.

Volume output contracted again in 2017 as part of an agreement with OPEC members – though Oman is not a member – in which Oman pledged to cut production by 45,000 bpd. The deal helped reduce record high inventory levels and boost oil prices to above $55 a barrel. As a result it was extended by nine months to March 2018, with Omani officials suggesting that they would support output cuts to current levels of approximately 970,000 bpd beyond that date to help prop up oil prices.

Before the agreement was reached with OPEC, Omani operators had been preparing to increase production to offset shortages in the state budget. Any decision to extend the agreement looks set to inhibit E&P activities in Oman in 2018, though the sector is poised to ramp up production when limits imposed under the OPEC-led deal are lifted.

"We have the potential to exceed the constrained production level of 968,000 bpd, which we test on a monthly basis to ensure complete readiness in our ability to boost production when the limits are eased or removed, or in response to operational challenges in some of our fields," Salim bin Nasser Al Aufi, undersecretary at the MOG, told local media.

OIL RESERVES & EXPORTS: According to a Thomson Reuters report, the sultanate had an estimated

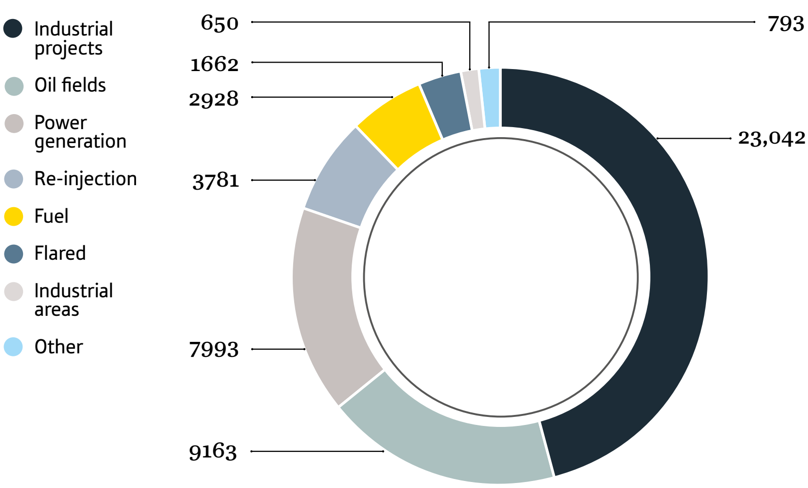
Some 912,500 bpd of crude oil and condensate were exported in 2016

5.3bn barrels of proved oil reserves in 2017. In a regional context, this makes Oman one of the less endowed Gulf countries, despite being the largest oil and natural gas producer in the region outside of OPEC. For the year ending 2016, Oman exported 912,500 bpd of crude oil and condensate, its highest level since 1999. Virtually all of the country's crude oil exports went to Asian markets. China by far had the largest share for the year with 78% of aggregate oil exports, totalling some 251.1m barrels. Taiwan was the second largest market with imports of 18.8m barrels of Omani crude. Other major importers included Japan, the US, South Korea and India. Oman does not import any crude oil, although it does import certain refined petroleum products for use in the domestic market.

Oil production contracted in 2017 due to an agreement with the Organisation of the Petroleum Exporting Countries to decrease output volumes.

GAS PRODUCTION: Natural gas is the primary fuel resource used in Oman, supplied to power and

Uses of natural gas, 2016 (m cu metres)



Source: NCSI

Gas consumption in the country increased by 2.6% in 2016, while daily production rose by 5.3%

desalination plants by the MOG for use in power generation and associated water production. The resource is also used in heavy industry and for priority use in petroleum operations, commercial exploitation and injection for enhancing extraction rates, although alternative EOR techniques, such as solar steam EOR, are being rolled out to allow natural gas to be used and monetised elsewhere. The number of producing gas fields in Oman stood at 35 in 2016, with a total of 24 new exploration wells drilled. Provisional figures suggest an aggregate reserve of 24.8trn cu feet of natural gas, according to the Central Bank of Oman.

Total gas consumption in the country increased by 2.6% in 2016, in part driven by 4.6% growth in industrial activities. Meanwhile, daily production of natural gas rose by 5.3% in that same year, reaching an output of 106.1m cu metres per day. Demand for gas in Oman is expected to rise in the coming years, driven largely by new energy-intensive industries and organic electricity demand growth.

With the government keen to reduce Oman's dependency on gas imports, future increases in demand are expected to be met by the new sources of domestic gas that are in the process of being brought online. Improving domestic supply will boost Oman's contractors as well. "Connecting new power plants to the grid will create many opportunities for engineering companies in Oman," Milan Maksimovic, general manager at Energoprojekt, a firm specialising in energy construction in Oman, told OBG.

First gas from phase one of the Khazzan tight gas field development in Block 61 came on-stream in the third quarter of 2017, ahead of both the original budget and schedule.

While crude oil and condensate can generally be sold on the open market with prices benchmarked at the Dubai Mercantile Exchange, producers of natural gas are required to allocate their production output, excluding gas used for operations, for sale to the government on long-term gas or liquefied natural gas (LNG) sales contracts. Some 7.9m tonnes of LNG produced by OLNG in 2014 were exported, with the majority going to Japan and South Korea. Oman also imported 5.5m cu metres per day of natural gas in 2016 to meet rising demand, which was primarily used for re-injecting oil wells. This gas came from Qatar via the UAE using the Dolphin Pipeline.

KHAZZAN GAS FIELD: BP's Khazzan tight gas field development in Block 61 onshore Oman will be a major new domestic gas contributor. The first gas from phase one came on-stream in the third quarter of 2017, with gas from the field flowing into the national grid some three to six months ahead of schedule, as well as hundreds of millions of dollars under the original budget. Khazzan will deliver a strong boost to the gas sector as daily production capacity is increased by 1bn cu feet, roughly 25% of current levels. BP is projecting a combined delivery of 1.5bn cu feet of gas and 25,000 barrels of condensate a day once phase two becomes operational, scheduled to take place in 2021 (see analysis).

The bulk of Khazzan's early output is expected to be consumed within the sultanate by domestic end-users, but a substantial portion of future volumes is likely to be earmarked specifically for industries and consumers that are within the Duqm Special Economic Zone (SEZ). However, this will not commence until after 2019, when a pipeline to the SEZ is expected to be complete.

Gas from Khazzan will also be used to cover unutilised capacity at the three-train LNG complex at Qalhat, which averages almost 10.4m tonnes produced per annum, 25% of its total capacity. As feedstock, that volume was reported in September 2017 to be the equivalent of 15% of volumes being produced at Khazzan. The new gas was not expected to immediately translate into substantial increases in LNG exports, and Al Aufi has confirmed that gas imports via the Dolphin Pipeline from Qatar, which caters to demand in the Sohar area, will continue at similar volumes for the time being. "For the sultanate to fully optimise the potential of the Khazzan project, the ports and free zones will need not only financial, but political support too," Bader Al Nadabi, executive director of Al Ha'el Ceramic Company, told OBG.

PLANNED POLICY CHANGES: Government strategy in oil and gas as laid out in Oman Vision 2020 aims to reduce crude oil contribution as a percentage of GDP, while at the same time increase the contribution of natural gas. The ninth and final five-year plan of Oman Vision 2020 covers the period between 2016 and 2020 and aims to lower crude oil's contribution to GDP to 26%, a decrease from the target of 44% as set in the eighth five-year plan. Key aspects of the federal strategy include promoting new industries outside of the oil industry sector, expanding downstream oil capabilities, such as petrochemicals, and developing new talent.

In terms of upstream investment opportunities, particularly in the context of the region, Oman is open to investment from smaller explorers as well as IOCs. Challenging exploration prospects are incentivised to ensure that risks are balanced, and the


SYMTECH
SOLAR MENA

In September 2017 a licensing round for
4
new onshore oil and gas blocks was launched

government's fiscal framework is flexible and open to bidding and negotiation (see analysis).

To further enhance investment appeal for international E&P companies and to support the continued development of a well-regulated upstream oil and gas sector, the MOG has been making preparations to roll out high-level regulations governing all facets of upstream hydrocarbons activities in the sultanate.

The new "Oman Oil and Gas Regulations" are expected to address deficiencies in the existing Oil and Gas Law (Royal Decree 8/2011) and EPSA guidelines. Once in place, the supplementary provisions should provide greater clarity on regulatory obligations for a variety of areas, such as data acquisition, well abandonment methodologies and flaring of associated gas. The timeline drawn up by the MOG envisages a six-month pilot phase that will take place over the first half of 2018, with regulations expected to come into full effect by mid-2018.

Separately, a planned new labour law is expected to include a chapter that is specific to oil and gas workers, however, concrete details about the content and timing of promulgation have yet to be released. According to Craig Glatley, general manager at Al Sahari Oil Services, one area for improvement within the industry relates to the safety conditions of workers. "Oman's oil and gas sector still has room for enhancement when it comes to safety and welfare in the field," Glatley told OBG.

LICENSING ROUNDS: Concessions in the country are awarded by the MOG following well-publicised bid rounds. The latest completed round was opened in 2016, and by November 2017 the MOG had signed a total of four EPSAs with competing energy companies. The winning bidders for this round were Tethys Oil Oman for the 15,439-sq-km Block 49; ARA Petroleum for oil exploration in the 8528-sq-km Block 31; Occidental Oman and OOCEP for the 1185-sq-km Block 30; and a joint venture of Eni and OOCEP for exploration in Block 52, which is the largest concession in Oman, occupying an offshore area of approximately 90,800 sq km in the southern region of the country (see analysis).

The most recent licensing round was launched in September 2017 for four new onshore oil and gas blocks, with the round closing at the end of that year, though the winning tenders had not been announced as of January 2018. As a result of investors gaining confidence around pricing, this tender garnered more attention than other recent bid rounds. The round comprised of the 12,000-sq-km Block 43B, recently relinquished by Hungarian oil and gas company MOL; the adjoining 8520-sq-km Block 47, which was recently relinquished by Norwegian firm DNO; the 10,100-sq-km Block 51, where a total of 19 wells were drilled by previous owners; and Block 65, which covers some 1230 sq km, a concession that until recently was owned by OOCEP.

The interest in the new bidding round, which came against the globally protracted low oil price environment, underscores confidence in the strength of investor interest in Oman's upstream sector. This uptick could also be partly attributed to updates to Oman's business environment. "There have been a number of improvements in terms of contract awards, despite the economic conditions, due to the elevation in transparency of the tender bid process," Said bin Saif Al Maskery, general manager of Composite Pipes Industry, told OBG.

In other recent upstream activity, the government ratified DNO's agreement to concede 75% of its rights and obligations in Block 36 to Allied Petroleum. Masirah Oil has continued to evaluate findings from its exploration activities in Block 50 off Oman's south-eastern seaboard, and PetroTel has pressed ahead with exploration efforts in Block 17 and 40 offshore Oman's Musandam peninsula.

DOWNSTREAM DEVELOPMENTS: Oman operates two refineries, the oldest at Mina Al Fahal, near Muscat, has a capacity of 106,000 bpd. The second – which was launched in 2006 in Sohar and has a capacity of 116,000 bpd – recently underwent a multibillion-dollar refurbishment and expansion, coming under the Sohar Refinery Improvement Project (SRIP). Upon reaching full commercial operation in 2018, it is expected that the newly expanded Sohar refinery will be equipped to process 198,000 bpd of crude, providing a 70% boost to output, with capacity for more than 13m tonnes per year of finished products, according to ORPIC.

The SRIP is the centrepiece of a three-year expansion and modernisation programme undertaken by ORPIC at a total investment of $2.1bn. The programme was implemented in line with government diversification efforts that aim to add a slate of new refined oil and petrochemicals products at Sohar, including motor fuels and refined petroleum products. ORPIC's $3.6bn new steam cracker and petrochemicals project in Sohar, the Liwa Plastics Industry Complex, will also enable Oman to produce polyethylene for the first time.

Oman's existing refineries at Sohar and Mina Al Fahal are linked by the $320m, 280-km-long Muscat Sohar Product Pipeline Project (MSPP), which was completed in late 2017 and is operated by ORPIC. The MSPP began commercial operations as a two-way multi-product pipeline in October 2017, and will ultimately supply more than 50% of the sultanate's fuel through a new oil product storage and distribution terminal in Al Jefnain. The pipeline is the first of its kind to be constructed in Oman, and meets several strategic needs, including increased safety and efficiency of fuel distribution, removing the need for ORPIC to ship refined products. The pipeline also provides a higher supply capacity of aviation fuel via direct pipeline to Muscat International Airport.

Another major pipeline locked in deliberations is the proposed joint subsea gas pipeline project, which would supply Iranian natural gas to Oman.

A planned new labour law is expected to bring in regulations that are specific to workers in the sector

Initial studies for construction of the pipeline have commenced, and talks are centring around the technical details of the agreement. Though internal planning is reportedly under way to launch an international tender to lay the pipeline, there are concerns that the volatility of the oil and gas market over the past two years could undermine progress.

DUQM REFINERY: In addition to the two existing refineries at Mina Al Fahal and Sohar, major EPC packages have been awarded to multinational companies for construction of the country's third refinery at Duqm, 600 km south of Muscat.

A 50:50 joint-venture deal that was signed between OOC and Kuwait Petroleum International (KPI) in April 2017 commits both parties to development of the $7bn, 230,000-bpd Duqm Refinery and Petrochemical Industries Company in the Al Wusta region. The new refinery is expected to commence commercial operations in 2021. Once working at full capacity, it will produce a number of value-added refined products, including diesel, jet fuel, naphtha and liquefied petroleum gas (LPG).

The project was first conceived in 2009 and a joint venture agreement was signed with Abu Dhabi's International Petroleum Investment Company (IPIC) in 2012. IPIC subsequently withdrew from the agreement in 2016, when it was expanded to include petrochemicals, opening the door for KPI to step in and sign a memorandum to cooperate on development of the complex.

It is expected that the Duqm refinery will play a lynchpin role in transforming the Duqm area into an important hub for energy-related industries in the region by directly and indirectly supporting new projects in the SEZ. The area is estimated to receive up to $15bn in investments over the next 15 years, generating 12,000 new jobs.

By the end of 2017, three main EPC packages had been awarded to multinational companies

The 280-km Muscat Sohar Product Pipeline Project, which links Oman's existing refineries at Mina Al Fahal and Sohar, began operations in October 2017.

Major contracts have been awarded to multinational firms for the construction of a third refinery, in Duqm. The complex will have the capacity to process 230,000 barrels per day when complete.

A contract to build the country's first liquefied petroleum gas extraction plant was awarded in 2017

The government's In-Country Value Blueprint Strategy aims to generate jobs, develop a robust and skilled local supply chain, and invest in the growth of Omani enterprises.

for construction of the refinery's main processing plants: Técnicas Reunidas and Daewoo Engineering and Construction won a contract at an estimated $3.3bn; a contract for the construction of utilities and offsite facilities was awarded to Petrofac International and Samsung Engineering at an estimated $2bn; construction of a product export terminal, a crude tank farm at Ras Markaz, and crude oil and natural gas pipelines was awarded to a consortium that included Saipem, worth an estimated $1.7bn; and a $400m crude oil storage terminal in Duqm is to be built by Oman Tank Terminal Company. The facility, which was due to be operational at the end of 2017, will have an initial capacity of 6m barrels, with the potential for this to be expanded to 200m barrels.

Discussions between state-owned Oman Shipping Company (OSC) and the Kuwait Oil Tanker Company regarding the supply of more medium-range tankers – which will be required to handle volumes from the new Duqm refinery – were in the preliminary stage as of early 2018. The OSC was reportedly favouring the second-hand tanker market as a means of quickly ramping up tonnage as required, but was separately considering buying between two to 10 bulkers to expand its aggregates business, as well as two container ships to replace chartered vessels.

SALALAH LPG: In addition to its investment in Duqm, OOC is also enhancing existing and future downstream industries in the Governorate of Dhofar by investing in Oman's first LPG extraction plant in the Salalah Free Zone. The strategically important Salalah LPG extraction plant is expected to commence operations in 2020, producing different types of LPG, mainly propane, butane and light condensate from natural gas flowing through Oman Gas Company's southern grid.

The Salalah liquefied petroleum gas extraction plant is expected to generate

$200m

in export revenue per year

Oman Oil Facilities Development Company, an OOC subsidiary, closed a $640m loan for the project in 2017, and UK-based international oil services contractor Petrofac was awarded an EPC contract to build the project in January 2017.

Once the Salalah LPG plant is operational, LPG will be shipped to markets primarily in the Indian subcontinent from a dedicated export jetty at the Port of Salalah – a task handed to OOC's international trading arm Oman Trading International. Revenues from the export of the plant's 300,000-tonne LPG output are projected at $200m per year.

IN-COUNTRY VALUE: As a result of government pressure to build up local talent, oil and gas companies across Oman are ramping up the In-Country Value (ICV) Blueprint Strategy to generate job and training opportunities, develop a robust and skilled local supply chain, and invest in the growth of Omani small and medium-sized enterprises (SMEs). The approach is in line with the 2012 ICV initiative launched by the MOG to promote the employment and training of Omanis, as well as investments in fixed assets and locally sourced goods and services.

One such company assisting in the generation of job and training opportunities in Oman is PDO, which has employed thousands of specialised workers. Under a government mandate to develop local skills for the global economy, PDO is looking at ways in which human capital can be converted to renewables or operational consultancy, particularly in areas of competitive advantage around oil field recovery methods and water injection techniques. The firm recently signed research and development agreements with Sohar University and A'Sharqiyah University in Oman to support efforts to boost ICV and fund specialisation in targeted sector areas such as enhanced oil recovery, water management, and energy sufficiency and security. PDO will assist with the establishment of technology centres at both of these universities, and will work with the institutions to encourage the development of Omani SMEs.

New services are also being developed within the oil and gas sector at a local level to meet niche market needs. The Oman Oil Marketing Company, for example, maintains a network of 184 filling stations and 105 accompanying Ahlain convenience stores spread across the country. Adding to its offerings, the company also launched mobile filling stations in 2017, which are capable of storing 50,000-100,000 litres of petrol and providing fuel services in remote areas for customers in industry, oil and gas, construction and transportation.

The ICV Blueprint Strategy has not been without its implementation challenges, however, particularly for contractors and service providers in oil tools and equipment and OFS firms. Many product lines in these industries have matured in Oman over the past four decades, and fewer competitors were entering the market in 2016-17 due to business conditions and pricing pressures.

For incumbents in the oil services market, legacy costs for Omani personnel – whereby national employees are entitled by law to a yearly salary raise of 3% – result in continually increasing staffing costs. Drilling and engineering contractors in the country have reported spending between 40-50% of total revenue on crew costs, which places them at a disadvantage vis-à-vis new market entrants that have not yet accrued such legacy costs. "The country needs to develop its local labour force with balance," Saif Al Tobi, CEO of Oilfield Inspection Services, told OBG. "Optimising Omanisation rates should not come at the expense of productivity."

VALUE DRIVEN: Local contractors were also having to offer E&P operators heavily reduced rates in order to retain business. Companies like PDO and Shell have historically chosen to invest in developing long-term relationships with in-country contractors; increasingly, however, larger corporations appear to favour a value-driven approach that awards contracts to the lowest bidders in the global market.

Since 2016 this has resulted in deflationary pressure on contractor bids for major projects. Many contracts that were signed before oil prices crashed are now being retendered, and operators are receiving large discounts. Facing the likelihood of a reduced scope of business on existing contracts if they refuse renegotiation, many service providers and OFS companies are left with no option but to accept mid-contract cuts at considerable discounts.

"Contractors are reducing prices and bidding very aggressively in tenders. For us and everyone else to maintain market share we need to bid competitively. At the end of the day we have to be more efficient, reduce costs and adjust to new market conditions," Andrey Krokhin, senior account manager at OFS provider Halliburton Worldwide, told OBG.

New market conditions in 2017 also included amendments to the income tax law, which imposed an additional 10% withholding tax on top of a planned corporate tax hike from 12% to 15%. This will have a notable impact on international companies operating in Oman, equal to up to 25% in corporate tax taken off bottom-line revenues.

Squeezed on the one hand by operators in contract negotiations, and on the other by the diminishing volume of activities stemming from cost optimisation and scrutiny, supplier margins are shrinking, making the new taxes unpopular with many sector players, while others stressed a more holistic assessment of Oman's competitiveness.

"The increase of Oman's corporate tax rate has had a small impact on the country's competitiveness," Chris Breeze, country chairman at Shell Development Oman, told OBG. "What would really impact the sultanate's competitiveness for the better would be the simplification of administrative procedures."

RENEWABLES: The drop in oil revenue has prompted reform in Oman's energy sector, serving as strong motivation to increase the country's use of renewable sources. For the time being gas is subsidised in the country and remains a cheap fuel source, with

Firms operating in the country will likely be impacted by amendments to the income tax law in 2017, which imposed an additional 10% withholding tax on top of a planned increase in corporate tax from 12% to 15%.

The first phase of the 1021-MW Miraah solar energy project was completed in the fourth quarter of 2017

Oman aims to source

10%

of consumed energy from renewables by 2020

as much as 96% of the electricity produced in Oman derived from processes that use natural gas as feed stock. Keen to reduce government expenditures and commit a greater share of oil and gas resources to more profitable purposes, Oman's official objective for renewable energy as laid out in Oman Vision 2020 is to source 10% of consumed energy from renewables by 2020. This may slip closer to 2030, but development of renewable projects has nevertheless gained a new urgency in Oman.

The sultanate's location in the Gulf supports the pivot to alternative power. "With more than 320 sunny days per year and one of the highest levels of solar irradiance in the world, the opportunity for further developing solar energy in Oman is immense," Ken Paton, CEO of Symtech Solar, told OBG.

PDO is acting on the momentum in renewables and reportedly is targeting to become a full-fledged energy company over the next decade, encompassing hydrocarbons and renewable energy generation as well as water management. The oil and gas company is already investing heavily in alternatives to generate steam for EOR, as at the moment it is produced by burning natural gas.

SOLAR AMBITIONS: In cooperation with US-based GlassPoint Solar, PDO has made steady progress on the Miraah solar energy project at the Amal oilfield in Southern Oman. The 7-MW pilot Miraah project was successfully launched more than four years ago. Following on from this achievement, the first phase of the 1021-MW solar thermal facility reached completion in the fourth quarter of 2017, and the facility had plans to generate steam from the first greenhouse block by the end of that year.

At full capacity, the plant will be able to produce 6000 tonnes of steam for EOR purposes, saving 5.6trn British thermal units of natural gas each year, which is equivalent to the amount of gas needed to provide electricity to 209,000 Oman residents.

An agreement to develop a $94m, 1000-MW solar panel project at the special economic zone in Duqm was signed by Oman Investment Fund and private firms in mid-2017.

Separately, Oman Investment Fund and China-based Ningxia Zhongke Jiaye New Energy and Technology Management entered an agreement in May 2017 for the development of a large solar panel project at the SEZ in Duqm. When commissioned by the end of 2019, the $94m project will have an installed capacity to manufacture panels for power plants and residential buildings to generate around 1000 MW of energy per annum. The company anticipates $215m in predominantly export sales revenue per year, with 400 MW of installed capacity in the first phase of its operations.

Miraah and initiatives like the Duqm solar panel project have the potential to generate significant value for Oman, creating new opportunities for supply chain development, manufacturing capability, and employment and training, as well as helping to turn the sultanate into an international hub for solar energy research and development.

OUTLOOK: Oman's oil and gas sector is in the process of diversifying and expanding its potential. Although overall economic growth in the country remained flat in 2017, and crude output dropped in line with OPEC supply cuts, Omani operators are well positioned to ramp up production above 1m bpd once the restrictions are lifted.

Over the interim, large upstream initiatives like BP's Khazzan tight gas field are buoying the sector and transforming the sultanate into a swing producer of natural gas, in turn increasing feedstock supplies for the development of downstream and petrochemical industries. This supports a raft of government initiatives aimed at positioning the country as an international centre for the processing, storage and export of crude oil and its derivatives. Notable among these is the establishment of the country's third refinery at Duqm, which is expected to play a fundamental role in transforming the area into an important hub for energy-related industries when it comes on-line in 2021.

Persisting growth constraints in the sector are tied to pricing pressures and the private sector belt tightening. With fewer wells being drilled, and operators prioritising cost containment in a low oil price environment, contractors and OFS companies are finding themselves under intense pressure to step up efficiency and optimisation efforts in a bid to lower the cost of production.

The government is also in the process of reviewing alternative funding arrangements and public offerings of state energy assets in oil and gas to reduce pressure on the state budget.

At the same time, the decline in international oil revenue in recent years has also inspired a new logic for reform in Oman's oil and gas sector, and increased support for alternative solutions, such as the uptake of renewable energies. "The reality we have to face is that the end of oil will arrive sooner than expected, and Oman has to learn to adapt," PDO's Al Marhubi told OBG. "Part of this will involve embracing it and seeing it as an opportunity."

Yousuf Al Ojaili, President, BP Oman

Diverse interests

Yousuf Al Ojaili, President, BP Oman, on sectoral developments and the need to establish sustainable alternatives

How will the Khazzan gas field contribute to economic development and diversification?

AL OJAILI: The exploitation of Khazzan's gas fields is of great importance to Oman's economic development and the sultanate's diversification programme. Khazzan's exploitation will reduce the gas deficit for years to come, by extracting volumes of gas which are significantly greater than the sultanate's current levels of gas production. The production of natural gas will come with significant volumes of light oil condensate that will also be ready for export. Once Oman Gas Company completes the gas pipeline to Duqm, the majority of the gas extracted in Khazzan will go to the refinery and petrochemical facilities there, which will contribute to supporting the development of the sultanate's industrial sector.

What else needs to be done to ensure a secure and plentiful supply of natural gas?

AL OJAILI: When it comes to ensuring a secure and plentiful supply of natural gas, it is vital to sustain the successes of international oil companies by investing in exploration, production and planning. Indeed, managing the gas deficit will require thinking beyond phase one and two of Khazzan. Nevertheless, now that phase one has started, the Ministry of Oil and Gas is reviewing plans for the second phase, which will require a final investment decision from the ministry. To that effect, BP has executed an appraisal of activities by drilling three wells, the results of which are in line with expectations in terms of volumes of gas and light oil condensate. A draft of phase two's field development plan, which contains a cost estimate, is already being reviewed by the ministry.

To what extent should international oil companies contribute to national energy policies?

AL OJAILI: The authorities have repeatedly expressed their desire for international oil companies to be active in providing feedback on energy policies and to bid for related projects. The government readily involves them in the policy-making process and in discussions about the best ways to implement projects in Oman. The administration has also already reached out to them about implementing integrated project developments. In particular, the authorities would like them to be responsible for the next step in integrating upstream and downstream activities. Moreover, the administration has also encouraged international oil companies to undertake clean energy initiatives, especially regarding solar energy.

How can the oil and gas sector contribute to supporting the development of renewable energy?

AL OJAILI: The sultanate must invest in and implement initiatives to produce renewable energy locally. Continuing to invest in such projects should be a major priority. Moreover, international oil companies must support government-led initiatives to develop renewables, not only by providing project financing, but also by implementing these projects themselves.

Indeed, the development of renewable energy is not a foreign concept to most international oil companies either, many of whom already have a division dedicated to this field. For them, it is a matter of endeavouring to bid for these kinds of projects.

Even though the demand for oil and gas will increase in the near future, international oil companies s are aware of the growing importance of renewable energy and have already begun to place a much greater focus on this area by acquiring renewable energy firms within their portfolios for example.

The government itself has already expressed support for certain ventures. For example, Tanfeedh has identified energy resource diversification, including solar energy, as a priority, while the Oman Power and Water Procurement Company has already signalled its plans to launch a tender for a large-scale solar project.

Omani firms have won 60% of the oilfield service contracts at Khazzan

Inaugural export

For the first time in recent history, Oman is producing more natural gas than domestic demand

New highs in domestic production levels will allow the government to prioritise domestic sources of gas and eventually phase out imports, upscaling or downscaling wells as needed to manage fluctuating demand.

Used as a primary fuel resource in power generation, water production, and upstream and downstream hydrocarbons activities, natural gas is central to Oman's economy. The sultanate has always run at a natural gas capacity shortage and has historically relied on partially state-owned Petroleum Development Oman (PDO) to produce 70% of the country's gas requirements. PDO produced an average of 82m cu metres per day in 2017, up from 80.2m cu metres per day in 2016, when the country also imported 5.5m cu metres per day via pipeline from Qatar.

Advancements in 2017 have significantly changed the sultanate's resource profile, bringing on-stream enough domestic facilities to delay any future supply deficit for years. In fact, for the first time in recent history Oman is in the position of having more gas than it requires. New highs in domestic production levels will allow the government to prioritise domestic sources of supply and eventually phase out imports, upscaling or downscaling PDO wells as needed to manage fluctuating demand. Looking ahead, demand levels are expected to rise. Total gas consumption rose by 2.6% in 2016, largely driven by 4.6% growth in industry, according to the Oman Society for Petroleum Services.

KHAZZAN TIGHT GAS FIELD: The Khazzan tight gas field was forecast to increase the capacity of daily gas production by 1bn cu feet, or close to 25%, by the end of 2017. BP has projected an output of 1.5bn cu feet of gas and 25,000 barrels of condensate a day once phase two has been completed in 2021. BP is the operator of Block 61, which contains the Khazzan field, and holds a 60% share, with the remaining 40% held by state-owned Oman Oil Company for Exploration and Production.

It was announced that first gas from the Khazzan field came on-stream in September 2017, coming ahead of budget and schedule. In the first phase BP will drill a total of 200 wells, with gas then fed through a two-train central processing facility. A 1150-sq-km extension to the south and west of the original 2800-sq-km Block 61 concession will add a third train of gas processing to the facility. Regarding the second phase of the project, three wells had been drilled in the Ghazeer field by the end of 2017, with reportedly promising results. A draft field development plan for phase two was submitted to the Ministry of Oil and Gas (MOG) for review in 2017, which targeted adding capacity of 3.5trn cu feet of gas. BP has said plans are on track to be sanctioned in early 2018, with phase two gas scheduled to start operations by the end of 2021.

To date, some $6bn has been collectively spent on the Khazzan tight gas project between all partners, according to BP. The company has realised significant savings by progressing phase two within the original phase one budget of $16bn over the life of the field through 2043. Additionally, it is expected to yield 50% more gas than originally planned. Technological advances surrounding the issues associated with tight gas reservoirs will continue to be pivotal as the venture moves ahead.

STRATEGIC IMPACT: Investment in the Khazzan tight gas field has directly impacted local firms. Omani companies have won drilling contracts worth 85% of total spend at Khazzan and 60% of overall oilfield services contracts, according to BP. The country's gas industry also stands to benefit from knowledge transfer, as BP has extensive experience with hydraulic fracturing, unconventional gas, plan execution and the training of staff. The Khazzan tight gas reserves lie at depths of up to 5 km in narrow bands of extremely hard, dense rock. BP's success in increasing production rates reflects its vast expertise in reservoir development. For example, the time required to drill and complete a well at Khazzan has reportedly dropped from 100 days at the beginning of production to 50 days by the

The Khazzan tight gas field is expected to produce

1.5bn

cu feet of gas per day by 2021

end of 2017. Moreover, BP will use lessons learned from phase one to help increase efficiency over the coming phase. Khazzan is expected to provide a major boost to the national economy, transforming the sultanate into a swing producer, partly by contributing gas supplies that will provide feedstock for the development of downstream and petrochemical industries, and support incremental gains in the shipments of liquefied natural gas.

As per the terms of its exploration and production-sharing agreement and governing legislation, BP does not market produced gas, but rather sells it by pipeline to the government. Previously, the government has exported extra gas received through the liquefied natural gas (LNG) pipeline. The surplus expected to be generated by BP's Khazzan field may unlock new opportunities for local energy-intensive industries, with most of this new gas likely to initially go to Duqm as feedstock for downstream consumers via a dedicated 36-inch Oman Gas Company pipeline that is currently under construction. BP has maintained a connection that is ready to tap into the pipeline when it is complete.

The expansion of the Khazzan field and improvements to liquefaction facilities may allow Oman to export more gas as LNG. Majority government-owned Oman Liquefied Natural Gas has forecast a 23.5% increase of exports in 2018 over 2016, with the production of three liquefaction trains at Qalhat topping 10.5m tonnes per annum. By comparison, Oman exported 7.9m tonnes of LNG in 2014.

PRODUCER COORDINATION: More domestic gas production also means that BP and PDO will need to work closely to coordinate their output. At the moment PDO produces the bulk of Oman's gas output and has been investing heavily in exploration, pursuing stratographic endeavours with large potential. The company works closely with contractors to reduce costs and maintain a swift pace of development for its projects, aiming to commercialise deposits within a year of their discovery.

To make space for volumes from Khazzan, PDO has been asked to ease gas production, according to the MOG, while retaining the ability to scale output to manage fluctuating demand. Promising PDO projects include the Mabrouk Gas Field in northern Oman, 40 km from Saih Rawl, where the volume of gas could rival the Khazzan-Makarem project under a base case scenario. Despite having different reservoir characteristics, the Mabrouk field has vast production potential and is projected to contribute substantially to Oman's future gas production. Gas flow rates from the reservoir's initial exploration well were found to be non-commercial decades ago and development was only revived in 2008. The latest round of exploration drilling took place in 2017. It is expected that PDO will announce the full scale of its latest gas finds at Mabrouk in February 2018.

The expansion of the Khazzan gas field and improvements to liquefaction facilities may allow Oman to export more gas as liquefied natural gas.

Oman's central position makes it an ideal location for oil storage

Maritime oil

New crude oil storage facility and developments at existing terminals set to raise energy trade profile

The country's crude oil exports are currently processed at export terminals in Mina Al Fahal and Musandam, and the construction of a third terminal at Ras Markaz is under way.

As part of Oman's broader strategy for economic diversification, efforts to position the sultanate as an international centre for the storage of crude oil and its derivatives are well under way. At the heart of the country's appeal is its strategic location, which offers easy access to a range of markets in South Asia, the East and Africa, as well as land and sea access to producers in the Middle East.

Regional oil producers benefit from being able to store oil more than 1000 km outside the vulnerable Straits of Hormuz at a location in the Indian Ocean. The supply can then be refined nearby or shipped to destinations in the East or West. The country's crude oil exports are currently processed at export terminals in Mina Al Fahal and Musandam. There is also a third terminal under construction at Ras Markaz – located 70 km south of Duqm – which will help to enhance Oman's maritime oil trade profile and position the country as an international centre for the storage of crude oil and its derivatives.

MUSANDAM EXPORT TERMINAL: In May 2016 state-owned Oman Oil Company Exploration and Production (OOCEP) completed loading the first shipment of 300,000 barrels of crude oil from the single point mooring at Musandam Gas Plant (MGP), located on the west coast of the northernmost Governorate of Musandam. The event launched the MGP terminal, now the second Omani crude export terminal that lies on major international crude oil trade routes. The plant is expected to become a key contributor to the refining and exporting of crude oil and gas, having the capacity to process up to 20,000 barrels of crude per day from nearby offshore fields, as well as 45m cu feet of gas and 75 tonnes of liquefied petroleum gas, according to MGP.

UAE-based Marsol International was selected by Oman in July 2017 to provide and manage marine and offshore activities related to tanker loading via the single point mooring offshore marine terminal at MGP. Under the two-year contract Marsol International will also oversee maintenance work, vessels, equipment and staffing at the terminal.

OOCEP's other oil export terminal at Mina Al Fahal, located close to Muscat, has functioned as the country's central export terminal since the 1970s. Crude and oil products from the nearby 85,000-barrel-per-day Mina Al Fahal refinery are loaded onto tankers at the port by subsea pipeline.

DUQM STORAGE EXPANSION: The Ras Markaz crude oil storage terminal is set to be the third export terminal for crude oil in Oman. In July 2017 the Duqm Special Economic Zone Authority (SEZAD) granted Oman Tank Terminal Company (OTTCO) rights to develop the facility. Some 1253 ha have been allocated for Ras Markaz Crude Oil Park, which is planned to see up to 200m barrels of crude storage above ground and a similar amount below ground. The offshore terminal at Ras Markaz will be connected by two pipelines to inland tank farms as well as the new refinery, and it is expected to include two single-point moorings that will accommodate large carriers 50 km offshore. A second phase of development will see three more single-point moorings, one of them capable of serving ultra-large crude carriers. The 2017 agreement signed with OTTCO grants the Oman Oil Company subsidiary exclusive rights for the storage of crude oil and its derivatives in the Ras Markaz area for a period of 20 years, and for five years in SEZAD as a whole. Under a five-year development plan, OTTCO will be responsible for constructing storage tanks, establishing floating platforms and piers for the import and export of crude oil and its derivatives, and setting up a plant for the pumping of oil to the tanks.

SEZAD forecast investment for the development of phase one of the Ras Markaz terminal to total $1.7bn, comprising $815m to cover the costs of crude oil storage tanks with a capacity of 26m

Ras Markaz will have a capacity of

26m

barrels of crude oil when complete

barrels, and $941m covering construction costs for crude oil import and export marine facilities as well as basic internal infrastructure. In late September 2017 OTTCO was finalising the engineering, procurement and construction for phase one, scheduled to come on-line by the end of 2019. The volume of investments for phase two tanks was projected at $700m, of which $225m will be spent on basic infrastructure facilities. OTTCO and Occidental Petroleum, Oman's second-largest oil producer, signed a memorandum of understanding in late 2017 to store up to 2m barrels of crude at the oil terminal.

Construction of the new terminal dovetails with Oman's planned expansion of refinery capacity at Duqm. In April 2017 state-owned Oman Shipping Company (OSC) signed a deal with the Kuwait Oil Tanker Company to build a new plant near the port by 2021. The two have since been in discussions over the supply of extra tankers, which will be needed to handle volumes from the new refinery. However, a procurement decision on extra tankers will require additional clarity around destinations and quantity of cargoes that will be forthcoming in mid-2018.

STORAGE & BUNKERING AT SOHAR: The government has invested in Oman's ship-fuelling potential, with landmark deals signed in 2017 for the development of oil storage and bunker services at the northern port of Sohar, some 750 km north of Duqm. The deepsea port and free zone is strategically positioned in the Gulf of Oman, just outside the Strait of Hormuz, and offers a potential challenge to the bunkering monopoly of neighbouring oil trading hub Fujairah, located 150 km north of Sohar in the UAE.

Sohar Industrial Port Company manages the port, while Oiltanking Odfjell Terminals (OOT) exclusively provides liquid storage facilities. The OOT has experience in this area, having operated a 1.36m-cu-metre oil tank terminal facility for storing and handling petroleum products, chemicals and gases in Sohar since 2008. Towards the end of 2016 German energy supply, trading and logistics group Marquard and Bahls acquired a 51.7% controlling stake of the indirect ownership in OOT, thereby making them the majority owner of the oil tank terminal at Sohar Port.

Almost a year later in September 2017 Sohar Port and Freezone signed a $600m deal with Singapore-based trader Trescorp Alliance to launch oil storage and bunker services at Sohar Port South in 2020. The first phase of the project will equip the terminal with tanks to receive, store and blend crude oil, fuel oil and diesel. Construction is scheduled to commence in 2018, which will initially install a fuel-storage capacity of 600,000 cu metres, with future expansion planned to eventually take the total storage capacity up to 1.8m cu metres. The expanded facility will have six deepwater berths with 25-metre drafts, one of which will be capable of handling very large crude carriers of up to 320,000 deadweight tonnage. Expansion plans for phase two will add blended products like gasoline and jet fuel, in addition to Lubrication Park, which will blend lubricating oil products of varying grades, such as marine grade lubricants.

REGIONAL COMPETITION: With the added 1.8m cu metres of storage provided by the Trescorp project, Sohar is on track to reach total storage capacity of 3.2m cu metres by 2020. Neighbouring Fujairah, the largest hub for bunkering in the Middle East, aims to expand its oil storage to about 14m cu metres over the same period. Nevertheless, Sohar Port and Freezone authorities see significant potential in bunkering, noting the potential to capture oil storage and bunkering business from vessels that have historically called at Sohar before moving to Fujairah for bunkering. Ship traffic spiked at Sohar in 2017 with the launch of cargo services to Qatar, following the regional blockade against the country, which saw its transportation links cut to the region's largest port, Jebel Ali in the UAE. Sohar Port authorities expected to serve 3000 vessels in 2017, up from 2600 in 2016. Maritime traffic is forecast to grow by 30% in 2018 as new projects come on-line.

The blockade against Qatar saw Sohar Port serve 3000 vessels in 2017, up from 2600 in 2016. Maritime traffic at the port is expected to increase by a further 30% in 2018 as new projects come on-line.

Omani firms have been successful in recent upstream bidding

Exploratory endeavours

As operators shy away from oil exploration, the government is working to incentivise new activity

In 2016 there were

53

oil exploration wells drilled

Offering no major baskets of reservoirs or readily accessible resources waiting for discovery, Oman is generally a challenging geography for oil exploration. With the majority of the country's onshore sweet oil having been identified and exploited, most of the remaining open concession blocks in the country tend to be better suited to operators with experienced subsurface teams that have access to the technology needed to unlock potential in unconventional deposits.

Oil exploration companies drilled a total of 53 exploration wells in 2016: 29 of them are owned by Petroleum Development Oman (PDO); Occidental Oman has six; government-owned Oman Oil Company Exploration and Production (OOCEP) has four; and the remaining 14 exploration wells are divided among other operators.

PUBLIC ROLE: Concessions in Oman are awarded by the Ministry of Oil and Gas (MOG) following well-publicised bid rounds. Relative to its Gulf neighbours, Oman is more open to investment from smaller explorers as well as international oil companies. The MOG is also flexible on fiscal terms and contract models to help incoming exploration investors meet operation requirements. "The MOG has demonstrated it is supportive of independent exploration and production companies that are interested in investing in blocks that have been relinquished by larger companies," Mohammed Al Jahwari, managing director of Hydrocarbon Finder, a local independent energy firm, told OBG.

By utilising the exploration and production-sharing agreement (EPSA) model, the state has room to increase cost recovery limits or allow for higher rewards at early stages of a project to incentivise operators. Incentives are designed to encourage operators to invest in the exploration of higher-risk concession blocks, particularly where previous owners have failed to establish commercial viability and have relinquished concession back to the government. This process downgrades the value of a concession and increases the level of effort required for operators to return to a block.

The government is using incentives to encourage investment in the exploration of higher-risk concession blocks, particularly where previous owners failed to establish commercial viability.

EXPLORATION ACTIVITY: Recently, Oman has appeared to favour local investment on the upstream front, as shown by ARA Petroleum's acquisition of Block 44 from the Thai national oil company PTTEP in 2016, in addition to OOCEP's successful bid for two blocks in the 2016 licensing round. Hydrocarbon Finder has also had success, securing Block 7 in the Governorate of Wusta in April 2016. Looking ahead, OOCEP has announced plans to explore Block 52 with Italian oil and gas multinational Eni and to collaborate with Shell for the exploration of Block 42.

LICENSING ROUNDS: Despite a string of recent upstream developments, exploration and production companies considering investment in Oman have grown cautious as a result of the persisting oil price downturn, and many operators are shying away from new exploration activity and unconventional resource extraction. Reflecting the downbeat context, interest in the 2016 bid round for Blocks 30, 31, 49 and 52 was more limited and cautious, with some bidders seeking improved fiscal terms, particularly with regard to burden sharing.

Eni, in collaboration with OOCEP, has since been granted exploration rights in Block 52, a 90,000-sq-km concession located in the Indian Ocean offshore south-western Oman. In November 2017 Eni signed an EPSA with OOCEP relating to Block 52, which provides that, upon completion of a separate transaction with Qatar Petroleum, Eni will hold 55% of the concession, with Qatar Petroleum and OOCEP holding the remaining 30% and 15%, respectively.

The most recent licensing round was launched for four new onshore oil and gas blocks in September 2017, and was closed in December. It included 12,000-sq-km Block 43B, which has been relinquished by Hungarian oil and gas company MOL; the adjoining 8520-sq-km Block 47, recently relinquished by Norwegian firm DNO; the 10,100-sq-km Block 51, where 19 wells have been drilled by former owners; and the 1230-sq-km Block 65, a concession that was previously owned by OOCEP.

Utilities

Cost-reflective tariffs improve energy efficiency
Reduced forecasts for electricity demand growth
Ongoing shift towards solar energy production
Privatisation of waste management nearing completion





The Omani government heavily subsidises potable water distribution

Take charge

Utilities authorities seek to improve electricity and water management while bolstering renewable energy generation

There are two primary electricity systems in the sultanate of Oman: the Main Interconnected System and the Dhofar Power System.

Diam is the public authority for electricity and water, acting as the sultanate's water department by developing and extending networks to pipe water to customers in its various service areas.

The utilities industry in Oman is going through a transitional period in anticipation of major restructuring and renewal plans in the water and electricity sectors. While large-scale retail competition in electricity is not yet feasible, changes in technology – like the introduction of cost-reflective tariffs (CRT) – are making distributed provision more cost-effective.

The most significant development in the electricity sector is the planned introduction of a spot market to allow generators without long-term contracts to sell power on a half-hourly basis at a market clearing price. Projected for launch in 2020-21, the intended outcome is to increase sector competition. If Oman moves forward with developing the commercial mechanisms to make additional capacity available outside of the power and water purchase agreement (PWPA) model, the market stands to benefit from gains in competition and efficiency.

In the water sector, the sultanate's procurement agency has worked to bring considerable new capacity on-line across Oman's five water zones as part of efforts to address the supply shortages during peak demand periods in 2017, particularly in the Muscat demand region. Oman is also on the verge of a major shift towards renewable energy as the government rolls out regulations and projects to harness power supply from solar plants and wind farms. Oman's utility-scale solar ambitions might yield results soon, when the sultanate launches tenders for its first large-scale solar photovoltaic (PV) independent power project (IPP), which is expected to launch in 2020 (see analysis).

SECTOR STRUCTURE: Nama Group, formerly the Electricity Holding Group, holds shares in nine state-owned companies involved in the generation, transmission, distribution and supply of power. The group is wholly owned by the Ministry of Finance and in turn owns 99.99% of shares in Oman Power and Water Procurement Company (OPWP), which is tasked with purchasing required power and desalinated water in bulk from privately operated generation and production facilities connected to power and water transmission systems. OPWP is required by sector law and its licence – from the Authority for Electricity Regulation (AER) – to ensure that sufficient generation resources are available to meet future power demands in the country's two primary electricity systems: the Main Interconnected System (MIS) and the Dhofar Power System (DPS).

CONTRACTING: OPWP contracts generation capacity through competitive tenders that are open to international bidding. The terms of the power purchase agreements (PPAs) signed with winning bidders permit foreign investors to own 100% of power generation plants on a build, own, and operate (BOO) basis. Wherever beneficial, OPWP seeks to co-locate power and water projects when planning new capacity to benefit from the co-procurement savings associated with pairing power generation and thermal desalination. Recent examples include the Salalah Independent Water and Power Project (IWPP) in Dhofar and the Barka II IWPP.

OPWP also procures standalone desalinated water facilities under a bulk supply agreement with the Public Authority for Electricity and Water (PAEW) – rebranded in 2017 as Diam. Diam acts as the water department, developing and extending networks to pipe water to customers in its service areas. New distribution networks that opened in 2017 include Al Amerat, Bahla, Al Rustaq and Al Buraimi.

The government heavily subsidises potable water distribution in the country, and domestic users pay less than half of the true cost of the water they consume. With state spending constrained in a low oil-price environment, Diam is planning to concentrate its limited resources on large-scale water transmission projects, to ensure that production from new desalination plants can be effectively distributed.

Formal regulation of the water sector is expected to remain in flux through 2018 as part of a planned industry restructuring. Government agencies like Diam are actively developing internal "shadow" regulation frameworks in advance of these changes.

ELECTRICITY NETWORK STRUCTURE: Electricity is typically sourced from privately operated power generation plants performing under a long-term contract with OPWP. Oman Electricity Transmission Company (OETC), a Nama Group subsidiary, owns and operates the main electricity transmission network in the sultanate. In 2017 Oman's electricity networks underwent a major renewal aimed at strengthening transmission infrastructure and providing reliability and fuel-saving benefits through increased interconnectivity both regionally and internationally. Work continues in the form of the UAE Interconnect Project – providing Oman with access to the power systems of the other five member states of the GCC – and the North-South Interconnect Project, which is a proposed 400-KV transmission link from Nizwa to Duqm and the Dhofar Power System (see analysis).

The MIS covers the governorates of Muscat, Buraimi, and most of six other regions, serving roughly 864,500 customers. Components of the MIS include power generation facilities owned and operated by various private companies, a 400/220/132-KV transmission grid owned and operated by Nama Group member OETC and three distribution networks owned and operated by Muscat Electricity Distribution Company, Mazoon Electricity Company and Majan Electricity Company.

The second main electricity system, the DPS, covers roughly 101,449 electricity customers in the city of Salalah and surrounding areas in Dhofar Governorate. In 2017 the DPS was served by two generation facilities, a 220/132-KV transmission grid owned and operated by OETC and a distribution network owned and operated by Dhofar Power Company. Leading oil and gas exploration and production company Petroleum Development Oman maintains its own power network connected to the DPS via a 132-KV link with a transfer capacity of up to 150 MW between the town of Thumrait and Harweel oil fields.

The Rural Area Electricity Company (RAECO), another Nama Group member, provides power to more remote areas of the sultanate that are not covered by the MIS or DPS. The small energy requirements of these areas have been met economically by using diesel-fired generators located close to them.

ELECTRICITY USE: Average electricity demand in the MIS grew at a modest 3.9% in 2016 to 3364 MW. With the introduction of CRT for large commercial, government and industrial consumers in 2017, peak electricity demand is projected to grow slowly in the MIS, at an annual average rate of 6% per year, according to the OPWP Seven-Year Statement (2017-23), from 5920 MW in 2016 to 8960 MW in 2023.

Electricity demand growth in the Dhofar region was slightly lower than low-case forecasts anticipated in 2016, with average demand rising 4% to 349 MW and peak demand measuring at 497 MW, up 0.5% over 2015. Average demand between 2016 and 2023 is projected to grow by 7% annually to reach 559 MW, while peak demand is expected to grow at about 6% per year over the same period to 765MW, according to OPWP estimates.

Average electricity demand in the country's Main Interconnected System grew by some 3.9% in 2016

Cost-reflective tariffs were introduced in early 2017 in order to promote the efficient use of electricity by incentivising high-value customers to avoid consumption at peak times.

In Duqm, the demand for electricity is expected to grow significantly as the Special Economic Zone Authority Duqm (SEZAD) realises development plans that are set to transform the area into an industrial hub. RAECO demand projections of approximately 650 MW by 2025 reflect the substantial anticipated economic and population growth.

However, the actual pace of growth remains uncertain and will depend on unpredictable factors associated with global markets, the investment climate and government incentives. According to expected demand scenarios developed for the Musandam Governorate by RAECO, there could be 9% annual growth in peak demand, from 74 MW in 2016 to 132 MW in 2022. This reflects an overall reduction in demand relative to that reported in the previous Seven-Year Statement issued by OPWP.

DEMAND FORECAST: Recent projections for electricity demand growth have been revised downward from previous forecasts due to slower economic growth and the impact of the introduction of CRTs for large consumers. CRTs were introduced in early 2017 to promote the efficient use of electricity by incentivising high-value customers with consumption above 150 MWh to avoid consumption at peak times. Tapering off-peak load by making it more expensive is transforming power usage, with larger customers shifting production schedules to avoid consumption at peak periods.

Implementation of automatic meter reading (AMR), currently limited to high-value consumers, also allows distribution companies to apply CRT while supporting the reduction of losses by

Expected to be implemented by the end of the first quarter of 2018, the Power 2022 Procurement Process will allow existing generators with expiring contracts to compete with new project bidders for long-term contracts.

obtaining accurate meter readings and detecting any issues in electrical connections. The AMR initiative builds on incentives offered by AER that have contributed to a major reduction in physical losses in the system achieved by distribution companies.

Reduction in forecast demand resulting from the economic slowdown and the implementation of CRT have also impacted procurement strategies, resulting in several project deferrals. Notably, the Misfah IPP, which was launched in 2016 to develop between 750 MW and 850 MW in the MIS, was deferred for at least one year in a decision announced by OPWP in June 2017. The company cited the economic downturn and slowdown in electricity growth demand as reasons for suspending the project, along with efficiency improvements and the impact of the newly introduced CRTs. "We didn't see the need to have the plant up and running in 2021, so we delayed until 2022, and next year we'll announce capacity," Yaqoob Saif Al Kiyumi, CEO of OPWP, told OBG.

The deferral of new capital expenditures will help OPWP to contain the level subsidies provided by the government to the electricity sector. Project deferrals also help with the availability of domestic gas for future power plants in the context of competing gas needs for economic development. Though the Ministry of Oil and Gas has reportedly approved gas allocations to the next two IPPs that OPWP plans to procure, it has indicated that future natural gas supply is constrained, according to the OPWP Seven-Year Statement (2017-23).

NEW CAPACITY: Significant new generation capacity is planned for the MIS in 2018, with the Ibri IPP – a major new natural gas-fired power project – coming online in April to deliver early generation capacity of 940 MW. Total contracted capacity for 2018 will surge to around 7400 MW, supplemented with contributions from contracts with Sohar Aluminium Company (SAC) and the GCC Interconnection Authority that will be used to meet peak demand requirements and cover any shortfalls in a high-demand scenario. By April 2019, Ibri IPP is scheduled to come on-line and deliver the full capacity of 1509 MW, shortly after Sohar III – another a major new natural gas-fired power project – begins delivering its full capacity of 1708 MW.

The net contribution of Ibri and Sohar will bring the total contracted capacity in the MIS to 8944 MW in 2019, sufficient to offset the planned decommissioning of the 405-MW capacity Ghubrah IWPP and 326-MW capacity Wadi Al Jizzi IPP in September 2018, and also enough to secure capacity requirements through the end of 2020.

Beyond 2020, even the additional capacity made available through UAE Interconnect and SAC will prove insufficient for meeting high-case demand growth forecasts. Four power stations will reach the expiry of their purchase agreements with OPWP between December 2021 and March 2022. OPWP will need to tender approximately 1600 MW of generating capacity to cover the remaining deficit against capacity targets in 2022.

To achieve this, the company plans to adopt a new capacity procurement methodology by the end of the first quarter of 2018 – the Power 2022 Procurement Process – which will allow existing generators with expiring contracts to compete with new project bidders for long-term contracts. All out-of-contract plants are expected to compete for new power and water purchase agreement contracts, according to OPWP in its Seven-Year Statement. Only capacity offers that are competitive with new generation bids are likely to be extended.

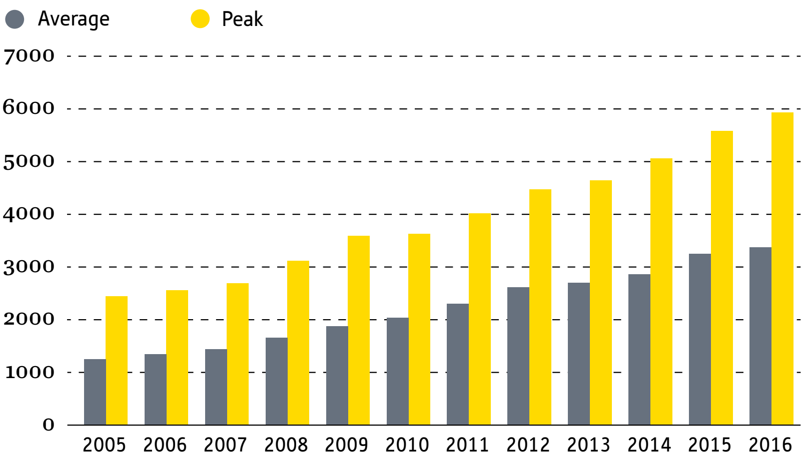
"One of our promises to developers is that there will be opportunities to realise residual value in the future," Al Kiyumi said. "We are offering an opportunity for existing generators to extend operational contracts for a period that will depend on the plant's technical utility level and conditions."

FURTHER PROCUREMENT: In Dhofar Governorate, a new natural gas-fired power project owned by the Dhofar Generation Company - the 445-MW Salalah II IPP, located close to the port town of Salalah - is scheduled to begin commercial operation in January 2018. The new plant will supplement existing contributions from Salalah IWPP, operational since 2012 and currently generating 445 MW of power and 68,000 cu metres of water per day for Dhofar.

With both plants feeding into the DPS, contracted capacity is projected to meet OPWP's generation security standard in Dhofar for several years beyond 2023, and the company has no further plans for power procurement as per its Seven-Year Statement. One possible exception is wind resource development in Dhofar, where energy diversification strategies may drive new procurement beyond 2020.

The only power currently generated in Duqm and its surrounding areas is supplied by Duqm power station, a 66-MW diesel-fired power plant that is owned and operated by RAECO. As the area develops into an industrial and logistics hub, the options considered to meet the growing demand include

Power demand* growth, 2005-16 (MW)



Source: QPWP

*Main Interconnected System

expanding the existing power plant, procuring rental diesel generators, constructing a new fuel oil or gas-fired power plant, or purchasing power from OPWP, which is subject to the completion of the North-South Interconnect project, which would also provide an interconnect with the Duqm demand area, through the town of Haima.

RAECO is also considering purchasing additional power from local utility Marafiq, a joint venture between Takamul Investment Company and Semcorp Utilities. A captive combined-cycle gas turbine plant with more than 300 MW of capacity is under development by Marafiq to meet the demand of projects belonging to Oman Oil Company within Duqm Special Economic Zone. Early power is projected to come on-line by the middle of 2019.

In Oman's northernmost Musandam Governorate, RAECO owns and operates six diesel-fired power stations, which have a combined installed capacity of about 88 MW. The majority of units are nearing the end of their technical life and are expected to be decommissioned shortly.

The newly inaugurated 120-MW Musandam IPP, supplied and built by Finland-based technology group Wärtsilä, is expected to contribute sufficient capacity to meet all demand scenarios through 2023. The plant was delivered on a turnkey contract in November 2017 and will be operated by a consortium led by Oman Oil Company under a PPA with OPWP for supply to RAECO.

ELECTRICITY SPOT MARKET: In parallel to the Power 2022 Procurement Process, which will play a key role meeting future demand gaps in the MIS, OPWP is developing the electricity spot market, aiming to increase competition in the power generation market and make more capacity available outside of the PWPA model.

Initial plans to launch in 2020 – in time for the expiration of PPAs in 2021 – have been modified, and the launch date has been pushed to the end of 2021 in OPWP's latest Seven-Year Statement. The revised timelines and industry confusion around the OPWP implementation strategy have led some to question the commitment to spot market implementation in Oman. "Of course we're not going to liberalise the market fully from day one," Al Kiyumi, CEO of OPWP, told OBG. "But it's quite a good step to understand what is required if the government decides to do that in the future. That will help companies with expired power PPAs, if they don't want to compete with new capacity, to sell their power on the spot market," he added. OPWP submitted detailed market rules to the AER in January 2017 for regulatory approval to sell electricity in the spot market, and will need to conduct a procurement round for IT systems before beginning operational trials.

WATER PRODUCTION: Demand for water in Oman is primarily driven by population growth and tourism projects. Though production from the privately operated desalination plants that are under contract to OPWP is sufficient to meet average demand

Water capacity is being augmented in order to address supply shortages during peak demand periods

requirements, the country experienced supply shortages during peak demand periods in 2017, particularly in the Muscat demand region of the MIS.

To meet the sultanate's water requirements Diam utilised contingency reserves from existing wells in undersupplied demand regions. Limiting the use of groundwater sources with a total capacity of around 100,000-110,000 cu metres per day is consistent with Oman's national policy aimed at limiting well production to replenish aquifers.

In a bid to avoid future shortfalls, OPWP is also working to bring considerable new capacity on-line across the sultanate's five water zones - MIS, Sharqiyah, Musandam, Duqm, and Dhofar.

Average water demand in MIS stood at roughly 746,000 cu metres per day in 2016, with the OPWP projecting 5% yearly growth to roughly 1m cu metres per day in 2023. Peak demand in the zone is expected to rise from 897,000 cu metres per day in 2016 to 1.29m cu metres per day over the same period, according to the Seven-Year Statement by OPWP. The principal sources of desalinated water used to meet potable water demands for the MIS include Ghubrah IWPP, Ghubrah II IWPP, Barka IWPP and Barka II IWPP, and Sohar IWPP.

Capacity on the grid is expected to surge in the second and third quarter of 2018, when the 281,000-cu-metres-per-day Barka IV independent water project (IWP) and 250,000-cu-metres-per-day Sohar III IWP are both scheduled to come on-line. The 102,000 cu metres per day Barka IWPP contract will also be extended to 2021 to offset the impact of retiring the Ghubrah IWPP desalination units in March 2018. Another desalination project scheduled to commence operations in Qurayyat in the fourth quarter of 2017, will contribute 200,000 cu metres per day of new capacity, equivalent to 17% of Oman's peak water demand. The combined capacity of the three major water desalination plants coming

Average water demand in the Main Interconnected System stood at roughly 746,000 cu metres per day in 2016, with 5% yearly growth projected to increase demand to 1m cu metres per day in 2023.


Reverse osmosis is favoured by Oman's seawater desalination plants

In Sharqiyah Governorate, annual average water demand is expected to grow by 7% per year, from 93,000 cu metres per day in 2016 to 115,000 in 2023.

on-line – Qurayyat, Barka IV and Sohar III – will add 731,000 cu metres per day to the grid.

OPWP also floated a tender in September 2017 seeking bids from consultancy firms to provide financial and commercial advisory services for a surface water treatment plant at a water dam at Wadi Dayqah. The IWP will be awarded on a build, own, operate and transfer basis. The next major additions to the MIS are anticipated to occur in 2022, when the 300,000-cu-metres-per-day, Ghubrah III IWP and the 200,000-cu-metres-per day North Batinah IWP are scheduled to begin operations.

GOVERNORATE GAINS: In Sharqiyah Governorate, annual average water demand is expected to grow by 7% per year, from 93,000 cu metres per day in 2016 to 115,000 in 2023. The principal source of water in the Sharqiyah Zone is currently Sur II IWP, owned and operated by Sharqiyah Desalination Company, with a capacity of 131,000 cu metres per day. This includes the 48,000-cu-metre-per-day expansion completed in the first quarter of 2017.

The temporary Aseelah IWP, awarded in January 2016 to Muscat Water, also came on-line in 2017, contributing an additional 10,000 cu metres per day with an option for a two-year contract renewal beyond expiration in 2021. The temporary IWP is a necessary stop-gap in order to meet the potable water demands of the Ash Sharqiyah North and Ash Sharqiyah South governorates before the Aseelah IWP is brought on-line to contribute 80,000 cu metres per day capacity in the second quarter of 2020. A request for proposal was issued for the Aseelah IWP in March 2016, and OPWP was planning to award the project to private developers – on a BOO basis – by the end of 2017.

In Dhofar Governorate, the Directorate-General of Water is the principal entity responsible for the supply and distribution of potable water, apart from small, private networks. Salalah IWPP, owned by Sembcorp Salalah Power and Water Company, is the only source of desalinated water for the Dhofar water network at the moment. OPWP is in the process of awarding a contract for Salalah III IWP, expected to contribute new capacity of 100,000 cu metres per day when it comes on-line in 2020.

As many as eight pre-qualified bidders were reported to have submitted bids for developing the IWP on a BOO basis. Investigation by OPWP were also under way in 2017 into a site for a third IWP, potentially to begin operations in 2022.

The new projects are required in order to meet an annual average growth rate of 9% in potable water demand in Dhofar, with demand forecast to rise from 42.6m cu metres in 2016 to 78.4 cu metres in 2023, according to the OPWP. In Al Wusta, the Duqm area is currently served by an 8000-cu-metre-per-day-capacity desalination plant owned by RAECO, and several local water sources.

With projected demand expected to grow dramatically for both industrial and domestic water as

Duqm develops into an industrial hub, there is an urgent need to develop new water supply sources to avoid a considerable shortfall.

Contributing to meeting rising demand, RAECO plans to expand its plant to produce an additional 4,000 cu metres per day in 2018. OPWP also initiated a procurement process in 2016, in response to a PAEW request for a new Duqm IWP with a capacity of 60,000 cu metres per day. This would be sufficient for meeting capacity targets up to 2023.

Lastly, in Musandam Governorate, OPWP initiated procurement of the 16,000 cu metres per day Khasab IWP with bidder pre-qualifications in the final quarter of 2016. In late 2017, OPWP was reportedly planning to tender the plant by the end of the first quarter of 2018 for early water in 2021.

OPWP is also reviewing plans to build a mobile desalination project, with a capacity to produce up to 100,000 cu metres per day to meet temporary shortages for potable water in different parts of the country. The project can be mounted either on land transport vehicles or sea-faring barges, providing mobility to various sites depending on water demand, according to the Seven-Year Statement released by OPWP. Procurement for the project was awaiting Ministry of Finance approval in 2017.

Almost universally across new projects tendered in Oman, bidders have favoured reverse osmosis (RO) technology over multi-stage flash (MSF) in the seawater desalination process due to its economic advantage. Recent examples cited by OPWP include the Salalah IWPP in Dhofar and the Barka II IWPP in the MIS, where bidders proposed to use RO rather than MSF without any specific guidance in the procurement specifications.

LOSS REDUCTIONS: The scarcity of water and the need to transport it over long distances makes it important to reduce losses to an economical and operationally manageable level. In 2016 the PAEW reported an increase in unaccounted for water (UFW) lost in distribution from desalination plants and wells to customers via pipe or tanker. UFW across Oman spiked to 39% of the total water entering the Diam system in 2016, according to Diam figures, with South Sharqiyah topping the list with 48% of UFW, followed by Muscat at 45% of UFW.

In its annual 2016 report, Diam attributed much of the distribution losses to commercial rather than physical explanations, pointing to recent changes in billing practices and pledging to carry out a more detailed review of the problem ahead of the launch of a new billing system. The authority also announced plans to address physical losses by employing better technology in active leak detection, as well as establishing a network replacement refurbishment programme that will become increasingly important as Diam assets grow older.

RENEWABLE ENERGY PROJECTS: Oman is on the verge of a major shift to renewable energy as the government rolls out regulations and projects to harness the potential of solar and wind resources.

The sultanate aims to harness 10% of its energy from renewable energy projects within the next 10 years

The prospects for utility-scale renewable energy development received a boost in 2017 with the roll out of CRTs. With organisations seeking to reduce the power they consume from the grid to make them more competitive on pricing, power and water plants are looking harder at captive solar generation.

The focus on renewables builds on the National Programme for Enhancing Diversification, also known as Tanfeedh, which was launched in 2016. The programme set a target of having renewable energy projects contribute 10% to the total power mix within 10 years. To support the government's objectives in next-generation power capacity development, OPWP is developing plans for a more rapid transition to power supply from solar plants, wind farms and coal-fired generation.

Oman's utility scale solar ambitions might yield results soon with the construction of its first large-scale solar PV IPP with installed capacity of up to 500 MW (see analysis). Tenders were launched for the project in January 2018, with an expected commercial operations date of 2020, according to the recently issued Seven-Year Statement of OPWP.

WIND POWER: The wind resources in southern Oman are another renewable energy source expected to help the country achieve its objective of diversifying its energy mix. To support future development in the wind energy sector, OPWP and Diam have established a task force to develop wind power plants. PAEW's 2016 Wind Atlas Report identified several locations for prospective wind plants, and OPWP plans to develop wind instrumentation stations to support future power development.

OPWP also floated a tender in late 2017 seeking proposals from bidders to conduct a wind resource assessment campaign in multiple locations across the country. The project is intended to develop ground data to give lenders confidence that sufficient resources are available to justify financing.

In 2016 unaccounted for water spiked to

39%

of the total

Driven by the need to optimise utility provision, Oman is investing in new approaches to water transmission

By 2022 Oman aims to divert 60% of waste away from landfills to sorting facilities, with this figure rising to

80%

by 2040

The first utility-scale wind farm in Oman and the GCC is currently being developed near Harweel in southern Dhofar region by RAECO in partnership with Abu Dhabi's renewable energy company Masdar. The $200m, 50-MW Dhofar Wind Power Project will operate under a PPA with OPWP.

In August 2017 Masdar signed a deal with a global consortium comprising the US-based General Electric and Spain's TSK to build the plant and supply the turbines. General Electric will lead the engineering, procurement and construction contract, supplying 13 of its 3.8-MW wind turbines. When all 25 wind turbines become operational, by the end of 2019, enough electricity will be generated to power an estimated 16,000 homes, representing 7% of Dhofar's installed power generation capacity.

Considering the potential intermittency of wind as a power resource, it is not currently being considered as firm capacity in supply plans. This position may change with experience of the project's electricity output. While the Dhofar region has relatively modest demand requirements for energy, wind projects are expected to gain increased importance in the event of a north-south interconnection that would allow for energy generated by wind farms in the governorate to be exported to northern areas.

WASTE MANAGEMENT: Oman's Environmental Services Holding Company, be'ah, was established in 2007 and granted a mandate in 2009 to act as the entity responsible for solid waste management in Oman. Over the past three years be'ah has changed the way waste is processed in Oman, culminating in the transfer of waste management responsibilities from municipalities to private operators.

In January 2016 be'ah awarded the first concession to Urbaser, a Spanish waste management company, to undertake the management of municipal waste in South Al Batinah Governorate. By the fourth quarter of 2017 a total of seven tenders had been issued and contracts were awarded for collection activities with the strongest bids coming from experienced waste operators in Oman (see analysis).

Prior to transferring the management of municipal waste from municipalities to private operators, be'ah set out to shift waste from dump sites to engineered landfills. The company originally aimed to close all dumps by the end of 2016, but subsequently pushed back the date of completion due to a lack of landfill capacity. Once it is completed, this process will leave the sultanate with some of the best waste management infrastructure in the broader MENA region. By moving from more than 300 dump sites to well-conceived engineered landfills, be'ah has created the conditions for increased accuracy and efficiency in auditing waste and generating data.

"In one year's time we will have better sets of data on the composition of waste that will support more efficient practices at diversion sites," Youssef Barake, managing director of waste management company Averda, told OBG. "Accurate data will allow the industry to be much more precise. The future is not only in collection, but in diversion and treatment."

By 2022, be'ah aims to divert 60% of waste away from landfills and towards sorting facilities, with this figure rising further to reach 80% by 2040. Part of achieving these goals will depend on investing in public awareness about best practices and the importance of residential waste segregation.

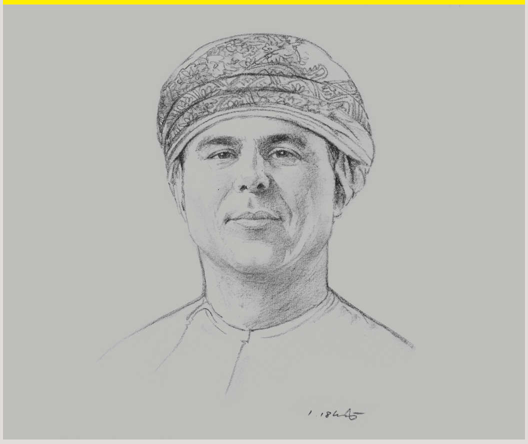
Diversion projects under consideration include waste-to-energy programmes in areas such as Fara and Dhofar, which aim to convert waste into fuel using solid recovered fuel or refuse-derived fuel techniques at industrial sites.

OUTLOOK: Driven by the need to optimise utility provision in the sultanate, the government of Oman is investing in both new technologies, and new approaches to water and power generation, as well as transmission and distribution.

Projections for electricity demand growth were revised down in 2017 over previous forecasts due to slowed economic growth and the impact of the introduction of CRTs for large consumers. The attempt to taper off-peak load by making it expensive is transforming usage in the country, with larger customers shifting production lines to avoid consuming power at peak periods.

In the water sector, the country experienced supply shortages during peak demand periods in 2017, particularly in the Muscat demand region of the MIS. In a bid to avoid future shortfalls, OPWP is working to bring considerable new capacity on-line across the sultanate's five water zones.

What is the greatest investment potential for Oman, however, lies in turning the sultanate into a global centre for solar energy research and development. The next five years will be critically important for seizing the advantage, organising an effective regulatory regime and thus demonstrating the sultanate's determination to become a global leader in renewable energy management and diversity.



Tariq Ali Al Amri, CEO, be'ah

Going green

Tariq Ali Al Amri, CEO, be'ah, on sustainable waste management

How can waste become economically productive?

AL AMRI: The global drive and increased demand for renewable energy paves the way for waste to be an economically efficient source of energy. Oman is no different: the government has put great emphasis on the use of renewable power in coming years. Therefore, we looked at some innovative options, and following the completion of feasibility studies, we could use waste-to-energy technology to run desalination plants. Should this concept come to fruition, we would be able to provide sufficient power to the proposed desalination plant and could meet up to 50% of domestic water needs.

We are also at an advanced stage in the feasibility study for a waste-to-steam option to service the oil and gas sector. Similarly, we are looking at supporting manufacturing companies with alternative fuels derived from waste that go through a mechanical biological treatment. Incorporating refuse-derived fuels into the energy mix will help reduce dependency on natural gas. This waste-based fuel would be much more environmentally friendly. We are assessing all options and we will move ahead with the ones that are both environmentally and economically viable.

What recycling programmes are being developed?

AL AMRI: We are looking at opening investment opportunities for different types of waste. We analysed the supply chain and decided to provide investment opportunities to small and medium-sized enterprises in each stream, giving them opportunities to provide collection and logistical solutions. Moving forward, we will have recycling facilities for different streams, and we are opening up investment opportunities for companies with experience in recycling. This will include recycling facilities for lead-acid batteries, construction and demolition waste, end-of-life tyres, and electronic waste. There will also be some sorting facilities located in different regions around the country. With regard to municipal waste generated from residential households, be'ah plans to introduce the two-bin system across Oman. Public attitudes towards recycling have been supportive, but the lack of knowledge about proper recycling practices and waste separation will be a challenge. It will require a cultural shift that can only be achieved through awareness campaigns in the short run and using the education system in the long run. Both of these approaches must focus on teaching future generations about being more receptive to adopting the desired behaviours. These are key factors to the success of all waste diversion initiatives.

What are some current strengths and weaknesses of domestic waste management?

AL AMRI: For a new segment it is normal and expected that we face unique challenges. The main concern is that we need to ensure we have a proper legal framework in place. We are working with the Ministry of Environment and Climate Affairs to put proper regulations and legislation in place. Despite the challenges, we have been successful and have achieved much in a short span of time. Oman is probably one of the leading countries in the region when it comes to waste management.

Health care waste (HCW) management is the first stream that has been fully developed commerically, providing HCW treatment using best practices and the highest standards. We are now treating up to 98% of the country's generated HCW. Municipal waste management is well established and is developing further in terms of infrastructure and operations. Seven out of nine regional contracts were awarded for municipal waste management services. be'ah services will cover the entire sultanate by 2019 using the most optimal equipment and practices at our disposal.

Meanwhile, efforts to manage hazardous waste are ongoing. Temporary storage facilities and specially engineered landfills dedicated for this kind of waste are ready for use. In the near future, we will be setting up a fully integrated hazardous waste treatment facility.

Oman is working to expand its waste-based energy generation capacity

A new approach

Privatisation of municipal waste management nears completion

The Oman Environmental Services Holding Company – known as be'ah – is close to completing the transfer of waste management operations to international operators in each of its 11 governorates. The move is part of a waste management plan to modernise and restructure the handling, treatment and disposal of municipal solid waste (MSW), expanding Oman's recycling capacity and waste-based energy generation.

Companies that have been awarded contracts include Spain's Urbaser, currently working for the Al Batinah South governorate; Dubai-headquartered Averda, which won the contract to manage Ad Dakhiliyah and Dhofar; and a joint venture between Oman's Al Ramooz and France's Veolia for operations at Al Dhahirah and Buraimi. Al Batinah North and Musandam will be operated by a consortium of Oman's Khimji Ramdas, the UAE's Imdaad and India's Ramky Enviro Engineers. South Al Sharqiyah has been awarded to Suma from Portugal. Details of the two biggest contracts – for operations in Muscat – are still to be announced.

Part of the handover process includes a move by be'ah to permanently close all of the country's 317 dump sites, which have been deemed both environmentally and hygienically unsuitable. The dump sites will then be replaced by 10 or 11 engineered landfill sites, and between 18 and 25 transfer stations. Over 220 dump sites have already been closed, with the remainder set for closure by early 2019, according to Mohammed Sulaiman Al Harthy, executive vice-president for strategic development at be'ah.

ALTERNATIVE APPROACHES: The transfer of MSW management to the private sector is a key step in Oman's strategy to transform its waste into something of economic and environmental benefit. be'ah aims to divert 60% of waste away from landfills, which includes converting waste to energy to water, biogas and other sustainable alternatives by 2022, with the figure rising to 80% by 2040. Currently, 100% of waste goes directly to landfills. In the longer term, Oman is pursuing a wide range of approaches to waste processing. Studies are being carried out for a number of programmes, including waste-to-energy and biogas projects. Raising public awareness will also be key. "As Oman's waste management sector works to divert waste away from landfills to sorting facilities, achieving this goal will depend on the efforts of waste operators" Youssef Barake, managing director of Averda told OBG. "Nevertheless, it will also depend on investing in public awareness about best practices and in developing waste segregation at the household." A two-bin recycling system will be implemented nationwide following the formal handover of MSW services to private players, which is expected to be completed in the next few years. One of the success stories of the waste management policy has been in the health care sector, which now processes approximately 100% of health care waste at three facilities in Muscat, Dhofar and Al Batinah North.

RISING WATER DEMAND: Waste is also seen as a solution to the sultanate's rising water demands. be'ah has completed feasibility studies for a waste-to-energy-to-water programme, for which the authorities are expected to float a tender in 2018 and begin operations by 2021. "Developing a waste-to-energy-to-water programme is of national importance," Al Harthy told OBG. "The programme should be operational by 2021 and could supply a substantial amount of Oman's water needs." To meet demand for potable water – reported to be rising by 15% every year the Public Authority for Electricity and Water – recently rebranded as Diam – has announced plans to implement water projects worth over $83m, including six new reservoirs and improvements to water distribution infrastructure.

Operations in the Qurayyat water desalination plant, which has the capacity to produce 200,000 cu metres of water per day, were planned to begin in late 2017, followed by a 281,000-cu-metre-per-day desalination plant in Barka and a 250,000 cu-metre-per-day desalination plant at Sohar in 2018, according to local media.

Oman aims to permanently close all of its 317 dump sites, which have been deemed environmentally and hygienically unsuitable. The sites will be replaced by 10 or 11 engineered landfill sites, and between 18 and 25 transfer stations.

Feasibility studies for a waste-to-energy-to-water programme have been completed, for which the authorities are expected to float a tender in 2018 and begin operations by 2021.

Oman receives high-intensity sunlight for 320 days of the year

A bright future

High solar insolation levels put Oman's renewable energy goals within reach

Oman aims to add
3-4 GW
of renewable generation capacity by 2030

Solar power generation in Oman is growing in prominence, driven by rising efficiencies, the falling cost of photovoltaic cells and lower oil revenue since 2014 Keen to reduce government expenditures and commit a greater share of oil and gas resources to more profitable purposes than feedstock for electricity production, Oman's official objective is to reach 10% of consumed energy from renewables by 2030, at which point it aims to have added between 3-4 GW of renewable generation capacity.

The sultanate receives among the highest amounts of solar radiation in the world, particularly in its desert areas, where Marmul, Fahud, Sohar and Qairoon Hairiti have the highest insolation of solar energy, according to a Renewables Readiness Assessment report by the International Renewable Energy Agency. There are 320 sunny days per year and high-intensity sunlight can peak at some 6000 watt-hours per sq metre. This abundance of solar resources makes the ongoing shift to renewables in the country all but inevitable.

Major long-term gains include transportation and battery storage or 'power-to-gas' technology solutions to store the surplus solar power produced when the country begins generating more than it consumes during the day within the next ten years. Unless that excess electricity is stored, the country will have to depend on natural gas and diesel power plants at night. In the short term natural gas is certain to remain the backbone of electricity generation in light of fluctuating output from solar and wind.

UTILITY-SCALE SOLAR PROJECTS: Oman's utility-scale solar ambitions might yield results soon, with the sultanate gearing up to call for tenders for its first large-scale solar independent power project (IPP). Oman Power and Water Procurement Company (OPWP) has signed up a consortium of international consultants comprising top German engineering consultancy Fichtner, international investment banking and advisory services firm Synergy Consulting and global law firm DLA Piper to identify a suitable location, develop tender documents and deliver a cost-effective procurement methodology for a utility-scale solar photovoltaic (PV) power project of up to 500 MW under the build-own-operate (BOO) model. The installed capacity planned for the project represents a significant departure from the capacity of around 200 MW originally envisaged by OPWP when the initiative was first unveiled in 2016.

A request for quotation was issued in December 2017, with the project expected to be awarded by the third quarter of 2018 and commercial operations projected to begin in 2020, according to the recently issued Seven-Year Statement (2017-23) of the OPWP. The Ibri in Dhahirah, Manah and Adam in Al Dakhiliyah governorates, have been suggested as possible sites for the project; however, no decision has been made yet on the configuration of the project or its ultimate location.

Oman's maiden utility-scale solar power venture is expected to serve as a springboard for future procurement initiatives to tender new power generation capacity that will be operational in 2024, according to the OPWP. The country has already experimented with smaller rollouts in remote areas, with The Rural Area Electricity Company launching a 307-KW solar project in Al Mazyona in Dhofar Governorate, in 2015, reducing emissions by 433 tonnes, saving 155,000 litres of diesel. It makes up a large share of Oman's current installed solar capacity of 8 MW.

Due to the declining cost of PV panels, solar energy has also become attractive as a resource to power water desalination. Solar thermal desalination processes using solar collectors are being tested in pilot projects and are expected to become available as commercial solutions in the near future.

SMALLER INITIATIVES: Oman is also planning to support residential PV through the Sahim initiative

Oman receives among the highest amounts of solar radiation in the world, particularly in its desert areas, where Marmul, Fahud, Sohar and Qairoon Hairiti have the highest insolation of solar energy.

launched by the Authority for Electricity Regulation (AER) – Oman's power sector regulator – in 2017. A recent study commissioned by Diam, the Public Authority for Electricity and Water, revealed that PV systems installed on residential buildings in the sultanate could offer an estimated 1.4 GW of electricity, with the Muscat Governorate alone capable of generating some 450 MW – similar to a mid-sized gas-based power plant. The introduction of the Sahim programme allows residents to install solar rooftop panels while connected to the national power grid to reduce load on electricity generation and ultimately allow excess energy to be sold back to the grid. Connection to the grid had not previously been facilitated by the AER.

Other local initiatives under way across the sultanate include a Diam solar project running water wells in remote areas, using installed solar panels with a productive capacity of 10 KW per hour to produce 2200 gallons of water per hour for approximately 80 homes in Al Dhakhiliyah governorate. Some prominent players, including Majan Electricity Company and Sultan Qaboos University, have also adopted pilot schemes to generate solar power.

In manufacturing, the Oman Investment Fund and China-based Ningxia Zhongke Jiaye New Energy and Technology Management in May 2017 entered an agreement to develop a solar panel production plant in the Special Economic Zone at Duqm. When commissioned by the end of 2019, the $94m-project will make panels for power plants and residential buildings that will generate around 400 MW in the first phase and 1000 MW of energy in the second. International oil companies are also contributing to gains in solar penetration across Oman. In 2017 Shell carried out solar installations in schools at four different locations as a part of the pilot phase of its "Solar into Schools" initiative, helping to contribute to Oman's energy transition by reducing grid-supplied electricity demand by at least 150 MWh per year per school. By training Omani small and medium-sized enterprises to install solar PV systems into a total of 22 government school buildings across the sultanate for a period of five years, the programme also helps build a platform for the development and implementation of other small-scale solar projects.

SOLAR-POWERED OIL PRODUCTION: Seizing on the momentum in renewables and in light of the prolonged oil price downturn, majority state-owned Petroleum Development Oman (PDO) reportedly plans to become a full-fledged energy company over the next decade, encompassing hydrocarbon and renewable energy generation, as well as water management. In late 2017 the company was in the process of rebranding to Energy Development Oman to provide consulting services beyond the oil and gas sector. PDO is an early pioneer in large-scale projects in Oman, launching the 7-MW pilot for the GlassPoint Miraah concentrated solar power project in 2015, completing the first phase of the 1021-MW solar thermal facility in the fourth quarter of 2017.

As output from solar and wind generation is varied, natural gas utilisation is likely to continue in the short term

The project harnesses solar energy for enhanced oil recovery purposes at PDO's Amal West oilfield, using large mirrors to concentrate sunlight and generate up to 6000 tonnes of steam per day at full capacity.

PDO is also in the process of completing the installation of 19,500 PV cells in their Muscat compound to generate 6 MW of electricity, and announced plans in 2017 to float an invitation to tender for up to five 20-MW solar projects in concession areas, mainly scattered between Bahja and Marmul. The project aims to save gas by offsetting the consumption of power produced by conventional gas-powered plants with electricity from solar generated power. The initiative also presents PDO with an opportunity to refine best practices in support and service for PV solar facilities in PDO's operating environment. The company expects the 100-MW venture to introduce an equivalent fuel saving of 70.5m cu metres of gas per year ($17m annually), reducing its dependency on conventional gas turbines and cutting overall CO2 emissions by roughly 8550 tonnes per annum.

Projects like the utility-scale 500-MW solar power project, PDO's GlassPoint Miraah and AER's Sahim initiative have the potential to generate significant value for Oman, creating new opportunities for supply chain development, manufacturing capability, employment and training, which could turn the sultanate into a global centre for solar energy research and development. Success in implementation should be underpinned by the government's regulatory policies, fiscal incentives and public financing.

With its strong solar resources and strong insolation levels, Oman now has the opportunity to pioneer solar technologies and establish an advanced professional skills base in modern solar-efficient architecture and energy management. How quickly and effectively the sultanate embraces the potential of solar energy will be dependent on its leadership.

Photovoltaic systems installed on residential buildings in the sultanate could offer an estimated 1.4 GW of electricity, with the Muscat Governorate alone generating 450 MW – similar to a mid-sized gas-based power plant.

Efforts to strengthen Oman's transmission infrastructure under way

Powered up

Grid improvements to save fuel and increase security

A 220-KV interconnection between Oman's Main Interconnected System and Abu Dhabi's power system at Mahadha has been commercially operational since 2012.

Oman's electricity networks underwent a major renewal in 2017, with the aim of strengthening transmission infrastructure, enhancing reliability and achieving fuel savings. Interconnectivity is playing an increasingly prominent role in shaping procurement strategies and guiding industry development.

UAE INTERCONNECT PROJECT: At a regional level, the phenomenon of interconnectivity is not new to Oman. A 220-KV interconnection between Oman's Main Interconnected System and Abu Dhabi's power system at Mahadha has been commercially operational since 2012. The UAE interconnect provides Oman with access to the power systems of the other five member states of the GCC Interconnection Authority (GCCIA). Benefits of this include potential contingency resources of up to 800 MW in times of emergency, and the opportunity to trade electricity and coordinate planning and operating reserves. It has provided emergency reserves on a number of occasions, and in 2016 Oman Power and Water Procurement Company (OPWP) completed a power exchange transaction with Abu Dhabi Transco, importing 200 MW during the peak summer months of May and June and exporting 200 MW in July and August. The exchange demonstrated the potential of energy trading for net fuel savings at no cost.

OPWP is now working with Oman Electricity Transmission Company (OETC), the Authority for Electricity Regulation and the GCCIA to finalise the access conditions that will enable scheduled trading arrangements. The option presents OPWP with development alternatives to local generation. By 2021, the UAE is expected to have a nuclear plant contributing 25% of the power requirements in the country. If surplus energy from the UAE can be imported at competitive rates, OPWP's local generation procurement may be called into question.

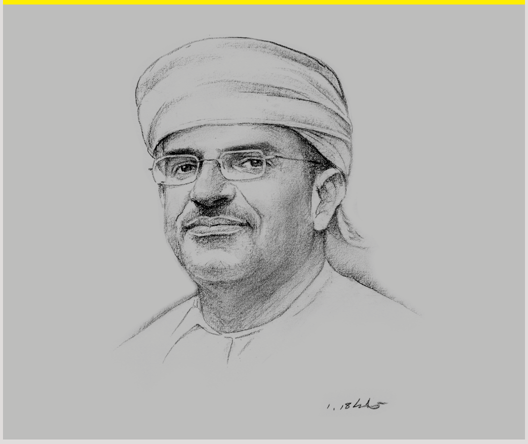
NORTH-SOUTH INTERCONNECTION: Domestically, OPWP, OETC and Petroleum Development Oman (PDO) were working together under a memorandum of understanding in 2017 in order to evaluate the costs and benefits of significantly expanding the capacity of interconnection with a north-south interconnector project – a proposed 400-KV transmission link from Nizwa to Duqm, PDO's concession areas and the Dhofar power system. The PDO power system at Nizwa is already connected with the Dhofar power system between Thumrait and Harweel to support reserve sharing in contingency scenarios.

As outlined in OPWP's Seven-Year Statement, benefits of the proposed north-south interconnection include increased grid security and fuel savings due to improved dispatch coordination and trading among power systems. Duqm will also gain access to power generation resources in the Main Interconnected System, which will become increasingly important for grid stability and security as the area develops into a major industrial and economic centre. A technical and economic study is under way that will recommend project timing, the best route and savings projections to the government. For greater linkage between the country's energy networks, the OETC is also implementing an ambitious plan to strengthen Oman's transmission infrastructure. It recently contracted Siemens to supply four shunt reactors for installation at 400-KV substations in the town of Izki and the city of Ibri. Scheduled for 2018, the reactors are vital for protection from voltage surges on long transmission lines, improving grid stability and increasing efficiency.

The benefits of a proposed north-south interconnection in Oman include increased grid security and fuel savings due to improved dispatch coordination and trading among power systems.

FUNDING: To fund the $2bn capital expenditure programme to revamp Oman's distribution and transmission network, Nama Holding – which holds the government's stake in nine electricity firms – has embarked on a long-term borrowing and privatisation plan for subsidiary companies.

In late 2017 OETC was considering issuing US dollar-denominated Islamic bonds, and two subsidiaries of Nama Holding – Majan Electricity Co and Muscat Electricity Distribution Company – were in the process of raising syndicated loans of $165m and $200m.



Omar Al Wahaibi, CEO, Nama Group

Prudent practices

Omar Al Wahaibi, CEO, Nama Group, on developing sensible consumer habits and improving the sector's performance

What needs to be done to reduce energy loss and improve efficient consumption?

AL WAHAIBI: Oman's sole procurer of electricity, Oman Power and Water Procurement Company (OPWP), a member of Nama Group, ensures that the most efficient and suitable generation technology is utilised. This is encouraged and supported by the provisions of the Law for the Regulation and Privatisation of the Electricity and Related Water Sector 2004 (Sector Law), which mandates that OPWP must procure energy on the most economic basis. Combined-cycle gas turbines certainly play a prominent role in the sultanate's current generation capacity and will continue to do so.

Energy efficiency is a far-reaching concept that involves the collaboration of many players, including the government, regulators, manufacturers and society, in order to be implemented. Increasing energy efficiency requires strategic fuel utilisation for electricity generation, adequate transmission and distribution, and economical consumption from customers. It calls for the specification of imported electrical equipment, guidelines for operating this equipment and building codes for insulations.

It also necessitates the introduction of renewables and electricity tariffs that promote the desired efficiency in consumption. Given the wide range of factors necessary for improving efficiency, I would say that the sultanate is at the beginning of the road, and that it has a long way to go in this field. There is momentum, and we hope that government policy in the future will enable the sector to pursue energy-efficiency objectives faster.

Distribution companies have achieved major improvements in energy loss minimisation over the past decade. In addition, the Authority for Electricity Regulation (AER) is incentivising companies to take action to reduce the electricity losses even further. These companies have prepared plans and initiatives. Currently, automatic metre reading (AMR) is applied to high-value customers whose consumption is above 150 MWh, and who are subject to the cost-reflective tariffs. AMR supports the reduction of electricity losses from these customers by obtaining accurate metre readings and detecting any issues in electrical connections that might increase electricity losses.

The implementation of AMR enables distribution companies to obtain the metre reading of these high-value customers multiple times throughout the day, and can thus apply cost-reflective tariffs (CRT). CRTs are designed to promote the efficient use of electricity by incentivising customers to avoid consumption at peak times. With CRTs and the use of AMR, consumers will be able to monitor their consumption regularly and choose to manage it more efficiently. As a result, customers may eventually contribute to reducing peak consumption.

How satisfied are you with the pace of privatisation in the power sector and the growth of supply competition in the market?

AL WAHAIBI: In view of the present global situation, the listing and private placement of shares of the Muscat Electricity Distribution Company (MEDC) have been suspended. We are contemplating the MEDC's privatisation through alternative modes of strategic partnership. Nama Group will facilitate the privatisation of MEDC and of other eligible subsidiary companies in the electricity sector in a timely manner. A consortium of advisors will be appointed to advise Nama Group on this privatisation initiative.

Supply competition is being guided by the AER, which believes that the Omani market is ready for it. The AER will initiate the consultation and preparatory work required by the Sector Law prior to submitting proposals to government, and it intends to publish its position on the readiness of the market with regard to the introduction of supply competition.

Construction

Sector growth bolstered by diversification efforts
A substantial project pipeline holds major potential
Regulatory reform likely to boost role of private sector
Building materials sales rise as prices hold steady




MUSCAT STEEL GROUP

MUSCAT STEEL INDUSTRIES L.L.C

Muscat Steel Industries L.L.C an ISO 9001:2008 certified company, was established in 2009 to produce High Yield Strength Reinforcement long steel products (8 mm - 32 mm) with a capacity of 400,000 TPA primarily to cater growing demand of steel in construction industry.

MUSCAT STEEL DISTRIBUTORS

Muscat steel Distributors (Cut & Bend Division) is equipped with modern machinery of advanced technology for Cutting and bending of reinforcing steel which results in shorter delivery times, reduced wastage and higher accuracy in dimensions, with a capacity of 100,000 TPA.

MUSCAT STEEL MELTING COMPANY LLC

Muscat Steel Melting Company LLC, came to existence for construction of Steel Melting Plant in Rusayl Industrial Estate, Rysayl, Sultanate of Oman since January, 2012 & commissioned in Q3-2014 with the capacity of 250,000 TPA Steel Billets through secondary steel metallurgical (EAF-LRF-CCM) process route. We intended to support growing demand of steel for development of Sultanate of Oman technologically, economically, environmentally & socially.

MUSCAT SUPPLY COMPANY - FOR INDUSTRIAL & ELECTRI AL PARTS LLC

Muscat Supply Company is one of the largest local, distributor of all types of bearing, oil seal, power transmission products such as V-Belt, Timing belt, pulley, chain, sprocket and bushes. Also we have a large range of crusher spare parts like conveyer belt, Idler rollers, Electrical motors and gear box for crushers. The company has been established in 2012 Located in Ghala Industrial Area, Muscat, Sultanate of Oman.

AL AWAM TRANSPORT TRADING & CONTRACTING CO. LLC

Al Awam Transport Trading & Contracting Co. LLC, as one of the Leading Transport Contractors, in the Sultanate of Oman, operating since from 1983 through our office located at Ghala near the Grand Mosque.

We are well reputed in the field of transporting Fuel, Vehicles, Building Materials, Containers, Dry cargo to various locations both in Sultanate of Oman and other GCC Countries.

We have a most modern fleet of Prime Movers, Fuel tankers, Car carriers, Tipping Trailers, Flat Bed & Low Bed Trailers., with a full-fledged workshop and a mobile workshop, to provide you a prompt & very efficient service to cater all your transport needs.

MUSCAT LEADING CONSTRUCTION AND BUSINESS LLC

Muscat Leading Construction and Business LLC was established in the Sultanate of Oman & operating since 2012.

Prime Activities: Sale of all types of oil lubricant, Buying, selling and sub dividing real estate into plots, Retail of construction materials, Construction of warehouses, Building & Construction of residential & non-residential buildings, Renting & operating self- owned or leased real estate (residential & non-residential). We are the sole distributors of CYCLON Lubricants (one of the Leading lubricant brand in Europe & Africa) in Oman, for supplying right lubricants for the critical equipment as well as a complete range of Industrial fittings.

MUSCAT LEADING PLASTIC COMPANY LLC.

Muscat Leading Plastic Company LLC was established in the Sultanate of Oman & operating since 2013.

Prime Activities: Producer of water Tanks & ROAD SAFETY BARRIERS, Plastic Bags & Bottles, CIVIL POLYTHENE SHEETS, RECYCLED HDPE & LDPE MATERIAL and Recycle of Plastics materials.

www.muscatsteel.com

PRODUCT CONFORMITY

CARES 100501 UKAS PRODUCT CERTIFICATION 002

CARES 1250 UKAS MANAGEMENT SYSTEMS 002

Far-reaching diversification efforts are driving industry growth

Holding steady

The sector weathers external forces to continue posting solid growth

Faced with public investment cutbacks and a broad economic slowdown in the wake of lower oil prices, Oman's construction sector continues to grow at a brisk pace, bolstered by state-led diversification efforts, high income levels and relatively low labour costs. The building industry grew by a robust 10.4% in 2016, up markedly on the two previous years, latest official full-year data show as of January 2018, with sector investment staying buoyant at 5.5% growth. In 2017, however, the sector faced challenges related to the lower oil price environment, not least of which included payment delays. "Payments by government bodies for already concluded projects would help to alleviate cash flow concerns in the contracting and design sectors," Kevin Ellis, general manager of Majan Engineering Consultants, told OBG. As the largest segment of the non-oil economy at roughly 45%, construction remained a pillar of government efforts to steer the country's productive industries away from hydrocarbons under its medium-term ninth five-year plan, which covers the 2016-20 period, and long-term blueprint Vision 2040.

YEAR AHEAD: The challenge in 2018 will be maintaining this strength in the face of external pressures. Oil prices edged as high as $69.71 per barrel by mid-January 2018, but have remained low enough for the authorities to continue their efforts to rationalise spending. Regional unrest has boosted short-term demand for Omani exports such as cement (see analysis), but also fuelled uncertainty and deflated budgets among some foreign buyers. In any case, long-term forecasts suggest the days of $100-plus oil prices are over, and that, like its GCC neighbours, the country will have to continue adjusting outlays and finding new ways to optimise costs, with big implications for construction. "A lot of the middle-scale industries have been affected by the economic slowdown for the last two years," Sudarshan KV, general manager of Gulf Stone Company, told OBG. "The outlook for 2018 remains positive; however, companies will have to become more efficient and minimise operational expenses in order to remain competitive." Therefore what authorities do internally is vital. As monetary tightening across the developed world raises competition for investors' liquidity, reforms affecting construction could provide vast new opportunities for private firms, lure foreign direct investment and reduce unsustainable dependence on the public sector. "Every large project now has major foreign investment: that is the way forward," Sreejith Kesavan, operations manager at The Oman Construction Company, told OBG. Regulators could also draw new investment if they pass proposed changes to labour laws and follow through with a pledge to expand use of public-private partnerships (PPPs) in public works (see analysis). The trick lies in balancing cost constraints against traditional notions of Oman's social contract.

SIZE & PERFORMANCE: In 2016 Oman's construction sector was worth OR2.29bn ($5.9bn) at current prices, or 8.9% of GDP, per the latest full-year data from the National Centre for Statistics and Information (NSCI). This was up from the previous two years, from OR2.07bn ($5.4bn) and OR1.9bn ($4.9bn), or 7.8% and 6.1% of GDP, respectively. In real terms, over 2014-16 the sector posted annual growth rates of 6.6%, 8.9% and 10.4%, even as the effects of low oil prices extended into the public budget and broader economy. More recently, in the first half of 2017, the sector recorded a fall of 7.1% year-on-year, to OR1.05bn ($2.7bn) at current prices – a result of oil-price-related cutbacks in both the public and private sectors. Its true economic impact, however, is larger than this. In 2016, aside from the above OR2.29bn ($5.9bn) figure, which accounts for gross value added, the sector also drove intermediate consumption worth OR3.84bn ($10bn) and employee compensation worth another OR915m ($2.4bn) at current prices, according to the NSCI. This implies a comprehensive GDP contribution of over OR7bn ($18.2bn). The construction sector is considered a bulwark of diversification, making up 44.5% of

In real terms, between 2014 and 2016 the construction sector posted annual growth rates of 6.6%, 8.9% and 10.4%, even as the effects of low oil prices extended into the public budget and the broader economy.

In 2016 the construction sector was worth

$5.9bn

As of November 2017 the industry's labour force counted 56,034 Omanis and 630,012 foreigners, with male workers making up 80% of the former and 99.8% of the latter.

the non-oil economy in 2016, ahead of manufacturing (42.1%); utilities (10.7%); and mining (2.7%), according to the Central Bank of Oman.

INVESTMENT: Levels of investment have stayed robust even in a low oil price context. Gross fixed capital formation from construction in 2016 was OR5.56bn ($14.4bn) at current prices, nearly three-quarters of the country's total, with a real growth rate of 5.5% that year, down from 8.9% and 6.6% in the two previous. Investment in a related category, machinery and equipment, fell by 27% in both 2015 and 2016, compared with an average of 12.6% in the previous four years, while that of intangible fixed assets saw a fall of 2.9% and gain of 12.7% in those two years. These broad up-trends recorded in recent years have made the sector a key contributor to overall investment.

SPENDING: In 2016 the state cut spending on public works from OR3.27bn ($8.5bn) to OR2.9bn ($7.5bn). Of this, 36.6% went to infrastructure, down from 43.8% in 2015, with the majority going to roads, OR389m ($1bn); education, OR242m ($628.4); and airports, OR192m ($498.6m). Meanwhile, 9.5% of the allocation, down from 10.2% the year prior, went to service production projects, mostly in housing, OR148m ($384.3); water, OR112m ($290.8m); and tourism, OR9m ($23.4m). Banks have granted a substantial amount of loans to the sector in recent years. In 2016 total credit issued reached OR2.27bn ($5.9bn), up 8.8% on the previous year and 28% on 2014. The industry also made up the second largest chunk of total bank lending at 11.5%, after consumer credit with 40%. This put it above services (8.6%), manufacturing (7.7%) and import trade (5.8%). However, "financing costs have gone up in the past year due to higher interest rates, which has put more pressure on contractors," Ghassan Shammas, general manager of local contractor Target, told OBG.

LABOUR FORCE: In line with the pattern across the GCC, workers in Oman's construction sector are overwhelmingly expatriates. As of the latest NSCI data set from November 2017 in a country of 4.6m, the industry's labour force counted 56,034 Omanis and 630,012 foreigners. The former were 80% male while the latter were an overwhelming 99.8%. One reason for the predominance of expatriates in the industry's workforce is "there is little interest among Omanis to work in the construction sector," Bassam Addada, area general manager of Consolidated Contractors Company Oman, told OBG. As for their share of private sector employment, expatriates consisted of 36.4% of the construction sector in 2016, down from 39.1% the previous year but still well above the ratios for wholesale, retail and repairs (13.8%), manufacturing (12.3%), domestic servants (10.9%), hospitality (6.3%) and real estate (5.1%). Overall, however, with regulatory changes under way "a more flexible labour market would generate economic activity, which would in turn create more jobs for Omanis," Alex Clark, CEO of Omani construction firm Special Technical Services, told OBG.

REGULATION: Construction in Oman is regulated by state agencies whose mandates overlap with various spheres of sector activity. The chief entity is the Ministry of Commerce and Industry, which exercises broad supervisory powers over the sector, has authority to develop legislation and policies, is responsible for providing services that enhance investment, and has a hand in ensuring a healthy business environment. It also oversees Oman's industrial estates – including those built or being built at the three main port cities of Sohar, Salalah and Duqm, and those inland such as Nizwa, Samael and Al Rusayl – and directs the development of infrastructure to facilitate investment and expand the estates' ability to help diversify the economy. Other agencies have auxiliary roles. The Ministry of Manpower, founded by royal decree in 2001, governs the country's workforce, enforces occupational health and safety, develops labour law, conducts vocational training programmes and administers Omanisation quotas. The Public Authority for Small and Medium Enterprises Development runs programmes supporting small and medium-sized enterprises, of which construction has tens of thousands. For foreign investors, the country's Invest Easy portal, set up in the early 2000s before transitioning to an electronic window in 2006, serves to ease commercial registrations and the processing of government documentation.

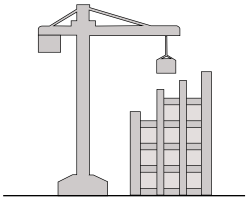
NON-STATE ACTORS: A founding member of the GCC, Oman is part of the GCC Council of Ministers of Labour and Social Affairs, which coordinates the bloc's policies to ensure labour law is in line with global standards. It also has an active role in the Arab Labour Organisation, the manpower arm of the League of Arab States. The country joined the International Labour Organisation by royal decree in 1994 and has since participated in annual technical committees held in Geneva. In 2007 the Ministry of Social Development approved the establishment of a public body called the Oman Society of Contractors to represent the interests of the building community and tackle brainwork on some of the sector's biggest challenges, such as vocational training and enticing more Omanis into the industry. Recently it has become known for its work on labour laws, notably its policy proposals aimed at making Omanisation targets more flexible for businesses. "The current mandate of 30% is unrealistic: the actual level now is around 8%, so full compliance would imply creating 210,000 jobs for Omanis overnight," its CEO, Shahswar Al Balushi, told OBG. "Our proposal is based on the idea that Omanisation is not about numbers but quality. The ideal system would use a combination of direct hiring, vocational training and government waivers exchanged for a fee that is then routed into training more Omanis."

LAND OWNERSHIP: The Land Law (Royal Decree 5/1980) declared all land with no provable title as state property, and there is a general prohibition on foreign holdings of absolute title. However, the law broadly recognises corporate ownership of real estate in various forms, albeit with some key restrictions. Limited liability companies, to be entitled to freehold land rights, must be wholly owned by Omanis or GCC citizens, while public joint stock companies must be at least 30% Omani-controlled, following the relaxation of the previous quota of 51% in 2010. Use of such land is restricted to purposes of administrative offices, warehousing, staff accommodation or "as a special-purpose premise for achieving the company's objectives," according to local law firm Curtis, Mallet-Prevost, Colt & Mosle. Real estate developers, however, are granted an exemption to build and resell residential and commercial units, and GCC-owned entities are permitted to purchase real estate for investment purposes, though they are then required to develop vacant plots within four years.

FOREIGNERS & LAND: Foreign companies from outside the GCC have three main options. First, if ineligible for outright ownership, they may be granted usufruct – "use and enjoyment", or stewardship – rights that are tantamount to freehold ownership, allowing them to use land for projects that contribute to economic or social development. Though temporary, such arrangements are often made for 50 years, and are typically renewed upon expiry if the activity carried out on it is productive and complies with applicable laws. Second, a foreign firm may hold 100% ownership of companies whose local operations reside within areas specified as freezones or special economic zones (SEZs); firms may gain usufruct rights to land in SEZs. Lastly, following a royal decree in 2006, foreigners can own land or build units in areas called integrated tourism complexes (ITCs). These areas, usually required to comprise commercial, residential and tourism components, entitle foreign firms to buy units from a developer.

SETTING: The backdrop for 2018 forecasts is one of cautious optimism. The fall in oil prices that began in 2014 had a big impact on Oman's budget in 2016, squeezing state spending and causing many projects to be cancelled or postponed. This began to change at the end of 2017, however, and in January 2018, oil prices rose again up to $70 per barrel. According to MEED, the recovery has eased the pressure on state finances in the GCC, and the pace of recent economic reforms should boost confidence and expand use of the PPP model, though capital spending will remain restrained.

RECENT ACTIVITY: In this context, a substantial project pipeline continues to move forward. Active construction projects in Oman reached a total value of $195bn in December 2017, according to calculations from BNC Network, a digital intelligence platform that tracks this activity across the Middle East, now tallied regionwide at 28,500 projects worth $3.4trn. One mainstay of this activity is public procurement. At its latest meeting held in August 2017 – its seventh that year – Oman's Tender Board approved another 15 construction contracts worth OR5.7m ($14.8m), following the previous two meetings whose contracts were worth a combined OR20.6m ($53.5m) and OR61m ($158.4m), respectively. These spanned multiple government ministries and ranged from building roads and dams to office buildings and housing complexes – and tendering of public works projects is expected to continue at a similar pace in 2018. "In 2018 contract activity will likely be concentrated in hospitality, health care, industrial



Active construction projects totalled
$195bn
in December 2017

Oman accounts for 10% by number and 9% by value of all active construction projects in the GCC

construction and consolidation of public buildings," Kevin Ellis, general manager of Majan Engineering, told OBG, "But the environment is very cost-conscious: it is a buyer's market and contractors are bidding low." All told, Oman currently accounts for 10% by number and 9% by value of all active construction projects in the GCC, according to BNC. Five Omani projects stand out for their complexity, long-term nature and size, with a combined cost of nearly $48bn.

NATURAL GAS OPERATION: The first of these is the Khazzan natural gas project, a long-term oil and gas development that will comprise over $15bn in investment and has made significant progress, recently starting production on phase one and now gearing up for phase two. Granted exploration rights under a production-sharing agreement signed in 2007, BP confirmed over the next six years the existence of substantial tight gas resources in Block 61 – a desert site 350 km south of Muscat which contains the Khazzan field, home to an estimated 10.5trn cu feet of recoverable gas resources. Phase one of development, commissioned in 2013 and ratified by royal decree in early 2014, officially commenced first production in September 2017.

The project has been a fillip for the construction sector: phase one required building 56 km of roads, thousands of metres of power lines and broadband networks, and a 60-km water pipeline, as well as foundations and structures for the gas processing plant. This is in addition to supporting infrastructure that had to be built, including a water treatment plant, waste management area, an electrical power substation and accommodation units for 12,000 construction workers. Khazzan has been a boon to local contractors: BP says 38% of total contract spending has gone to domestic firms. Drawing from 200 wells to feed a dual-train processing plant, first-phase output is expected to plateau at 1bn cu feet per day, making it BP's largest project to commence production in 2017 – which according to BP was switched on "ahead of schedule and under budget".

38%
of total contract spending for the Khazzan natural gas project has gone to domestic firms

This bodes well for phase two, known as Ghazzer, which will expand output to 1.5bn cu feet per day, fed by another 100 wells to be drilled over the field's lifetime. To allow this, an amendment to the original licensing agreement of November 2016 has expanded Block 61 by another 1150 sq km, from 2700 sq km, creating further potential exploration and building opportunities.

INDUSTRIAL CITY: The second major project is the $10.7bn Sino-Oman Industrial City being built in Duqm. Led by a consortium of six Chinese companies called Oman Wanfang, the industrial city is set on 11 sq km in the Duqm SEZ and will be dedicated to light manufacturing, heavy manufacturing, and mixed-use development. There is much building still to be done: the city's 35 planned projects include an oil refinery, methanol plant, automobile assembly plant, solar panel factory, oil and gas equipment-making plant, centre for distributing building materials, petrochemicals complex, concrete plant, steel smelter, glass factory and aluminium plant.

To support this, the city plans to build accommodation for 25,000 people, schools, offices, a hospital, a sports centre and a tourism zone with a five-star hotel. Having signed a deal in May 2016 for 50 years of development rights, Oman Wanfang broke ground in April 2017, pledging to finish 30% of its planned projects by 2022, implying big contracts ahead for both domestic and foreign firms. According to the consortium's chairman, Ali Shah, Chinese banks are financing the city's infrastructure, with individual companies funding their own facilities within it. Many of the initial contracts have already been awarded throughout the SEZ. In November 2016 the zone's regulator, the Duqm Special Economic Zone Authority (SEZAD), signed a deal worth OR107.3m ($278.6m) with a joint venture between two foreign contractors – Turkey's Serka and Portugal's MSF – for a large infrastructure package called IP2, an important precursor to the operation of Duqm's four planned commercial terminals. In February 2017 it awarded contracts worth OR84.7m ($219.9m) to build roads, stormwater drains, and dams in the SEZ.

In April 2017 some 10 agreements worth $3.2bn were signed by Chinese firms alone to build the hotel as well as plants for water desalination, power generation, synthetic pipes, building materials, bromine, automobiles and equipment for the energy sector. More deals look set to follow: in September 2017 Oman Wanfang signed a memorandum of understanding (MoU) with the Chinese Petrochemical Industries Federation to its network of private firms to build petrochemical plants, oil storage structures and other facilities in Duqm.

TOURISM COMPLEX: The third large project is an ITC called Little India to be built in the port city of Duqm. At a cost of OR288m ($747.8m), the mixed-use development will be located in the Duqm SEZ and include beachfront villas and apartments, commercial offices, a marina and five-star hotel, restaurants and theatres. As of late 2017 SEZAD had signed an usufruct agreement allocating 600,000 sq metres to the master developer, also called Little India. According to the firm's managing director, Pradeep Nair, construction of phase one will start in early 2018 on a $12m initial investment from the developer comprising the 25-unit Village Resort to be run by the Marriott hotel chain, and 96-unit apartment building, with the former to finish in September and the latter in February 2019. Further phases are to be built over the next 10-15 years. In December 2017 the firm signed a MoU for securing financing with Bank Muscat.

WATER GRID: The fourth project notable for size is Oman's portion of the GCC "common water grid" project, designed to link the water supply markets of these countries as a way of managing shortages. The intent is to lay water pipelines stretching more than 2000 km along the coast from Oman to Kuwait, connecting large desalination plants on the Gulf of Oman to the rest of the GCC. Expected to be developed in three phases at a cost of $10.5bn, the first phase will see pipelines laid connecting all six countries at a cost of $2.7bn, the second will see a desalinisation plant built in Sohar for $4bn, and the third will see a similar plant constructed in Ashkhara at a cost of $3.8bn. Announced by GCC heads of state in 2012, but put on hold after the oil price drop, the project has already undergone a feasibility study and saw further intra-bloc discussions in 2016.

Though no new announcements were made in 2017, the grid seems likely to move forward in the medium term as it is considered essential to managing future water supply. A study by US-based research firm Booz & Company has warned that the GCC faces a "serious water supply shortage" in the future driven by its "excess water consumption" of 364 litres per day per capita, more than 82% above the global average. Water desalination in the region is relatively expensive at $1 per cubic metre on average, Booz said, and accounted for 10-25% of the bloc's energy consumption despite a five-fold efficiency improvement in desalting processes over the past three and a half decades. It concluded that the region would need to spend more than $100bn to build up its water infrastructure in the coming years.

RAIL NETWORK: The fifth major project is the Oman National Railway, a network of 2135 km to be built across the country, virtually from scratch. The prime aim is now to speed up transportation of freight from the country's mining and mineral assets to its top intermediary destinations for export abroad. Billed at an estimated cost of around $11bn, its main arteries will connect Muscat to border crossings with the UAE and Yemen as well as the country's three main three ports – Sohar in the north, Salalah in the south, and Duqm in the centre – with tendrils linking the network to key mining assets in Ibri, Ibra and Thumrait, and key oil and gas fields in the country's central desert hinterland. The project is designed as a double-track, standard gauge system capable of supporting double-stack container trains with axle loads of 32.4 tonnes. If successful, the project could see the tendering of a number of large contracts over the next decade: according to Rail Journal, an industry publication, construction of the network will include 12,000 km of rail line, 35 km of tunnels, 132 km of bridges, and 245 over- and under-passes,

The ongoing 2135-km Oman National Railway project is designed to speed up freight transportation for export and could lead to the tendering of multiple construction contracts over the next decade.

The Rabab Harweel Integrated Project, a large-scale oil and gas development, is scheduled for completion in 2019. It will produce 60,000 barrels of crude oil and 6m cu metres of sweet gas a day.

requiring 23m cu metres of ballast, 10m concrete sleepers, 41m fasteners, 8000 wagons and 300 locomotives. Government commitment to the project has survived several ups and downs. With planning in the works since at least 2010, in June 2014 the state-owned enterprise Oman Rail was founded to lead the project. Its ownership was later subsumed in 2017 under a new state-owned transport holding company called Asyad (see Transport chapter). First designed as part of the proposed regionwide GCC rail network – with the possibility of upgrading for passenger-carrying capability at a later stage – the Oman railway continued to move forward even when the former project was paused in 2016 during the oil price crash, particularly after the UAE's Etihad Rail suspended its tender for railway links to Oman. Work on the first segment, a 207-km stretch from the UAE border at Al Ain to Sohar, was due to start in 2018 and reach completion 2020, though delays to analyses have led to a further postponement. In May 2016 the Ministry of Transport nullified a $149m consultancy contract under way with Spain's Tecnicas Reunidas "to avoid extra costs" while giving assurances the project itself had not been cancelled so much as delayed. Feasibility studies and design work continued in 2017 as the government adjusted its models to fit a more commercially-driven system based on expected mining developments. In a positive sign, a royal decree issued in mid-July 2017 announced that Oman Rail had completed initial design work and prepared tender documents for a 655-km segment of railway from Haima to Thumrait, which will require nine bridges, two road crossings, 11 loading stations and 10 rail maintenance facilities (see Transport chapter). "Our design for the domestic Mineral Line is fit for purpose and is ready pending the current study of mineral resources and reserves," Philip Marquis, operations manager at Oman Rail, told OBG. "The Mineral Line will be built and operated on a purely business case without state subsidies. This project has an edge given it is greenfield and avoids the costly retrofits and upgrades normally associated with such a development."

OIL & GAS: These five mega-projects aside, the construction sector pipeline has continued to see dozens of other contracts move forward. Some of the largest are in oil and gas. The state-owned oil firm Petroleum Development Oman (PDO) is building the $1.25bn Rabab Harweel Integrated Project, which is expected to be finished in 2019 and produce 6m cu metres a day of sweet gas and 60,000 barrels a day of crude, as well as the $900m Yibal Khuff project set to be switched on in 2020 with a daily output of 5m cu metres of associated gas and 10,000 barrels of oil. In July 2017 UK-based oil services firm Petrofac signed a 10-year extension to its three-year deal with PDO for providing management support in engineering, procurement and construction (EPC), including for the two projects mentioned above. In August 2017 phase one of the $7bn Duqm oil refinery project – itself secured just four months earlier in a partnership between Oman Oil Company and Kuwait Petroleum International – saw three multibillion-dollar EPC contracts awarded. These were Spain's Tecnicas Reunidas and South Korea's Daewoo for main processing units; to Petrofac and Samsung for utilities and offsite facilities; and to Italy's Saipem International for a product storage and export terminal, an 80-km oil pipeline linking the SEZ to Ras Markaz, and eight storage tanks at the latter location.

INDUSTRY: Large industrial complexes have also been active of late. In March 2017 an Omani-Indian joint venture called Sebacic Oman awarded a $163m contract to Al Duqm Global Construction to build the country's first sebacic acid plant in Duqm with a capacity of 30,000 tonnes per annum. In November 2017 a $600m, 1021-MW solar thermal facility called Mirrah, which will be used to recover heavy oil reserves in the southern Amal field, announced near completion of phase one and plans for a phase two expansion in 2019. The country's two main cement producers formed a joint venture in mid-2017 to build a new plant in Duqm (see analysis). Additionally, a $1bn, 1700-MW solar power plant is being built in Sohar by the state-run Oman Power and Water Procurement Company under a PPP model (see analysis) with three foreign firms. In April 2017, the plant was confirmed as being on track for switch-on in January 2019. Lastly, the government's National Water Sector Master Plan plans to spend OR2.5bn ($6.5bn) to expand its water distribution network, while for electricity it plans to build OR769m ($2m) in new PPP solar plants capable of producing 1 GW of power in Duqm.

RETAIL & TOURISM: Public facilities are also seeing a raft of new building. Dubai-based developer Majid Al Futtaim broke ground on the OR180m ($467.4m) Mall of Oman in March 2017, to be completed by 2020 with 350 stores covering 157,000 sq metres. Four months later the groundstone was laid on the Salalah Grand Mall project in Dhofar, part of a mixed-use development led by a joint venture of Al Madina Real Estate Company and the Ministry of Defence Pension Fund. That same month, the Ministry of Tourism announced it would build 17 tourism "stations" around the country, each comprising an information centre, hotel, restaurant space, petrol station and prayer rooms.

Meanwhile, at the country's five new ITC projects now under way, the government plans to build some 5000 dwellings open to purchase by foreigners. Elsewhere, Vision 2040 outlines plans to spend OR80m ($207m) a year on affordable housing to close the country's housing gap. "Most of the main residential projects currently under way are being built under PPPs," Hilal Al Balushi, managing director of Oman-based architectural firm Corduff, told OBG. "In 2018, however, competition will increase as the government will issue fewer project tenders: sectors that are still receiving major investment include tourism, health care and education."

ROADS, PORTS & AIRPORTS: Transport infrastructure projects also continue. According to the Ministry of Transport and Communications, as of mid-2017 there were 118 road projects under way, including 77 interchanges, 41 bridges, 23 flyovers, 67 underpasses and 34 pedestrian bridges throughout the sultanate. Among the largest were the Mirbat-Hasik rehabilitation project, a $500m road stretching 200 km between Bidbid and Sur, and the 283-km Al Batinah Expressway – all set for completion by the end of 2018, the ministry said.

Meanwhile, in mid-2017 Omran, a state-owned tourism developer, picked Dubai's Damac Properties as its joint venture partner to develop its $1bn Port Sultan Qaboos Waterfront project, set to transform the old port area of Muscat into an integrated tourist complex with hotels, residences and retail space. Another noteworthy project is a new 580,000-sq-metre terminal at Muscat International Airport. First scheduled for 2014 – but thwarted by delays due to technical difficulties – neared the end of construction in December 2017 with the Oman Airports Management Company conducting a large-scale trial, for which thousands of members of the public posed as passengers to test its operating processes in order to generate feedback. Although the first test flight took off on December 23 2017 and the terminal's official opening was expected soon after, it remains unconfirmed at the time of publication.

OUTLOOK: Oman's chief strengths – including its hydrocarbons wealth, political stability, detailed diversification plans and a strategic location between the vast markets of Europe and Asia – look likely to continue driving growth in its construction industry in the short to medium term. US-based research firm BMI forecast the sector would grow by 10.1% in 2017 and by an average of 10.7% per year through to 2022. Legal reforms for PPPs and labour law, if passed, could easily increase this. In an age of tight budgets, clarity in terms of strategic planning and priorities will be a key factor in drawing foreign and private investors.

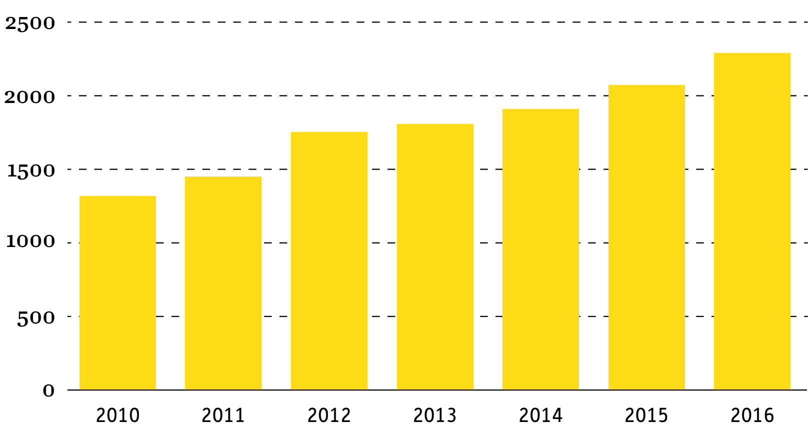
To meet this need, in November 2017 the Supreme Council for Planning announced its steering committee for a national spatial strategy would also work to devise a nationwide plan for construction, tailoring investments to each individual governorate according to its specific needs. The Supreme Council for Planning further elaborated, "For investors, it is important to know what the spatial policies are for the long term."

Between 2017 and 2022 the sector is expected to grow by an average of

10.7%

per year

Building & construction GDP*, 2010-16 (OR m)



Source: CBO

*current prices

Private sector engagement is central to long-term development plans

The PPP model

The government looks to public-private partnerships to speed diversification

As of October 2017 there were 11 public-private partnership projects worth **$2bn** in the pipeline

Many large construction projects in Oman are developed under public-private partnerships (PPPs), whereby a state-linked institution joins forces with a private company or multinational to carry out a project in the common interest.

In light of low oil prices and straitened budgets, the government is looking to expand use of this structure to carry out its investment and diversification agenda under the country's ninth five-year plan, which covers 2016-20, and its Vision 2040 development blueprint – a shift that should further "catapult growth of the construction industry", according to Ventures Middle East, a management consultancy.

PROJECT PIPELINE: As of October 2017 some 11 PPP projects worth $2bn were in various stages of planning and execution in the sultanate, according to MEED, a business intelligence outfit that tracks construction projects across the Middle East.

In MENA, the value of these projects outside the energy sector more than doubled in the 12 months to October 2017 to $185bn, with most of the 151 projects being undertaken in the GCC and within the utilities sector. "The rise in PPPs over the past few years is one of the most strategically significant shifts in the business landscape of the Middle East since the nationalisation of the oil industry in the early 1970s," Richard Thompson, MEED's editorial director, told press that month.

RECENT DEVELOPMENTS: Several PPP projects have moved ahead lately. In October 2017 the Oman Power and Water Procurement Company (OPWP) sought bids for advisory services in preparing a PPP contract to develop an independent water project on a build-operate-own basis in Wadi Dayqah near Muscat. Earlier, in February 2017 the Oman Logistics Company announced an open tender to develop the Khazaen Logistics Hub, an integrated transport and shipping complex to be built on a PPP model in the governorate of South Al Batinah, west of the capital city. In March 2017 the OPWP pre-qualified six bidders in a contract to develop a PPP water desalination plant in Khasab, in Oman's northern Musandam Governorate, following a tender launched the previous November. The plant will have a capacity of 16,000 cu metres per day.

Other large projects to be built through PPPs include Port Sultan Qaboos Waterfront, a $1.3bn mixed-use development covering 451,000 sq metres in Muscat, and Sultan Qaboos Medical City, a $780m hospital complex comprising 1250 beds and slated for a build-operate-transfer model over a 30-year term. In the utilities sector – the industry in which PPPs are most developed – the government plans to use the model for the 200-MW Oman Desert Solar Farm, to be tendered as an independent power project (IPP); Muscat IPP, a power plant with a capacity of 800-1000 MW; and a water desalination complex with a 225,000-325,000 cu metres per day capacity in Muscat's Barka area; and four further desalination plants in Duqm (with a capacity of 60,000 cu metres per day), Sharqiyah (80,000 cu metres per day), and two units at Salalah (one with a capacity of 100,000 cu metres per day, and the other yet to be disclosed).

GOVERNMENT IMPETUS: State support for PPPs is widespread. In 2013 the government set up a PPP "taskforce" under Sharakah, the state entity for supporting entrepreneurship, to look into ways of expanding use of the structure in carrying out public investments. In December 2015 it hired a consortium of consultants including EY, AMJ and Squire Patton Boggs to advise the creation of a PPP law and oversight agency, and the expansion of PPP procurement. In October 2016 the minister of commerce and industry, Ali bin Masoud Al Sunaidi, announced that greater use of PPPs was an explicit goal of the ninth five-year plan launched that year, which also reaffirmed a commitment to collaborate more closely with the private sector on its public

In the 12 months to October 2017 the value of non-energy public-private partnership projects in MENA more than doubled to $185bn. Most of the 151 being undertaken are taking place in the GCC.

investment agenda. Meanwhile, Tanfeedh – also known as the National Programme for Enhancing Economic Diversification, an initiative launched in 2016 to accompany the ninth five-year development plan – supports greater use of PPPs as one of its key initiatives. More recently, the Diwan of the Royal Court has been overseeing development of a legal framework for PPPs and a state entity to oversee their administration and procurement.

EFFICIENCY GAINS: The benefits of having a structure for public works are well documented. An outline of these is captured in the World Bank's definition of a PPP as "a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance." Because the government does not usually make any payments until the facilities in question are completed, there is little upfront expenditure.

During the operational phase, the government then typically pays based on actual usage or availability, reducing the risks of over-investment or overcapacity. The model also allows officials to measure the private sector's effectiveness in the project through key performance indicators, as a result guaranteeing better oversight. It can also reduce costs and accelerate timelines accordingly.

According to a recent UK National Audit Report on the subject, infrastructure projects carried out on a PPP model had average cost overruns of 22%, compared with 73% for their non-PPP counterparts, and time overruns of 24% compared to 70%. A 2007 study by Australia's Allen Consulting similarly found use of PPPs shrank budget over-runs from 35% to 12%, and cut delays from 26% to 13%. Not only can PPPs bridge funding gaps for critical infrastructure; they also tend to enhance project management, engender a healthier business environment, spread risk more appropriately, boost competitiveness and private investment, and result in the more efficient allocation of both public and private sector resources.

LEGAL FRAMEWORK: The authorities have also been working to shore up the legal side of such arrangements. "At present, undertaking a PPP is risky given the commercial and regulatory uncertainty," Ameet Hirani, director of Muscat-based construction firm Al Rawahi International, told OBG. "If PPPs are to become viable means of financing projects, clearer and simpler rules will need to be established."

In the early months of 2017 moves to address this were undertaken, and a steering committee composed of public and private sector stakeholders, as well as consultants specialising in PPPs, held intensive discussions to develop new legislation setting out a legal framework for these structures. As of April, approval of the law was in the works and making notable progress: "A new PPP law has already been drafted and will be enacted very soon to adopt some of the existing bodies and functions under the existing Privatisation Law," Abdulaziz Al Risi,

Projects carried out using a PPP model benefit from lower cost overruns compared to non-PPP counterparts

studies expert at the Diwan of the Royal Court, told a seminar hosted that month by the Oman American Business Centre. A report by global law firm King & Spalding in June 2017 said the law was expected by year's end; however, as of January 2018 it was yet to be enacted. To accompany the legislation, officials plan to establish a Central PPP Unit charged with preparing tenders, administering procurement and ensuring competitiveness throughout the process.

CHALLENGES: The shift to greater use of PPPs has not been without obstacles. "The transition from full government control to private-sector control requires a host of difficult changes to be implemented, covering everything from the way entire industries are regulated, to how much things cost over, to who has the decision-making authority," according to Thompson. "It requires new skills and technical capacity. And it requires not just a change in business models but also in the political mindset." There may also be room for improvement in transparency: officials have been talking of passing a PPP framework since at least 2013, yet have since released few detailed, public updates on its progress.

PROSPECTS: Nonetheless, the strong commercial case and political support for using PPPs in the sultanate suggest the model will continue to see increased development and use in the near term. While oil prices have recovered from their low of $28 per barrel in January 2016 to $69 a barrel as of January 2018 – which has eased some pressure on public finances – they are still a long way from their post-financial-crisis high of $128 in March 2012. In the meantime, sovereign budgets have largely adjusted their management models, and officials their mindsets, to accommodate the prospect of relatively low oil prices over at least the next few years. The impetus to rely increasingly on the private sector for development and economic growth has built critical momentum. The key now is to sustain it.

In early 2017 the government established a steering committee to develop a new, more effective legal framework for public-private partnerships.

Both steel and cement have seen positive growth in production levels

Bricks and mortar

Sales of core building materials rise while prices hold steady

Regional demand for cement is set to grow by

6%

per year in 2015-19

Domestic output of both steel and cement has recorded a substantial rise amid recent price pressures, suggesting the supply of building materials will continue reliably at cost-effective levels as the country looks to clear a large infrastructure project pipeline on a tighter budget. With regional demand set to continue growing – by as much as 6% per year in 2015-19 for cement, according to an analysis by UK-based Industry Today – driven by a construction surge across the GCC, manufacturers of building materials are investing in new capacity to boost production and enhance efficiency.

CEMENT: In February 2017 Oman Cement Company, the larger of the nation's two main producers, announced that after-tax profits in 2016 had risen by 10% to OR12.9m ($33.5m). One driver of this was higher sales, which increased in volume by 10.6% to 2.3m tonnes, and in value by 8.5% to OR56.6m ($147m). In the first nine months of 2017 the firm's cement production continued to rise, jumping 8% year-on-year (y-o-y) to 1.86m tonnes – following a 19.7% rise in clinker output – according to World Cement, an industry news outfit. Sales rose in tandem, by 9.6% over the period.

Oman's second-largest producer, Raysut Cement, however, saw after-tax profits shrink by 60% y-o-y in January-September 2017 to OR6.7m ($17.4m), partly a result of lower sales, and because income taxes were hiked in February from 12% to 15%, according to its chairman, Ahmed bin Yousuf bin Alawi Al Ibrahim. Oman Cement, whose after-tax profits also took a 21% hit in the period, also partly due to tax reform, said prices have been affected by intense competition, with neighbouring countries selling into the Omani market at "unrealistically low prices".

In early 2018 construction commenced on a new cement plant in the coastal city of Duqm, with production expected to start in 2020 at a rate of 5000 tonnes per day

STEEL: A second core building material industry in the country – steel – has seen similarly positive overall results. Al Jazeera Steel Products, the sultanate's main steel producer, announced in August 2017 that its sales volumes had risen by 12% in the second quarter. This helped push its half-year sales value up by 31% y-o-y, to OR46m ($119.4m). According to its chairman, Sulaiman Mohammed Shaheen Al Rubaie, a dip in the price of steel from China has also put pressure on the prices of finished products – Al Jazeera mainly sells steel tubing and structural products like reinforcing bars – prompting the firm to boost marketing efforts to support sales. "Even with a competitive environment, coupled with lower demand growth, the company managed to increase sales volumes and maintain profitability," he said. "This was achieved predominantly due to cost optimisation and diversification in product mix."

CAPEX: Demand projections have driven Oman Cement to invest further. In early 2017 it announced plans to build a cement plant in the coastal port city of Duqm. It has formed a joint venture with Raysut Cement called Al Wusta Cement Company, with construction work beginning in 2018 and production set to commence in 2020 in the port's special economic zone (SEZ). The idea is to serve the building needs of investors setting up operations in the SEZ, as well as markets in the wider MENA region and India.

In October 2017 the parent company announced it had secured a plot of 500,000 sq metres by the zone's authority, known as SEZAD. According to Al Wusta Cement's chairman, Abdullah Abbas Ahmed, the plant's design would be a departure from the gas-fired kit at existing facilities, instead making use of alternative sources of energy and focusing on a low-cost model and higher added-value products.

As of November the company was still on the hunt for consortium partners that could produce a compelling design using "new production technologies". Al Wusta said the project is due to begin in 2018, and start producing by 2020, with an initial output of 5000 tonnes per day. This figure could gradually scale up to double, according to market needs.

CAPACITY BOOST: Oman Cement's expansion plans are part of a drive to boost local production. Tanfeedh, a national diversification enhancement plan launched in 2016 to accompany the country's ninth five-year plan, calls for as many as three new plants to be built in the Duqm SEZ. Two plants are earmarked for standard Portland cement, each with a capacity of 3m tonnes a year, and one producing white cement primarily for export at a rate of 300,000 tonnes a year. Tanfeedh also calls for cement grinding plants in Duqm and Sohar. The objective of the expansion is to raise the share of cement that is produced locally, which Tanfeedh said was around 44% in 2015, or about 9m tonnes. "Currently, the demand for cement in Oman is higher than the supply from the local cement manufacturers," Salem Abdullah Al Hajry, CEO of Oman Cement, told OBG. "This capacity gap provides a good opportunity for cement industry growth in Oman, and leaves local manufacturers with the opportunity to one day fully meet this demand." In response, local conglomerate Al Anwar Holdings announced a tentative deal in the middle of 2017 to form a joint venture with Iranian producer Hormozgan Cement to build a grinding plant at Duqm with a capacity of 600,000-1m tonnes a year, at a cost of around OR10.5m ($27.3m).

UPGRADES: Other investments are geared towards greater efficiency. In early 2017 Oman Cement floated a tender for an engineering, procurement and construction (EPC) contract to reduce bottlenecks at their plant, as outlined by a consultancy that previously examined operations for inefficiencies. As of August that year, work was nearly complete on a system upgrade on its second production line – supplied by FLSmidth, a Danish engineering firm – aimed at enhancing pollution control. To boost its packing and loading capacity, in August 2017 it awarded a $4m EPC contract to China's CNBM International Engineering Company to install a rotopacker and vacuum-type truckloading machine.

DUQM: Factories of building materials are also under way in the port city of Duqm. Of the 10 projects in the first phase of the $10.7bn China-Oman Industrial Park being built by Chinese developer Oman Wanfang, three fall in this category: one for generic building materials, another for making steel pipes and wire, and one for producing non-metal composite pipes for use in oilfields. Selected for fast-track status in the park, which is slated for completion by 2022, all three had signed land lease agreements as of October 2017 and will be operational by the end of 2018 at a combined cost of $138m, according to Ali Shah, CEO of Oman Wanfang.

PRICES & VIABILITY: Supplying building materials in Oman has remained viable business in recent years. According to a 2015 study by the Dubai Chamber of Commerce, the cost of producing cement in the country increased marginally from $37 to $38.7 per tonne over the 2011-13 period, yet gross margins also rose slightly faster in that span, from $28 to 29.8 per tonne. The price of a cu metre of concrete was

Expansion plans among cement companies in Oman are in line with a broader drive to boost local production

$70 in 2016, while a tonne of rebar went for $650 and structural steel beams were $1300 per tonne, compared to $65, $926 and $1880, respectively, in the UAE, according to a 2016 analysis from Turner & Townsend, a UK-based consultancy.

LOOKING AHEAD: Further investments in capacity look likely to continue given positive demand forecasts for building materials. Annual demand for cement in the Middle East and Africa region, having grown by 30% in the five years to 2014, to 467m tonnes, is forecast to have climbed by another 31% by 2019, reaching 611m tonnes, according to Statista. Meanwhile, demand for finished steel products in the Middle East, was set to rise 1.5% in 2017, to 53.9m tonnes, followed by a growth of 4.8% in 2018, according to the World Steel Association. Considering developing economies alone – excluding China – steel demand was expected to grow by 2.8% in 2017 and 4.9% in 2018, with international demand forecast to rise by 2.6% in 2017 and 3% in 2018 to 1.65bn tonnes. This outlook is supported by government infrastructure commitments across MENA. As of mid-2017 the project pipeline in Saudi Arabia alone exceeded $250bn, followed by the UAE ($184bn) and Qatar ($69bn), according to MEED figures. The GCC-wide total now stretches to $2trn, according to a 2016 tally by Deloitte. For Oman, this means a ready market for supplying materials to a building spree that is set to continue despite low oil prices. The country's domestic market also holds potential. "The stated willingness of the government to diversify its economy away from petroleum and gas has created an extremely conducive environment for the growth of the construction sector," according to a 2016 report by United Securities, a financial advisory services firm. "Besides, government spending and private sector investment in infrastructure-related projects have also increased, boding well for the prospects of the cement sector," the report added.

Demand for finished steel products in the Middle East was expected to rise by 1.5% in 2017 to 53.9m tonnes, with growth of 4.8% predicted for 2018.

Real Estate

Shift from premium villas to mid-range apartments

Debate on loosening restrictions for foreigners

Hotel room stock on the rise to meet tourism targets

Plans by the Ministry of Housing to bear fruit in 2018

Most Omanis purchase property with cash rather than financing

Prime property

Pockets of opportunity emerge in a market with exposure to oil price swings, yet solid fundamentals

Market pressures that have weighed on Oman's real estate sector since oil prices fell from their historic highs three years ago continue to affect its performance, and the state has adjusted to lower revenues by trimming budgets and paring back some investments. Growth in public payrolls and jobs – a key driver of real estate demand – slowed in 2016 as the government reduced spending by 7.5% to tackle a fiscal deficit surpassing 20% of GDP, and weaker economic conditions have likewise constrained job creation in the private sector.

This deceleration has put pressure on both demand and property prices: according to Cluttons, a UK-based real estate consultancy, as of September 2017 residential rents in Muscat – a key sector bellweather – were 20-25% below their 2014 peak and still falling, albeit at a much slower rate, and thus were widely considered to be stabilising.

POSITIVE POINTS: Healthy demographics and high wealth levels point to a bright future for the sector, as population trends and a track record of stability fuel forecasts for a sustained pick-up in demand over the medium term. The median age in Oman is just 25, birth rates are high and an expatriate influx has pushed population growth to 5.9% in 2016, up from 4.1% the previous year, to 4.4m people. GDP per capita was double the MENA average at nearly $15,000 in 2016, according to the World Bank.

Meanwhile, economic transformation under the government's Vision 2040 plan – encompassing infrastructure spending, legal and social reforms, and an increased role for the private sector – looks set to continue drawing the types of investment that can drive the property market forward. All of this contributes to optimism that the market will turn a corner in 2018 and pick up going into 2019.

SWING FACTORS: How soon it does may depend on oil prices – which were edging upwards in late 2017 and reached $65 per barrel in January 2018 – but also on the pace of reforms. The Ministry of Housing (MoH) is currently undergoing process centralisation that will oversee approvals end-to-end and streamline service-level agreements, easing the way for developers to pursue new projects. It is also issuing a steady stream of land grants and pioneering a new approach to housing for Omanis, which is capable of spurring the market for mid-range developments. Recent lobbying for routine publication of a sector-wide property index looks set to bear fruit in 2018 as well (see analysis). Officials have also long discussed passing legal frameworks for public-private partnerships and real estate investment trusts (REITs), although as of late 2017 progress on these was unclear.

If successful, such reforms could reinvigorate the market, especially the middle- and lower-tier segments. There are signs such maturation is needed in a market historically tilted towards the high end. Average rents for premium residences in places like Muscat Hills and Al Mouj fell twice as far (10%) as other locations in the 12 months to September 2017, according to Cluttons. Meanwhile, a report from local real estate agency Al Habib points out that, while expatriate numbers rose by 1.3% in the first half of 2017, to 1.87m, the number of degree-holding foreigners – the ones most likely to live in larger apartments and villas – actually fell by 3.1%, to 155,000, indicating a possible demand shift towards the lower tiers of the rental market.

However, there is consensus among market-watchers that rents are holding up best at properties with a good mix of amenities, as well as management and location. In the current down cycle, which has resulted in a buyer's market, product quality is proving a key factor in decision-making. Offering good amenities is becoming increasingly important, and properties without them can lose up to 50% of their tenants. Therefore, in the coming

Healthy demographics is a bright spot for the sector: the median age is just 25, birth rates are high and an expatriate influx has pushed population growth to 5.9% in 2016.

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Residential rents averaged $1790 per month in September 2017

Omani nationals may own land on a freehold or leasehold basis, and at the age of 21 are entitled to receive a grant of land from the government for personal use.

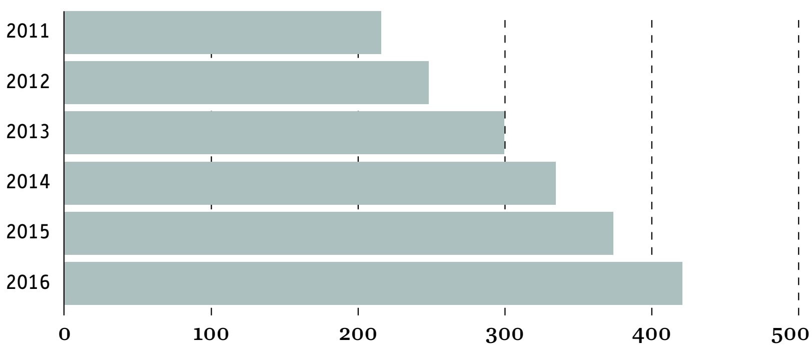
year a priority for developers and brokers will be how to balance such perks with affordability in a way that aligns with the profile of future demand.

ORGANISATION: The primary regulatory body in the sector is the MoH, which has a broad mandate to oversee the industry, set its priorities, propose and execute policies, issue directives, register and monitor transactions, administer social housing and provide land grants. It also coordinates with other bodies on broader urban planning goals, for example, by supporting the Supreme Council for Planning (SCP) with mapping, research and socio-economic studies to gauge future needs and propose ways to meet them. Born out of the Ministry of Land Affairs in 1985, the MoH has been reorganised numerous times, the latest being in 2007 when it split from the Ministry of Electricity and Water, and in 2014 when its terms were revised by royal decree.

Another noteworthy player is the Oman Real Estate Association, launched by the MoH in 2012 to help improve the sector through the pursuit of best practices, transparency initiatives and reform proposals. The association organises an annual two-day event called the Oman Real Estate Conference under the auspices of the SCP, bringing together public and private-sector stakeholders to showcase new projects, attend presentations, review sector developments, discuss current and upcoming issues, and coordinate possible solutions.

Proposals emerging from the most recent conference, in May 2017, included establishing a real estate studies institute to train young Omanis in the profession; founding a new independent body to represent the sector; conducting an official performance evaluation of the MoH's Directorate-General for Real Estate Development; easing the rules for companies wishing to register projects under their own name; and setting up an electronic application system at the MoH linked to brokers, municipalities and other official agencies. In 2017 the association also lobbied the government to start issuing a real estate index, and to reconsider reducing sale contract fees for certain kinds of property.

Mortgages at Oman Housing Bank, 2011-16 (OR m)



Source: CBO

PRIVATE ARENA: Private players in the sector include an array of local firms, foreign-domestic joint ventures and Oman-based branches of multinationals. Some of the main companies include Alargan Towell, a joint venture launched in 2003 between Kuwaiti holding company Alargan and local firm W J Towell, focused on mid-income and affordable housing; Al Habib, an Omani firm founded in 1978 serving as developer and broker, as well as a leasing and property management player; Al Qandeel, a local developer and consultancy founded in 1984; and Edara, a joint venture formed in 2014 between Tilal Development, Al Madina Investment and Al Madina Real Estate. Multinationals with branches in Oman include the UK's Cluttons, Hamptons International and Savills, and Germany's Engel & Völkers.

LAND RIGHTS: The primary law governing real estate in Oman, the Land Law of 1980, declares all land in the country to be property of the state unless otherwise specified in provable title deeds. Other relevant laws have since been passed on usufruct rights (1981), tenancy (1989) and land registration (1998). Omani nationals may own land on a freehold or leasehold basis, and at the age of 21 are entitled to receive a grant of land from the government for personal use, as well as a low-interest mortgage through the state-run Oman Housing Bank. A grant wait list is administered by the MoH based on age and need of the applicants.

Foreign individuals or companies may be granted a usufruct approximating freehold ownership, which allows them to benefit from land on a long-term, conditional basis. This is typically a period of 50 years and is restricted to activities seen as having a particular social or economic benefit, such as infrastructure or public utilities. Non-nationals are also permitted to buy a mortgage. In 2004 foreign ownership of land or constructed property on a freehold basis was granted to GCC citizens (and wholly GCC-owned companies) for both residence and investment, putting them on par with Omanis in this respect. In 2006 all other foreigners were extended this right as well, albeit restricted to purchases of property on plots specifically designated as integrated tourism complexes, or ITCs. Such a purchase entails the right to official residency for the buyer and his or her immediate family.

However, further opening up of the market may have its negatives. "Increasing ownership rights for foreigners is still under discussion, and something that would have to be implemented correctly when it is decided upon," Nasser Al Sheibani, CEO of Al Mouj, a local real estate developer, told OBG. "If the real estate market were completely liberalised, high-earning foreigners could push up property prices and make it difficult for locals to buy land."

RESIDENTIAL: The effects of recent market pressures are perhaps most evident in residential rents. These were dragged down by the oil price drop, but have lately showed signs of bottoming out. Average rental rates, having fallen by 10.1% in 2016, stabilised in 2017 with declines of 0.6% in the first quarter and 0.2% in the third, to sit at OR690 ($1790) per month in September 2017, according to Cluttons.

An area breakdown of Muscat by Al Habib shows the steepest residential drops in the year to June 2017 were in Wadi Kabir (32%), Amerat (19%) and Qurum (15%), and the shallowest in Ghala/Azaiba (2%), Al Khuwair (5%) and Ruwi/Al Falaj (7%). "It is very much a buyer's market at the moment: demand is largely down across the board and supply is up, exacerbating price pressures." Benjamin Cullum, general manager of Hamptons International, a global real estate consultancy, told OBG.

The premium residential segment saw the greatest decline, with average rents dropping by 10% in the 12 months to September 2017, per Cluttons data. This is partially due to a relative saturation at the market's top end, and partially because of a large share of highly paid expatriates leaving the country when oil prices declined. "In the short to medium term the outflow of skilled foreigners and the inflow of unskilled foreigners will continue to put downward pressure on residential rents," Sudhakar Reddy, CEO of Al Habib, told OBG.

However, it is not just expatriates shifting away from higher-end properties. "Although young, middle-class Omanis prefer living in traditional villas, they are sometimes too expensive," Rashid Saleem Al Masalti, CEO of mid-market developer National Mass Housing, told OBG. "As this demographic group starts families, their budget constraints will lead to an increase in the demand for more affordable housing, such as apartments."

TRADING ACTIVITY: Even with rents under pressure, activity in some areas has held relatively steady or even grown. According to the most recent data from the National Centre for Statistics and Information (NCSI), the total number of planned land plots – whether it be for residential, commercial, industrial or agricultural use – rose by 28% in 2016 to reach approximately 63,600, reversing declines of the previous two years. Plots registered for the first time numbered 55,100, up 4.7% on 2015, while plots granted by the MoH fell 7.4% to about 39,700.

Alternatively, the latest MoH data, covering the first half of 2017, show the total value of traded property falling by 70% compared to the same period a year earlier, to OR1.4bn ($3.6bn), with the number of sales contracts shrinking by 24% to around 30,600. "Oman had something of a time lag with the oil price drop," Christopher Steel, managing director of Savills, told OBG. "For the first two years, officials said Oman would not be affected."

ONGOING PROJECTS: Nonetheless, supply continues to grow apace, with some 18,000 residential units in the pipeline for delivery over the next two years, according to CBRE (see Construction chapter). Among the largest projects is Al Mouj (The Wave), a 6000-unit development in West Muscat encompassing villas, apartments, hotels, a golf course and marina, which had sold 2300 homes as of July 2017.

The number of planned land plots rose by

28%

in 2016

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PARKS
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THE GARDENS
REEHAN RESIDENCES
JUMAN

Non-GCC nationals may only purchase property on plots designated as integrated tourism complexes

In March 2017 Malaysian developer BRDP signed a deal to build a similar ITC project adjacent to Al Mouj. The OR400m ($1bn) Naseem A'Sabah will have 1200 units surrounding a mixed-use complex with hotels, retail outlets and a yacht club.

Another development is the Sur Gate Project, a OR120m ($311.6m), 146,000-sq-metre integrated complex with residential villas and apartments alongside a hotel, mall and leisure centre. Its developer, Al Sharqiya Real Estate and Investment, said it was 70% complete as of October 2017, having opened its first phase, a OR10m ($26m) entertainment centre called The City Walk, the previous April.

In 2016 National Mass Housing completed phase one of Areej Residential Community near Muscat International Airport, which has 69 turnkey villas targeting the mid-income segment (monthly incomes ranging from $1800 to $5000) that have all been sold. It began phase two in March 2017.

Alargan Towell has five projects in the works: phase two of the 78-unit Beyout Al Faye mixed-use development; phase one of Al Waha mini-city, where it has launched 112 of 817 planned units; the 956-unit Barka Resort ITC, to be finished by 2019; the eight-building Telal AlQurm apartment complex; and the Naseem Salalah luxury beachside housing development. In September 2017 Savills began pre-selling units at its Boulevard Tower ITC under way in Muscat Hills, and Barr Al Jissah announced the 169-unit Al Mina Residences in April 2017, with construction to start in early 2018 and finish by 2020.

Hotel rooms, having more than tripled between 2005 and 2016 to 9600 keys, are set to rise by 3400 through 2018 and by another 9000 before 2021, as construction continues on several well-known brands.

New projects have the opportunity to set themselves apart from the competition, and niche housing targeting certain demographics may be one way developers try to get an edge, while working within the housing laws. "Oman's real estate sector has an unmet demand for certain categories of specialised housing," Said Nasser Al Rashdi, CEO of Sandan Development, a new local player established in 2016, told OBG. "For example, there are regulations that do not allow bachelors to live in commercial housing. Developing units for this demographic would improve compliance with current regulations."

HOSPITALITY: Hotel supply is set to rise substantially as Oman pursues its goal to host 7m tourists per year by 2040. To this end, it is investing some $1.2bn by 2025 in upgrades to Muscat International Airport, malls, tourism complexes and conference space, according to the World Travel and Tourism Council (see Tourism chapter). Hotel rooms, having more than tripled between 2005 and 2016 to 9600 keys, are set to rise by 3400 through 2018 and by another 9000 before 2021, as construction continues on several well-known brands, including the Westin, W, JW Mariott and Kempinski, according to CBRE. When complete, these could put further pressure on average room rates, which fell 8.9% year-on-year in the first half of 2017 to OR65.40 ($170) per night, and on average revenue per available room, which sank 6.9% to OR42.80 ($111), per CBRE data. Average occupancy, however, rose 1.5 percentage points to 60.9% in that span, according to STR Global, a hotel market data firm.

OFFICE & RETAIL: Office supply is also growing despite price pressures, with a host of projects under way – especially in the capital city's districts of Azaiba, Ghala and Al Khuwair. Office rents in Muscat's central business district (CBD) had dipped by 14.3% in the 12 months to September 2017, according to Cluttons. However, this is partially a function of the city's expansion westward – something that is creating new opportunities for investors and developers. "At one time, nearly everyone had offices in the CBD," Reddy told OBG. "Now, as more Omanis join the workforce and build homes, there is no more land there and many are moving down the coast to places like Azaiba, which was quite undeveloped 20 years ago but is now prime property."

Retail space in Muscat totalled 345,000 sq metres at the end of 2016

Such suburban migration is fuelled in part by local tastes: "Generally speaking, Omanis prefer villas to apartments," Reddy said. "Often they will commute 30 minutes to their job in the CBD to live in a villa on the outskirts." However, because much of the current supply has inadequate parking or deteriorating quality, CBRE expects monthly rents for grade-A space to stay stable in the short to medium term, at around OR8-10 ($21-26) per sq metre, until newer supply is completed.

Retail space in the capital, meanwhile, has grown to 345,000 sq metres as of end-2016 after several new shopping centres opened in 2015, including Avenues Mall, Panorama Mall and Oasis Mall. This is set to grow further with the coming opening of the $234m Palm Mall (105,000 sq metres) in late 2018 and the $715m Mall of Oman (137,000 sq metres) in 2020. These options illustrate the concentration of retail space in the sultanate, which is far from exhausted in other cities. "Oman's demand for shopping malls and retail space has not yet been fully met, especially in areas outside of Muscat," Abdulrahim bin Sulaiman Al Abri, group general manager of Amjaad Holding, told OBG.

FINANCING & SUBSIDIES: Due to the legal land entitlement and a high savings rate, most Omanis purchase property with cash rather than financing. Already low, the number of mortgage contracts fell by 19% to around 10,500 in the first half of 2017, while their value shrank by 81% to OR798m ($2.1bn). Housing loans made up 9.8% of bank credit in 2016, according to the Central Bank of Oman, with the average interest rate at 5.1% as of early 2017. Moreover, few Omanis have the need for social housing: 88% of them own their own home, according to the latest household survey by the NCSI in 2012.

As for expatriates, who make up around 45% of the population, half of them live in employer-provided accommodation; 49% rent, as they are not permitted to own freehold property except in ITCs, where rents are often prohibitive; and less than 1% owned their own home, according to the survey. On average, Omanis spend less than one-tenth of their monthly income on housing, compared to more than one-third for foreigners.

New office supply is growing west of the central business district

Several malls opened in Muscat in 2015 and additional centres are set to come on line in 2018-20

88%

of Omanis own their own home

The government has reduced the scope of assistance programmes as part of recent cost-optimisation measures. In 2016 alone it slashed total subsidies – on fuel, utilities and housing – by 64% to OR400m ($1bn). Consequently, the number of state-subsidised housing loans approved that year was just 26, down from 710 in 2015, with their total value falling from OR21m ($54.5m) to OR780,000 ($2m), according to the NCSI. Cases of housing assistance, meanwhile, fell from 1957 to 115 in that span, with their total value dropping from OR48.4m ($125.7m) to OR2.8m ($7.3m).

RULE CHANGE: Among recent regulatory changes that have impacted the sector, perhaps the most significant came in January 2016 with the MoH's decision to raise the real estate transaction fee that it and municipalities charge to register sales and leases, from 3% to 5%. The change, unannounced to prevent people from upfronting transactions to avoid the fee increase, is waived for transfers of property to a next of kin, but does apply to title deeds on government land grants. The reaction from sector players was mixed. Many industry stakeholders who spoke with OBG expressed fears that rather than pay the higher fee, many people would either understate the value of deals; pass the increase on to tenants, making prices less competitive; or let leases simply go unreported.

While such activity is hard to gauge, wide consensus exists that some combination of these factors has likely exacerbated the sector's recent fall in transaction values. Steel of Savills told OBG that a reduction in the rate rather than an increase would

Authorities have raised the real estate transaction fee from 3% to 5%

It is not yet clear whether the introduction of a 5% value-added tax would apply to real estate sales or leases on top of the 5% free already charged by the Ministry of Housing.

be more reasonable and encourage transparency, while Salim Al Ghammari, a member of the Muscat Municipal Council, told local media in 2016 a 1% fee would boost the transaction reporting rate to 95%.

UPCOMING REFORMS: Other changes with potentially large impacts are on the horizon. One is the introduction of a 5% value-added tax (VAT), a measure agreed upon across the GCC. While Omani authorities announced in late 2017 that they will implement VAT beginning in 2019, it is yet not clear whether the tax will apply to real estate sales or leases on top of the 5% fee already charged by the MoH, or to related consultancy services. A survey of 140 financial analysts conducted in autumn 2017 shows that the tax will likely raise the costs of real estate investment, and that some of the extra cost may be passed on to investors, albeit without substantially deterring activity.

A second debate concerns expanding foreign freehold ownership beyond ITCs, which the MoH proposed to Parliament in March 2017, submitting new draft rules for consideration. If enacted, these could "boost the real estate market by allowing foreigners to absorb unused capacity", Hisham Moussa, CEO of Alargan Towell, told OBG. Also backing the legislation is Mohammed Al Ghassani, deputy chairman of the Shura Council, who told a conference in May 2017 that it could play a big role in developing the real estate sector. "There are at least 60,000-70,000 expats living in Oman who can spend around OR30,000-50,000 ($77,900-130,000) each to avail this option," he said. Others worry it could drive up prices and make it harder for some locals to buy property, including National Mass Housing's Al Masalti, who told OBG this might "inflate prices and have negative effects on real estate business."

REIT: The government is also working on a legal framework for REITs, as one of 121 initiatives in the government's Tanfeedh diversification plan, spanning 2016-20. In December 2016 draft regulations were presented to stakeholders, whose feedback is now being incorporated into amendments at the MoH before approval by Parliament and the Cabinet.

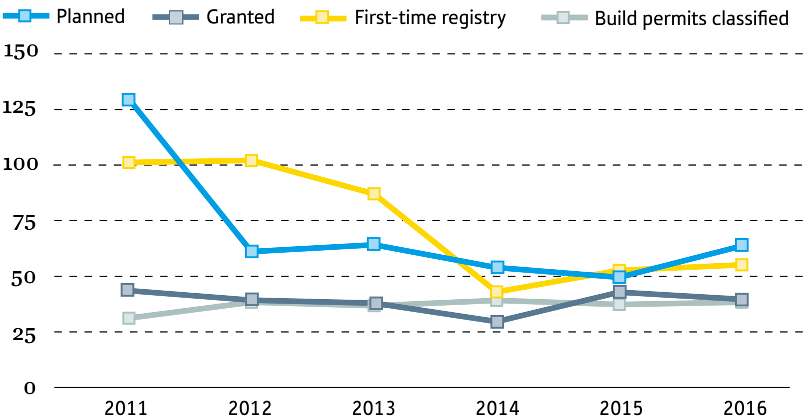
If the framework materialises, this could open an entirely new trading market for Oman, following the examples of the UAE, Bahrain and Saudi Arabia. "We have already seen some appetite from the market," Sheikh Abdullah bin Salim Al Salmi, executive president of the Capital Markets Authority, told local media in March 2017. Savills's Steel, however, told OBG, "It will take 2-3 years at a minimum for REITs to become fully established."

MACRO-LEVEL CHALLENGES: Alternatively, several broader factors could constrain the sector's growth in the next few years. One is the country's budget: in 2017 the government boosted foreign borrowing by 133% to help cover a OR3bn ($7.8bn) deficit and keep spending cuts low, at just 1% – a tack that will continue in 2018, as 84% of its projected deficit, stable at OR3bn ($7.8bn), is to be covered by foreign and domestic borrowing.

Another is the price of oil, which would have to sustain its late-2017 rally to avoid putting further pressure on spending; hydrocarbons still make up over one-quarter of Oman's economy, down from close to half in 2014. The country's peg to the dollar has also pushed up the rial lately, overvaluing property and denting Oman's competitiveness – a trend that may continue as the US Federal Reserve unwinds its balance sheet per its September 2017 announcement and further raises interest rates, which would strengthen the dollar.

OUTLOOK: Prognosis for the real estate sector is unclear given the host of contingencies affecting its future, not least the direction of oil prices, and the pace of reforms and supply growth. Yet, as the population and national wealth increase, and Oman further improves its reputation as a stable place to do business, it would appear to be only a matter of time before the sector regains much of the momentum it enjoyed in the decade leading up to 2014.

Land plot activity, 2011-16 (000)



Source: MoH

Developers may soon be required to hold investment capital in escrow

Action plan

Changes at a key sector institution aim to streamline processes, increase confidence and revive the industry

Data collected from new software would enable the government to publish a real estate index at regular intervals for investors and other sector stakeholders.

Four initiatives under way at the Ministry of Housing (MoH) could have a considerable impact on the broader real estate sector over the course of 2018, namely the centralised processing of transactions, passage of new regulations, software to ease information collection and create indices, and an affordable housing programme. "The aim is to help organise and better regulate a market that has long been fragmented, giving investors new confidence in the end state of their project," Said Al Zakwani, director of real estate development projects at the MoH, told OBG.

CENTRAL PROCESSING: Starting in mid-2018 a new centre at the ministry will process approvals for real estate projects end-to-end, unifying systems currently split between the MoH, municipalities and regional authorities. Billed as a one-stop shop, employees will liaise on developers' behalf with other agencies involved in project approvals. A chief aim is to streamline service-level agreements (SLAs) between providers and clients. "This process used to take around a year; now it will be as little as one month," said Al Zakwani.

DRAFT REGULATIONS: A second goal is to enact SLA terms that better align with international best practices. To this end, the MoH has submitted draft regulations to other relevant ministries for approval. In addition, the MoH has submitted draft regulations for reforms related to escrow accounts to Parliament for review, to be amended and approved by both houses before being enforced by royal decree. Among proposed changes is a provision requiring developers to hold investment capital in an escrow account during the course of a project. This is to ensure that all such funds are used only for expenses directly related to the project, a move officials say will improve certainty for investors. "Up to now, there has been no formal mechanism for upholding the rights of end-users of real estate developments," Al Zakwani told OBG. "Investors hesitate to go in on a project when there is uncertainty regarding whether it will be finished without a major hiccup with developers. The new changes will ensure trust between these two groups."

SOFTWARE UPGRADE: A third initiative aims to bring greater transparency to the sector by requiring brokers to process real estate transactions through software mandated by the MoH. Currently, certain lease or sale agreements are registered through municipalities or regional authorities; under the new system, all real estate transactions must be conducted through the MoH. To facilitate compliance, the ministry will furnish all registered brokers with a programme that can be installed on company systems, serving as an official portal for document registration and information submission, such as sale price and annual rent values. Implementation is targeted for mid-2018. From the resulting database the MoH can then collate and anonymise data to create a real estate index, broken down into market segments, which it will publish at regular intervals. This will provide reliable industry-wide data to help stakeholders make informed decisions.

AFFORDABLE HOUSING: The fourth focus is a pilot project to build affordable housing for Omanis as part of their entitlement to land from the state. "Many Omanis who received land grants have been unable or unwilling to build because there were no amenities or community nearby," Al Zakwani told OBG. "Our idea was, why not offer ready-built communities where we can sell them accommodation, deducting the value of their land grant?" The first such project is to begin construction in 2018 in Barka, where 350,000 sq metres have been allocated. In May 2017 the MoH and the Supreme Council for Planning issued a request for proposals to invest in, develop and manage the project, with submissions closing in June. It intends to announce a developer in early 2018 and break ground six months later. It is hoped that this programme will stimulate the market and reduce the backlog of land grant applications, which stood at 400,000 in May 2017, according to Sheikh Saif bin Mohammed Al Shabibi, the minister of housing.

Industry

Four free trade zones offer incentives for investors

Economic diversification plan focused on manufacturing

Recovery expected for retail in 2018 following recent dip

E-commerce poised for breakout contribution to growth

Manufacturing represents 9.3% of GDP and employs 38,000 people

Focus of attention

Economic diversification drive supports sector growth

The sector has been buoyed by strong government support for new foreign direct investment initiatives and sustained investment in infrastructure.

Growth in Oman's industrial and retail sectors has been affected by reduced global oil prices and weaker consumer sentiment, denting spending and forcing some companies in heavy industry to defer growth and investment programmes. However, the impact of the costs borne by the sultanate's manufacturers was offset somewhat in 2017 by the rise in exports to Qatar following the blockade of that country's trade with the Saudi-led bloc of the GCC.

The government is also investing heavily in breaking a cycle of hydrocarbons dependency and facilitating the development of a more diversified economic base. Manufacturing has been prioritised as one of the pillars of this strategy under the Tanfeedh programme for national economic diversification.

NEW DEVELOPMENTS: Buoyed by strong government support for new foreign direct investment initiatives and sustained investment in infrastructure, industrial contributions to GDP will benefit from projects such as the new city being developed in the Special Economic Zone (SEZ) at Duqm.

The China-Oman Industrial Park is among the most ambitious of the new projects being developed by Chinese firms under the framework of the Belt and Road initiative. The industrial park is being developed and built by Oman Wanfang, a Chinese consortium made up of six private companies.

The investment will create thousands of jobs for Omanis and local companies in a wide range of industries, helping to transform an underutilised seaport into a major business zone and trans-shipment hub with a vibrant industrial base. The zone is managed by the Duqm Special Economic Zone Authority (SEZAD). "Given its regulatory independence, SEZAD acts as a laboratory for testing new regulations that could later be applied in the rest of Oman," Yahya Said Abdullah Al Jabri, chairman of SEZAD, told OBG (see analysis).

Recovery is also expected in retail, where long-term fundamentals remain strong, driven by population growth, a projected increase in disposable income and a rise in international tourist arrivals. These factors should more than offset current weak consumer sentiment due to the oil price downturn,

INDUSTRIAL GROWTH TRENDS: Non-oil activities grew by 0.6% in 2016, contributing OR19.3bn ($50.1bn) to GDP. Manufacturing contracted by 17% that year, adding OR2.2bn ($5.7bn) to GDP, according to the National Centre for Statistics and Information (NCSI). The trend persisted into 2017, with many private sector companies in industry and manufacturing reporting low earnings over the first six months of the year, and industrial sector output growing just 0.1% year-on-year (y-o-y) to OR2.53bn ($6.6bn).

Reduced oil prices continue to fuel negative economic sentiment in Oman, with consumers making more deliberate spending choices and delaying the replacement of non-durable goods, such as auto parts. In heavy industry, shareholders are deferring investment programmes for equipment upgrades and the procurement of new technologies that were not already authorised before oil prices fell.

Energy-intensive industries in the sultanate are also bearing the cost of the withdrawn power-tariff subsidies, raising energy prices by up to 75% for some companies from January 2017. Compounded by reduced profits, these higher costs represent a major challenge for the industrial sector.

"Increasing costs in power, transport and labour are all exerting significant downward pressure on the profitability of Omani manufacturers," S Gopalan, CEO at Reem Batteries & Power Appliances, told OBG.

According to stakeholders, a higher tax burden could also present a challenge for companies. "I am concerned about the outlook for the industrial sector given that the increase in the corporate tax rate will have a negative impact on local business sentiment and that it is now more difficult to access credit," Saeed Khawar, chairman of Bin Hayl Group, told OBG.

Industrial output stood at

$6.6bn

in the first half of 2017

Balancing the impact of new costs in 2017, domestic industries including food production, steel, manufacturing and construction aggregates benefitted from the diversion of trade between Qatar and the GCC. New shipping lines have opened between Oman and Qatar's recently inaugurated Hamad Port, and Omani businesses have picked up regional market share from competitors in the UAE and Saudi Arabia, including, for example, up to 40% of Abu Dhabi's export market for vegetable oil previously destined for Qatar.

GOVERNMENT OBJECTIVES: Despite the more challenging operating environment resulting from the downturn in oil prices, the market remains relatively upbeat, buoyed by sustained government investment in infrastructure. To mitigate the impact of lower oil prices on the pace of public sector investment, the government is seeking to relieve the pressure of financing major development projects by engaging the private sector in public-private partnerships and build-operate-transfer initiatives to share the burden.

The government is also seeking to break the cycle of oil-and-gas dependency by cutting the share of hydrocarbons-derived GDP in half by 2020 and substituting a more diversified economic base. To that end, the country plans to boost the GDP contribution of heavy industry from 19.8% in 2017 to 29% by 2020, and has earmarked $106bn to invest in non-oil sectors, including industry and manufacturing.

Indeed, manufacturing is at the heart of Oman's diversification strategy, representing 9.3% of GDP and employing more than 38,000 people in 2017. The sector has emerged over the past two decades as a significant development area for non-oil economic activities, growing by 661.9% between 1998 and 2015, according to a study conducted by the NCSI.

Today the country produces and exports a wide variety of items, ranging from car batteries to air conditioning units, footwear, vegetable oil and marble kitchen tops to 135 countries.

However, imports continue to dominate some product segments that have the potential to support domestic manufacturing if developed.

"All of the resources that are spent on importing products could be used to develop local and regional manufacturing capacity, which would translate into local jobs," M V Suresh, the CEO of National Pharmaceutical Industries, told OBG.

RESEARCH & DEVELOPMENT: Several initiatives under way aim to support downstream development in the manufacturing sector. In September 2017 the University of Sheffield's Advanced Manufacturing Research Centre announced plans to launch a local franchise out of Sohar University to drive industrial innovation and support the adoption of new technologies in advanced manufacturing. Known as Intaj-Suhar, the scheme will be the first manufacturing research centre of its kind in the GCC when it opens in 2018.

The technological advances supported by such programmes – particularly in IT-enabled design, digital modelling and fabrication – are changing the face of Omani manufacturing by creating opportunities for compact, micro-manufacturing facilities tailored to small, flexible production runs. Small firms run by artists, crafters, knitters, seamstresses, builders, programmers, engineers and graphic designers are taking advantage of lower-priced machinery and easy-to-use cloud-based software to order, stock and produce goods, as well as to finance projects in a way that would have been impossible five years ago.

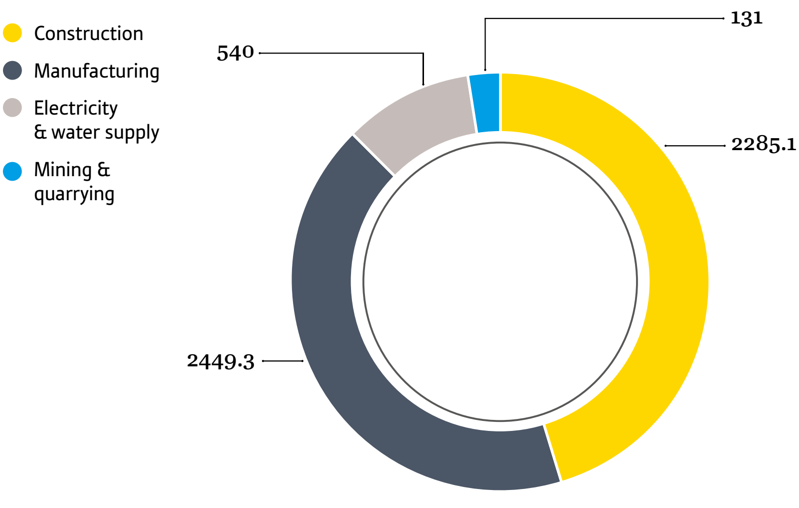
Omani manufactured goods are sold abroad in 135 countries

Small companies are taking advantage of lower-priced machinery and cloud-based software to order, stock and produce goods, as well as to finance projects in new ways.

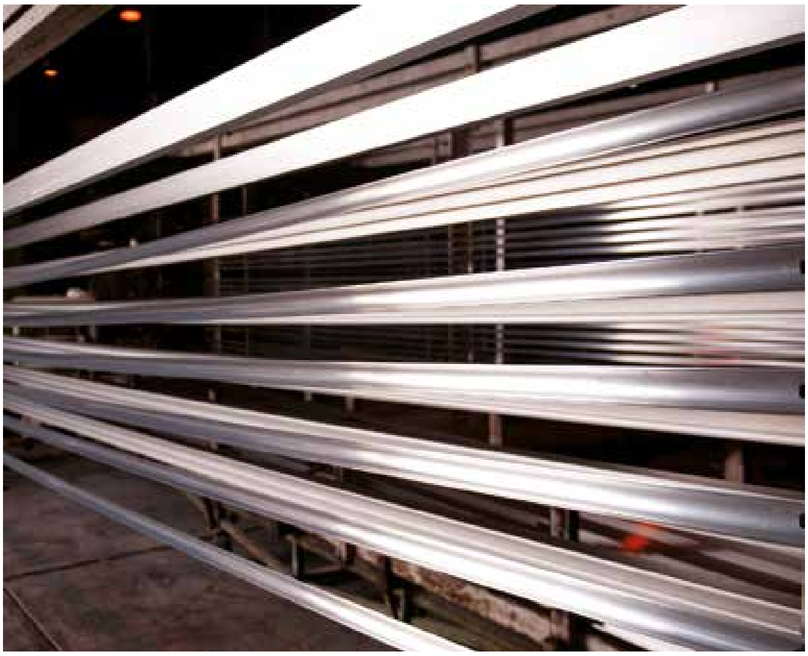
Industrial players of all sizes are benefitting from technological advances. "Better connecting businesses with suppliers through digital procurement platforms has the potential of stimulating foreign direct investment," Hemant Murkoth, CEO of Business Gateways International, which provides this service, told OBG. "Providing information about the quality of suppliers would also facilitate investment decisions."

FORUMS & INDUSTRY ASSOCIATIONS: Underscoring its importance to realising the sultanate's

Non-petroleum industrial GDP by category, 2016 (OR m)



Source: NCSI



The country plans to boost the GDP contribution of heavy industry from 19.8% in 2017 to 29% by 2020

Around

600

applications for land in industrial estates had been made by the end of September 2017

The petrochemicals segment, which supplied 51% of manufacturing value added in 2016, is expected to play a key role in accelerating growth of the non-oil economy and supporting the diversification agenda.

vision of economic diversification, manufacturing is one of the pillars of government strategy under the Tanfeedh programme, which was launched in 2016 under the ninth five-year development plan (2016-20). Since its launch, Tanfeedh has played an important role addressing a variety of challenges in the manufacturing sector, bringing public and private stakeholders together in a formal setting to discuss the future of the economy.

To further amplify the voice of companies in the decision-making process on issues affecting manufacturers – including labour laws, fiscal policies and land use rights – private industry is also taking independent action and organising a lobby group for the roughly 1000 manufacturing companies active in Oman. In late 2017 the manufacturing sector initiated the formation of the Omani Manufacturers Association, with articles of association approved in October 2017 and an initial seven-member board elected. The papers have been filed with the Ministry of Social Affairs and are awaiting approval, after which the association is expected to commence formal work in 2018. Regardless, the forum has already proven beneficial for manufacturers, providing a venue to relay concerns to the government that resulted in the suspension of a 1% import duty applied to raw manufacturing materials in early 2017.

INDUSTRIAL ESTATES: As part of the state's efforts to develop the industrial sector and diversify sources of national income, the Public Establishment for Industrial Estates (PEIE) manages planning and development of the Rusayl, Sohar, Raysut, Nizwa, Sur, Bureimi and Samail industrial estates, in addition to Knowledge Oasis Muscat – an IT park – and Al Mazunah Free Zone. Growth in the estates remains strong, with the PEIE reporting roughly 600 applications for land by the end of the third quarter of 2017, an increase of over 50% on the previous year, according to PEIE's CEO, Hilal Hamad Al Ahsani.

Oman's latest industrial estate at Thumrait, in the south of the country, is expected to open in 2018 with a queue of potential investors. The number of projects committed to the 753-ha Sumail Industrial Estate, completed in 2017 at a cost of OR39m ($101.3m), reached roughly 200 by the end of the year, drawing investors that benefit from proximity to the capital Muscat and Rusayl Industrial Estate.

In nearby Sohar most of the available land is in use, and the PEIE is planning to expand to Shinas to develop industry along the Al Batinah coastline. A new master plan is also in development for the country's largest industrial estate at Sur, with a feasibility study for a new commercial port managed by the private sector currently in its final stages. Investors have reportedly been lined up for the project, and the PEIE hopes to commence work in 2018.

The benefits of free zones accrue to the economy as well as to investors. "Successfully diversifying Oman's economy will depend on the continued support and strengthening of the industrial sector. Ports and free zones play an essential role in this regard," Reggy Vermeulen, CEO at Port of Duqm, told OBG.

PETROCHEMICALS: Petrochemicals are expected to play a key role in diversifying Oman's economy and accelerating non-oil economic growth. The segment was the highest contributor to GDP in the manufacturing sector in 2016, supplying 51% of value added in manufacturing, for growth of 47% compared to 2015, according to a 2017 report from the Gulf Petrochemicals and Chemicals Association.

The sultanate's largest ongoing petrochemicals project is the $5.2bn Liwa Plastics Industries Complex (LPIC) being built by Oman Oil Refineries and Petroleum Industries Company in the Sohar Industrial Port Area. Upon commissioning in 2020, LPIC will support the development of a downstream plastics industry in Oman and enable the country to produce polyethylene for the first time.

Other significant developments in 2017 include an investment agreement signed between Dalian Mingyuan Holdings Group and SEZAD to build a $2.8bn project to manufacture 1.8m tonnes of olefin with methanol annually. The year also saw the launch of commercial operations at Sebacic Oman's $62m, 30,000-tonnes-per-annum facility in Duqm, paving the way for the first exports of sebacic acid in early 2018. The manufacturing facility is the first in the MENA region and the only dedicated sebacic acid plant outside China, benefitting from proximity to Indian castor oil as the main raw material, as well as closeness to target markets in Europe and the Americas, and lower energy costs than China.

Fertiliser production capacity is also regarded as a big contributor to growth in Oman's non-oil exports. Gulf Potassium Mining, a subsidiary of Gulf Mining Group – which is one of the largest privately owned mining corporations in Oman – has announced plans to invest between $300m and $500m in the development of a sulphate of potash project that will use potassium chloride deposits discovered in Umm Al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Perfume
Fresh Blossom
Washing TIPS
Separate Laundry Before Wash
Coloured Clothes
White Clothes
To Remove Stubborn Stains
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Samim as an alternative to the more commonly available muriate of potash-type fertiliser in world markets, according to a report in the *Oman Daily Observer*.

ALUMINIUM: In line with government diversification efforts, the aluminium smelter and downstream sector has been going through disciplined productivity improvement and cost-cutting initiatives supporting the manufacture of value-added products.

Sohar Aluminium is one of the top five producers in the Gulf. Jointly owned by Oman Oil Company, Abu Dhabi National Energy Company and Rio Tinto Alcan, the $2.5bn joint venture produces 375,000 tonnes of aluminium annually, exporting 40% to shareholder Rio Tinto. In October 2017 Sohar Aluminium announced the aim of increasing its smelting capacity and downstream capabilities by adding a second pot line. The capital-intensive project, still in early planning, is intended to boost the downstream sector and align the company's priorities with the Tanfeedh programme, but requires billions of dollars of investment, and is predicated on appetite to invest.

TEXTILES: Seeking to benefit from strong government support, competitive land and energy rates, and connectivity to global markets through Sohar Port, ShriVallabh Pittie Industries Group – a diversified yarn manufacturing company based in India – signed a project agreement in September 2017 to launch a $300m plant in Sohar Freezone. The first major cotton yarn plant in the region, it is expected to import 100,000 tonnes of cotton fibre for production from the US, India and Australia, and will export more than 70,000 tonnes per year of finished yarn to international markets including Bangladesh, Pakistan, Vietnam, Portugal, Turkey and China.

Commercial operations are scheduled to begin in late 2019, with downstream investments in knitting, weaving, spinning and fabric manufacturing that support the sultanate's economy, and contribute to its growth and diversification by creating a thriving textiles cluster to provide jobs for locals

MANPOWER: Many companies in niche manufacturing segments face challenges hiring skilled manpower. A strict Omanisation policy is currently in place, but few Omanis possessing the necessary experience and skills for senior technical positions. Though the government has invested substantial resources in training centres, such as the Institute of Technical Training Services, a cultural aversion to factory work makes it difficult to find Omanis who are willing to take on production and maintenance roles in industry. Even in more senior positions, Omani engineers typically gravitate towards work in government or with the oil and gas sector.

Once hired, locals are often paid up to five times more than expatriates, and are entitled by law to a 3% annual salary raise regardless of a company's financial performance. It is also difficult to remove Omanis from their positions once employed, raising challenges with motivation and skills improvement.

Compounding the human capital issue in industry, the Ministry of Manpower has significantly tightened policy on labour clearances for expatriates in recent years to encourage companies to draw instead from the pool of young national graduates.

Locals are often paid up to five times more than expatriates, and are entitled by law to a 3% annual salary raise

"I understand and support mandating the hiring of Omanis at an entry level, but to impose a blanket ban on the hiring of expatriates for senior, experienced positions introduces significant challenges for manufacturers," said Hassan Abdwani, CEO of Voltamp, a producer of power transformers. "My feeling is that government ... is experimenting with labour regulation without appreciating the consequences to industry. They suspend expatriate labour clearances because they want more graduates to be hired, but that's not the solution. They are only solving their problem by creating another problem."

The collective impact of these regulations and the current labour laws presents a challenge for economic diversification, restricting access to vital labour and deterring contractors from taking on new projects to avoid excess labour costs during times of lower demand. "We need a lot of highly skilled people and every company needs something different," said Murtaza Jariwala, executive director of engineering and oilfield services provider Vanguard. "For us it is machine operators – if we hire an Omani, we have to bring our price up. Then if we don't get any orders, we cannot stay in business. You have to choose how to balance that and it's very challenging. The Chinese are also competing in the market, so we need orders and we need to keep costs low."

Reforms to labour regulation are currently under development, with initiatives to support the manufacturing segment spearheaded by Tanfeedh. The position of the private sector is clear: a more flexible and liberalised labour pool is necessary for the generation of economic activity and to create more jobs for Omanis. "Local companies are willing to abide by Omanisation," Said bin Saif Al Maskery, general manager at Composite Pipes Industry, told OBG. "However,

The first major cotton yarn plant in the region is expected to import 100,000 tonnes of cotton fibre from the US, India and Australia, and will export more than 70,000 tonnes per year of finished yarn to international markets.

Reforms to labour regulation are currently under development, with initiatives to support the manufacturing segment spearheaded by Tanfeedh.

A major rollout of organised shopping mall space is currently under way

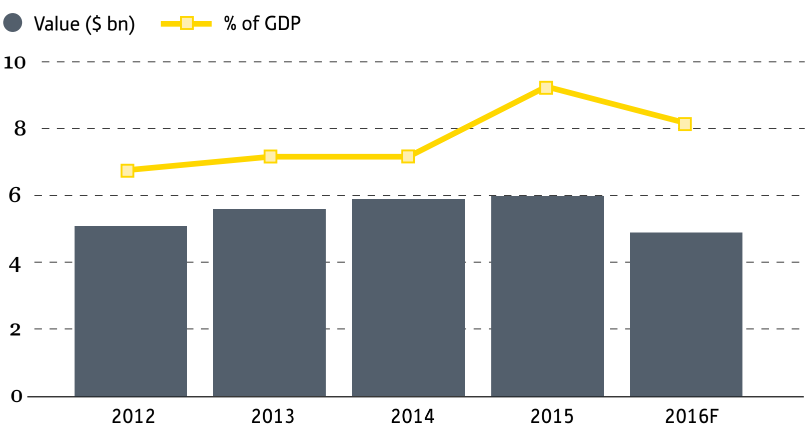
An expanding consumer base comprising a high number of young nationals, expatriates and lower-income consumers is contributing to a shift in buyer preferences towards international foods, Western products and organised retail stores.

there is a need for improvement in government policy that grants companies the freedom to manage employees and enforce employment contracts."

RETAIL: Growth in Oman's wholesale and retail trade sector has slowed since 2014, a result of the oil price downturn and weaker consumer sentiment. Annual growth in the retail sector fell by 18.2% in 2016 to $4.9bn, down from $6bn in 2015 – a recent peak – and $5.1bn in 2012, according to investment banking advisory firm Alpen Capital. The current retail operating environment in Oman, however, does not dampen the longer-term fundamentals for the sector, which is expected to recover in 2018 and grow steadily up to 2021 driven by the stabilisation of oil prices, an expanding consumer base, international tourist arrivals and growth in per capita income, according to a 2017 Alpen Capital report on the GCC retail industry.

Short-term performance will largely depend on the price of oil. If it remains above $50 per barrel, luxury products may do well, particularly among consumers making major purchases ahead of the implementation of a 5% value-added tax, now expected in 2019.

Wholesale & retail trade, 2012-16F



Source: Alpen Capital

GROWTH DRIVERS: The population saw a compound annual growth rate of 5.7% between 2011 and 2016, and is expected to grow at a rate of 3.1% between 2016 and 2021, the fastest in the GCC, according to the IMF. An expanding consumer base comprising a high number of young nationals, expatriates and lower-income consumers is contributing to a shift in consumer preferences towards international foods, Western products and organised retail stores. This is supported by a rise in household spending power resulting from economic diversification and government-mandated pay hikes for nationals, and is projected by the IMF to grow GDP per capita at an annual average rate of 1.5% between 2016 and 2021. "Thanks to the population growth rate, the outlook is positive for Oman's fast-moving consumer goods segment, which is a key contributor to the local manufacturing sector," Vaidyanathan Sundaresan, CEO at the National Detergent Company, told OBG.

The retail sector also benefits from the 16.8% increase in international tourist arrivals between 2011 and 2015. The National Strategy for Tourism 2040 target of a near-doubling of visitor numbers to 5m annually over the next 20 years is expected have a significant knock-on effect on retail growth.

Large grocery stores and hypermarkets attracted by Oman's strong pipeline of retail projects and expanding consumer base are also expected to drive growth in food retail sales by 15%, from $3.4bn in 2016 to $3.9bn in 2018, according to food and agriculture research firm Farrelly & Mitchell. Hypermarkets will remain the primary driver of food sales in the country, delivering around 70% of total grocery store receipts, according to Alpen Capital research.

ORGANISED MALL SPACE: Traditionally concentrated among standalone outlets, Oman's retail sector has been shifting towards multi-brand commercial centres and large leisure shopping complexes that combine retail with entertainment. Alpen Capital statistics suggest that the supply of retail space in the sultanate has risen substantially over the last two years. The addition of large shopping centres such as Avenues Mall (gross leasable area of 80,000 sq metres), Oasis Mall (35,600 sq metres) and Panorama Mall (21,000 sq metres) brought total leased mall space in Muscat to 345,000 sq metres in 2017. Oman Airports Management Company also announced the opening of over 18,000 sq metres of retail space at the new Muscat International Airport in January 2017.

The sultanate is preparing for a major rollout of organised mall space in the coming years, including Al Araimi Boulevard, Mall of Oman, and the rebranded Mall of Muscat (formerly known as Palm Mall). The luxury 149,000-sq-metre Al Araimi Boulevard is being built by Omani entrepreneur Fahad Abdullah Al Araimi in the coastal suburb of Al Khoud, a few kilometres from Muscat. It is envisioned as a social centre, offering a combination of entertainment and educational facilities alongside the biggest food court in Oman and 70,500 sq metres of leasable space. Construction is expected to be completed by September 2018.

Another retail destination due in 2018 is Mall of Muscat. The OR150m ($389.5m) complex will be located in Mabellah, between the Muscat Expressway and Highway 1, within a project area of more than 200,000 sq metres. In keeping with the trend of combining retail and entertainment, the mall will house an 8000-sq-metre aquarium, a 5600-sq-metre snow park, 200 retail outlets, and the largest Lulu Hypermarket in Oman, at a total of 22,000 sq metres.

The largest shopping destination under development is set to open in 2020 at Madinat Al Ifran, near Muscat International Airport. Designed by UAE-based mall pioneer Majid Al Futtaim, the super-regional Mall of Oman will host an estimated 350 outlets in a 137,000-sq-metre retail space, according to the *Oman Daily Observer*. The project is part of the $1.3bn investment that Majid Al Futtaim Group plans to make on retail developments in Oman by 2020. Mega malls and the international brands they bring will be key to securing a portion of the Omani retail spend currently being lost to the UAE, with many Omanis travelling to Dubai to buy goods such as clothing and electronics.

E-RETAIL: Beyond bricks and mortar, Oman's fledgling e-retail industry is poised for a breakout contribution to growth. While internet spending in the broader Middle East is booming, with GCC countries expected to hit $41.5bn in e-commerce by 2020, web sales in Oman amount to only $800m-$1bn annually due to the lack of a unified postal address system.

In 2017 the NCSI submitted the National Infrastructure for Geographic Information Project to Muscat Municipality, addressing in detail a four-stage plan to introduce a unified address system in time for the 2020 census (see ICT chapter). Once in place, the new system is expected to resolve logistics issues with home delivery, and drive growth in online spending and e-commerce. Mall of Oman, which is scheduled to open in 2020, has already announced plans to capitalise on the anticipated improvements by launching a mobile app that can deliver purchased items to a residential address, a service for which the introduction of a unified postal system is crucial. Similar systems have been successful in Saudi Arabia and several other countries, improving the efficiency of e-commerce deliveries and supporting retail growth. The regional footprint of experienced delivery platforms such as DHL, Aramex, fetchr and Souq – alongside express and payment gateways such as Paypal, Payfort and Telr – will help with the emergence of new e-retailers and revamping of online portals by traditional ones.

OUTLOOK: Industrial growth projections in Oman depend on a number of variables, including the global price of oil (which could result in fewer or delayed heavy industry contracts) and the impact of rising transport and energy prices on the regional competitiveness of Omani manufactured goods. Changes in public policy from budget pressures may also affect prospects, as was the case in 2017 when promised tax exemptions for certain types of aluminium machinery were cancelled in light of the economic environment.

Many companies in niche manufacturing segments also face challenges hiring skilled manpower. A more flexible and liberalised labour pool may be necessary to generate economic activity and create more jobs for Omanis. Despite these challenges, new investment – as measured by expansion in free zones and industrial estates – remains strong, pointing to continued confidence in the sector's long-term potential. "The industrial sector benefits from a globally competitive tax environment, and high-quality suppliers and service providers," Ghassan Musabbeh, managing partner at Muscat Steel Industries, told OBG.

In retail, unknowns include the impact of the anticipated spike in uptake of online retail and use of technology over the next several years. The sultanate is currently preparing for the rollout of a large area of organised mall space in a period of dampened spending, the completion of which may contribute to an overhang of retail supply, and in turn to an increase in vacancy rates and a subsequent drop in rents.

A plan to establish a unified address system in time for the 2020 census has been proposed. Once in place, this would facilitate the rise of e-commerce by better enabling home deliveries.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Investors are attracted by both Oman's location and low energy prices

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A range of incentives are available at special economic zones

To encourage industrial investment in Oman, the government has established special economic zones where investors enjoy tax exemptions, trade facilitation, and competitive advantages on imports and Customs duties. There are four such free trade zones – Al Mazunah, Sohar, Salalah and Duqm – each at different stages of development, and all designed for foreign companies to leverage Oman's position as a regional manufacturing and distribution base.

Of the four, Al Mazunah and Salalah are the oldest, opening in 1999 and 2005, respectively. The former is oriented towards trading, light industry and assistant services, while the latter, which remains under active development, is geared towards manufacturing and assembly, chemicals and material processing, and logistics. Sohar Port and Free Zone, likewise, continues to be developed with planning under way for the first phase of the site's expansion, known as Sohar Port South. The plan is expected to add 200 ha of land to Sohar Port's current 2000 ha, as part of the free zone's long-term strategy to grow the industrial and maritime hub by as much as 50%.

NEW INDUSTRIAL PARK DEVELOPMENT: The China-Oman Industrial Park at Duqm is among the most ambitious of the new-city projects being developed by Chinese firms under the framework of the Belt and Road initiative. The 11.72-sq-km endeavour in the 2000-sq-km Special Economic Zone of Duqm is being built by Oman Wanfang, a Chinese investor consortium of six private companies.

The Omani government is looking to develop the area around Duqm into a major business zone, attracting more foreign investment and providing local businesses with an opportunity to compete for tenders floated by the Chinese companies operating in Duqm. The firms participating in Belt and Road are seeking to leverage the low costs of oil and gas in the Middle East in order to develop advanced manufacturing capacity closer to target export markets.

MAJOR PROJECTS: In April 2017 Oman Wanfang signed land lease agreements with Chinese firms for the first 10 projects in the industrial park. The total value of the first stage of investments amounts to $3.2bn, around 30% of total anticipated investments in the park of $10.7bn by 2022.

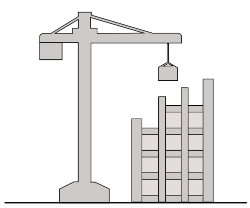
The Phase 1 initiatives are a $2.3bn methanol-to-olefin venture; a $410m power project; a $150m five-star hotel; a $138m building materials market; an $84m sports-utility vehicle factory; an $81m desalination and bromine extraction plant; a $215m manufacturing base for solar panels and equipment; a $10m factory for production of pipes used in oilfields; a $22m factory for steel pipe, wire, reinforced steel and parts production; and a factory producing pipes used in oil and gas fields.

All first-phase projects are expected to be brought on-line within five years, subject to resource availability. Apart from these 10 projects, another 25 that make up the second phase of the investment programme are conducting their market feasibility studies to set up manufacturing units in Duqm subject to land availability and market conditions.

GAS SUPPLY: The nature of future investments in the China-Oman Industrial Park and in Duqm more broadly will depend on the availability of natural gas. For heavy industry in particular, sourcing gas at competitive prices will be critical to project feasibility.

"We are not operating in a vacuum," Lee Chee Khian, CEO of Duqm Special Economic Zone Authority, told OBG. "We are competing with neighbouring countries that can supply cheaper gas and similar tax benefits. We can only compete on location, avoiding the Strait of Hormuz, but we have to be careful. If we charge a little bit too much for natural gas, the advantage of location becomes secondary." Security of supply and pricing for the natural gas required to launch heavy industry projects were therefore among the key issues being negotiated in late 2017.

The four free trade zones – Al Mazunah, Sohar, Salalah and Duqm – are all designed for foreign companies to leverage Oman's position as a regional manufacturing and distribution base.



The total value of the first stage of investments at the industrial park in Duqm amounts to

$3.2bn

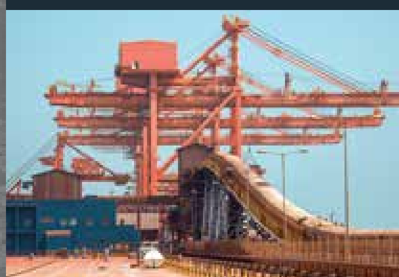
Mining

Extensive, largely untapped resources await investors

Latest technologies employed in mineral processing

Expansion of port infrastructure and logistics system

Improved regulatory framework to attract investment



Environmental licensing and permitting regulations are being revamped

Increased capacity

Efforts to streamline permitting processes, and improve port infrastructure and logistics, bode well for the industry

The country is the first GCC producer and exporter of ferrochrome, and produces large quantities of non-metallic minerals, including limestone, gypsum and marble, that support construction and infrastructure development projects around the world.

More than 100 delegates from 18 countries converged in Muscat in October 2017 for the country's second annual international conference of mining investors and service providers. The growing interest in the conference is testament to both the great potential of the country's mining and quarrying sectors, and of the priority accorded to the sector under the sultanate's economic diversification programme.

Oman boasts an extensive and largely untapped mineral resource base that includes large deposits of metallic minerals, such as copper and chromite, and industrial minerals, namely limestone and marble. The country is the first GCC producer and exporter of ferrochrome, and produces large quantities of non-metallic minerals, including limestone, gypsum and marble, that support construction and infrastructure development projects around the world. Mining activities and the contribution of the sector to the economy are set to increase over the coming years, buoyed by government efforts to attract investment in mineral exploration, production, value addition and export activities from both foreign and local operators.

GROWTH: The Omani mining sector struggled through a difficult year in 2017, with revenues impacted by downward pressure on international market prices, declining limestone demand from India and increased competition in cheaper gypsum production from Iran.

This modest downturn followed 2016 production declines in industrial minerals which saw limestone output drop 18.8% to 9.9m tonnes, down from 12.1m tonnes a year earlier. Gypsum, a basic raw material which also has wide application in the plasterboard and cement industries, dipped 9.4% to 5.4m tonnes from 6m tonnes in 2015. Broadly mirroring the global commodity price slump, production of aggregates used in the construction sector fell by 47% to 37m tonnes in 2016, down from 70m tonnes in 2015. The estimated total value of the minerals produced in the sultanate stood at OR116.6m ($302.8m) in 2016, according to the Central Bank of Oman, down from OR136.4m ($354.2m) a year earlier. Furthermore, at the end of 2016 there were 234 valid permissions for conducting mineral exploration and production in Oman.

Despite a short-term market contraction, the long-term outlook for Oman's mining sector is good, driven by rising demand for construction materials in Asia and East Africa. India remains Oman's largest market, while Qatar has gained prominence.

Despite this short-term market contraction, the long-term outlook for Oman's mining sector is good, driven by rising demand for construction materials in Asia and East Africa. India remains Oman's largest market, generating significant and enduring demand for minerals like gypsum and limestone in construction and development projects. At a regional level Qatar has also gained new prominence as an export market following the political crisis that resulted in that country's blockade by Saudi Arabia, the UAE, Bahrain and Egypt. Qatar had previously sourced most of its limestone and marble from the UAE, but began looking to Oman in 2017 to source the materials required to sustain a construction boom in the build up to the 2022 FIFA World Cup, which will take place in Qatar.

SECTOR STRUCTURE: The state in Oman owns all naturally occurring surface, subsurface and subsea minerals. Regulations and policymaking in the mining sector are tasked to the Public Authority for Mining (PAM), established by royal decree in 2014 to achieve optimal exploitation of mineral resources in a manner that best serves the country's development goals. In early 2016 four state-owned investment branches collaborated to launch a mining development company – Minerals Development Oman (MDO) – aimed at stimulating the country's mining sector and establishing vehicles for investment in upstream and downstream activities. A total of 60% of MDO's initial share capital of $260m will be floated by the group, with the remaining 40% stake to be offered to the public via an initial public offering on the Muscat Securities Market. The schedule and terms for the public listing have not yet been disclosed.

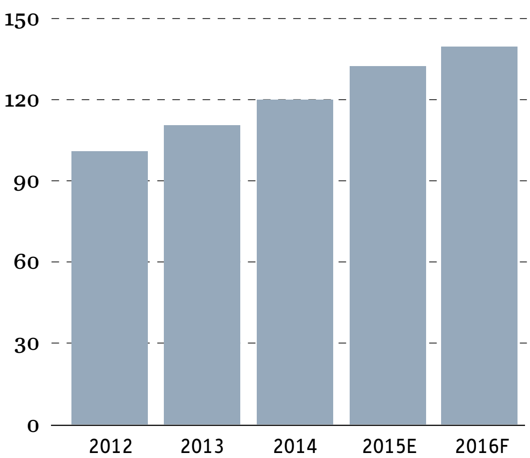
GOVERNMENT ROLE: The formation of a public mining development company for the sector is in line with the government's strategy for mining and four other non-oil sectors outlined in Oman's ninth five-year development plan, which covers 2016-20, and in the National Programme for Enhancing Economic Diversification, also known as the Tanfeedh. The government is strongly committed to diversifying its economy to reduce its reliance on oil exports, and views accelerated development of the nation's mineral resources as an integral part of these diversification efforts. To these ends, the government is looking to involve the private sector more in major economic development projects, underscoring the utility of public-private partnerships in the most recent five-year plan.

At a local level, government is facilitating development by establishing companies to promote mineral-based industrial activities and manage activities related to mining and quarrying in specific areas. For example, the Duqm Quarries Company was launched in the Duqm Special Economic Zone Authority (SEZAD) in 2017 to prepare investment contracts and feasibility studies for companies considering investment in the area. The company also operates sand and gravel mines, and supervises activities related to the exploitation of quarries for construction and filling materials required to support the infrastructure projects under way at SEZAD. Total raw material requirements are estimated at roughly 500-1,000 tonnes per hour, Ali bin Abdullah al Zadjali, manager at Duqm Quarries Company, told local media in October 2017.

CHALLENGES: Although the government is taking steps to ameliorate some of the issues that have hindered growth in the sector in recent years, many of the challenges facing the industry remain. These originate in, and are compounded by, overly burdensome regulation and delays in licensing and the issuing of permits. Certain requests have to progress through as many as eight ministries for approval, or "no objection" rulings, and current delays on routine permits have been reported to extend to over a year in some cases.

Fiscal measures taken by the government to address the growing budget deficit have also impacted the industry, including a 2016 doubling of the mining

Mining & quarrying GDP*, 2012-16F (OR m)



Source: CBO *current prices

Qatar is increasingly looking to Oman for the limestone and marble needed to sustain its construction

royalty rate from 5% to 10%, and a 2017 hike in corporate income tax from 12% to 15%. The net effect of these measures has been to cut into profitability for companies seeking to gain a foothold in the Omani minerals market. At the same time, the sector is under pressure to increase the value added of raw, unprocessed minerals. To this end, the government has been pushing exporters of certain minerals to add value in commercialised finished products, including plaster and cement. For example, raw exports of marble were banned in 2016. More abundant minerals like limestone are permitted to be partially exported in raw form. New regulations being introduced in 2018 are expected to include guidance that may require factory production as a condition of licensing. A related issue identified by operators in the country is the need for a centralised marketing agency to regulate exports for key bulk mineral products. In the absence of such an agency, marginal suppliers have the effect of undercutting prices for major products like gypsum and limestone.

MDO plans to act as a concentrator in this regard, increasing the leverage of Omani operators by marketing to traders on their behalf. PAM also plays a role, regulating the minimum export price of minerals to prevent price undercutting. In late 2016 the authority fixed a minimum export free-on-board price for raw gypsum at $12.50 per tonne. Consequently, Omani gypsum exporters are barred from exporting raw gypsum below this designated price.

NATIONAL MINING STRATEGY: A new national mining strategy that is expected to be unveiled in the first quarter of 2018 is currently under development by PAM in collaboration with a consortium of international firms, including the UK-based mining industry specialist SRK Consulting, legal firm Mayer Brown and consultancy firm Wood Mackenzie. The strategy is expected to provide a 10-year development framework for the mining sector and will reportedly be based on PAM's 12 pillars, which include a focus on investment, social

Fiscal measures taken by the government to address the growing budget deficit have impacted the profitability of the industry, including a 2016 doubling of the mining royalty rate from 5% to 10%, and a 2017 hike in corporate income tax from 12% to 15%.

The sultanate has extensive and largely untapped deposits of copper, chromite, limestone and marble

contribution, the environment and the development of human resources. All commodities in the mining industry are within the scope of the strategy, which includes a review of the resource potential of different areas in the country where data could be improved to encourage exploration and investment.

In a related effort, Oman's Ministry of Environment and Climate Affairs (MECA) has initiated steps to revamp its environmental licensing and permitting procedures in order to make them more investor-friendly. These changes will embed environmental issues associated with mining and extractive industrial activities in a new all-encompassing regulatory framework. MECA is reportedly planning to roll out the first phases of the framework in early 2018, with further amendments and additional legislation likely to be introduced over a period of roughly two years.

MINING LAW: After years of delays, a new mining law is expected to come into effect in 2018, overhauling Oman's mining regulations by increasing transparency, boosting investment incentives and streamlining the permitting process, specifically the process of obtaining mining licenses. The law has been drafted by PAM in consultation with both public and private stakeholders, and was reportedly in the final stages of review by Parliament and the Cabinet in October 2017.

"The new law has benefitted from the fact that private-sector stakeholders were adequately consulted," Mohammed Yahya Al Shabib, vice-chairman of Gulf Mining Materials, told OBG. "We especially appreciate reforms clarifying the differences between concessions and ownership, and those elongating licences."

Upon implementation, the law should largely address investor concerns with licence duration. Until now these have been issued for five-year periods and subject to mandatory annual renewal. The new law is likely to include extensions to licence periods, with the objective of boosting investor confidence in the sector. The sultanate is also working towards offering ready-to-invest mining blocks to make it easier for investors to obtain mining licences. Historically this has required companies to secure regulatory approval for operating permits from up to eight different ministries. To these ends, PAM is coordinating with other government agencies to approve mining blocks that will then be divided into smaller concessions and allocated to investors.

The handling capacity of Sohar Port increased from 400,000 tonnes per month in late 2017 to 600,000 in January 2018, and was set to increase to 1m tonnes per month by February 2018.

COUNTRY LOGISTICS: Oman's strength in mining lies in its strategic location – at the centre of a developing region with an immense appetite for cement and steel. From an operational perspective, the sultanate supports mineral exporters with natural gas, free zones, tax exemptions, relatively low corporate tax rates and high-quality infrastructure – including roads, ports and airports. Domestic freight costs for mineral exporters have nevertheless gone up since 2016 on the back of regulations that reduced the permitted weight of truck haulage from 50 to 40 tonnes, as well as a 50% increase in diesel costs following the removal of subsidies in 2016. As a result, transport costs account for up to one-third of operating costs for some mining companies in the country, up to 40% of that on fuel costs alone.

To improve domestic freight options, Asyad – a government holding company that consolidates all government investments in ports, free zones, rail, maritime and land transport companies – is currently developing an internal rail network for use in the mining industry. The sultanate had previously been developing a Sohar connection for a planned GCC rail network before progress issues in neighbouring countries suspended work in 2017. Oman Rail is now focused on setting up two domestic rail networks for the mining industry, the first connecting Sohar Port and Dank, and the second connecting Thumrait, Shuwaimiya and Duqm, according to local media. Full commissioning is expected to take at least four years from the time that contracts are awarded, with a final funding decision contingent on mining sector development strategy.

EXPORT TERMINALS: Existing port facilities in the country are improving and broadly considered adequate to support mining and quarrying activities. One notable exception is Sohar Port, where platform capacity has struggled to keep pace with the significant growth in export volumes of rock products required in Qatar, Bangladesh and Iraq. However, the scale and quantity of demand currently exceeds Sohar's shipping capacity. Nevertheless, port authorities are responding to rising demand, increasing the port's handling capacity from 400,000 tonnes per month in late 2017 to 600,000 tonnes per month in January 2018, with capacity set to increase to 1m tonnes per month by the beginning of February 2018, according to local media.

South of Sohar, in Duqm, a 300-metre dedicated break bulk terminal is being developed for mineral export with a capacity of up to 5m tonnes per annum. The terminal adds to the attractiveness of Duqm's location near major shipping lanes with direct connectivity to major export destinations. The first shipment of 50,000 tonnes of dolomite was exported from the port's commercial quay in February 2016, followed by the first shipment of 55,000 tonnes of limestone to

India in May 2017. Duqm Port is equipped to handle these volumes with minimal operational lead time, and is expected to develop into a major international centre for the export of industrial minerals in the coming year.

Investment in logistics will also bring dividends through the commercialisation of the substantial mineral resources of Al Wusta Governorate. Expectations are that the quarry in Duqm, located about 40km from the port, will produce several hundred thousand tonnes of product per month, with a significant percentage exported via the port's break bulk terminal and feeding important downstream industries in Duqm. Large deposits in the vicinity of the port include dolomite, limestone, gypsum, silica sand and clay.

GYPSUM: Of the minerals present in Oman with the greatest impact on sector growth, gypsum exports – destined primarily for the burgeoning steel and cement sectors of the Indian sub-continent – have the potential to drive growth, supported by the purity of the product, competitive prices and proximity to consumer markets.

According to local media, demand for the material is expected to rise across Asia in the coming years, from 16m tonnes per annum in 2015 to 23m by 2020 and over 36m by 2025, largely driven by strong growth in the cement and gypsum board production segments in Asian countries. With Omani reserves of gypsum ore estimated at more than 1bn tonnes, the sultanate is strongly positioned as an important source of the construction material in a period of rising global demand.

Underscoring the potential contribution of the mineral to the country's economy, the volume of gypsum ore exports has been growing rapidly in recent years, from just 300,000 tonnes per annum in 2010 to 6.4m tonnes in 2016 and 6.1m tonnes during the first nine months of 2017. By the end of 2017, PAM projected that Oman would surpass Thailand to become the largest exporter of gypsum in the world. These figures are expected to rise again to over 10m tonnes by end-2018.

Buoyed by surging export growth, Gulf Mining Group (GMG) has significantly boosted production of gypsum from 86,000 tonnes per month in 2016 to 150,000 in 2017. Furthermore, GMG is considering plans to set up a processing plant for the manufacture of gypsum board and other related products in Salalah, subject to the availability of electricity and natural gas for the project.

POTASH: Other new investments being pursued by GMG's to increase its existing portfolio in Oman include a doubling of limestone production from 50,000 to 100,000 tonnes per month, and an initial investment of between $300 and $500m in the sultanate's largest mining venture, a major project targeting the significant potash reserves located in central Oman.

The initiative is projected to produce 500,000 tonnes of potash per annum, with raw production capacity scalable to 1m tonnes over a five-year period. Exploratory work in central Oman has commenced, and GMG has applied for a licence to begin mining operations in an area of 3200 sq km in Block 62 and Block 6. Initial processing is planned at Umm Al Samim, with final downstream blending of potash and sulphur to produce potassium sulphate planned for the Duqm Special Zone,

A 300-metre break bulk terminal is being built at Duqm with a capacity of up to 5m tonnes per annum

where GMG is developing a $20m-40m pilot plant, scheduled to come online in 2022.

CHROMITE: GMG is also the largest chrome producer in Oman at 400,000 tonnes per annum. As part of the company's strategy to add value to the sultanate's manganese ore segment, plans are under way to establish the country's first manganese ferroalloy smelter, to be located at the Sohar Port and Freezone. In the first phase GMG aims to produce 4000 tonnes of manganese ferroalloy, with Oman's manganese deposits estimated at between 1.5m and 2m tonnes.

At the end of 2017 state approvals and permitting were in place for the plant, and the company was waiting for guarantees that the electricity generation capacity being developed by Majan Electricity Company would be sufficient. The planned facility is to be constructed adjacent to an existing ferrochrome smelter owned by GMG subsidiary Gulf Mining Ferro Alloys.

OUTLOOK: Motivated by a need to fill the budgetary gap left by the drop in oil revenues, the government is playing a key role in incentivising new investment throughout Oman's mining sector. Though levels of production of both industrial and metallic minerals were impacted by the 2015-16 global commodities slump, the long-term outlook for the sector remains stable, driven by the increase in construction activity and rising demand for large volumes of construction materials in Asia and East Africa.

Seeking to enhance the contribution of the sector to economic diversification, the government is taking steps to address long-standing operator concerns with overly burdensome regulation and delays in licensing and permitting. This is being achieved by increasing transparency, boosting investment incentives and streamlining the permitting process to make it easier for investors to obtain mining licences. The new mining law and the national mining strategy, both due to come into effect in 2018, are set to drive growth in the sultanate's mining sector into the next decade.

Gypsum exports are expected to rise to over

10m

by the end of 2018

The Semail Ophiolite in northern Oman is rich in high-grade copper

More ore less

An improved regulatory framework is supporting increased investment in both copper extraction and processing

Following a period of mixed results for Oman's mining and mineral processing sector, in which copper exports fell, the segment now appears set to rebound. According to the Central Bank of Oman, output of copper ore dropped to zero in 2016, after falling 42.9% in 2015 from 72,100 tonnes per annum to 41,200 per annum. Nevertheless, projects under way as of January 2018 appear likely to reverse this trend and contribute to a rise in Omani copper production.

HISTORY: Copper mining in the sultanate dates back thousands of years, but its modern history began in 1983 with the opening of an ultra-modern copper works at Lasail in northern Oman.

The Semail Ophiolite of the northern Hajar Mountains, where the Oman Mining Company (OMCO) was founded, is rich in high-grade copper deposits, with metallurgically simple ores that can be developed to produce high-quality copper concentrates for both local and overseas smelters. In the early 1980s OMCO constructed concentrator, smelting and refining facilities in the Sohar region capable of producing 20,000 tonnes of copper a year, with a purity of 99.9%.

The product was mostly used in the export of certain cathodes. As deposits became depleted, the plant shifted to an international role, as a toll smelting operation that imported copper concentrate and exported copper cathode. Until relatively recently there was little in the way of modern exploration for copper deposits in the sultanate. With the introduction of Versatile Time Domain Electromagnetic surveying (VTEM) in the past ten years, this has begun to change.

RECENT ACTIVITY: The latest technologies are being employed in the search for new copper deposits in northern Oman by Australia-based Savannah Resources, together with its Omani partners. Savannah Resources is among the largest players in the sultanate's copper segment, holding a 65% stake in Al Fairuz Mining, which is the holder of the Block 5 licence comprising the high-grade Mahab 4 and Maqail South copper deposits. At the end of 2017 Savannah Resources was planning a series of copper mine developments in the country and had secured regulatory approvals, or "no objections", from six of eight ministries by the fourth quarter. Remaining approvals and mining licences were expected to be received during the first quarter of 2018 and production scheduled to commence in the first half of the year.

NEW PLANTS: Another Australian company, Alara Resources, is developing what is set to be the sultanate's single-largest copper resource at Washihi, 160 km south-east of Muscat. The company holds a 70% stake in Al Hadeetha Resources, a local Omani company that owns the mining licence for the area in which the Washihi deposits fall. The project is large enough to support the construction of a copper concentrator that will yield around 30,000 tonnes of copper concentrate per annum and around 300,000 tonnes in the first 10 years. Expected revenues over the first decade are projected by the company to reach $434m.

The plant is expected to commence operations in 2018, producing concentrate that will be shipped from Sohar Port. Underscoring the market opportunity in copper concentrate, Alara Resources is ultimately looking to localise the entire copper production process in Oman, including mining, concentrating and smelting. Copper is also attracting interest from outside the industry, with Oman Oil Company announcing in 2014 its first mining venture in collaboration with Oman Mining Company and Mawarid Mining, covering the exploration and development of five separate copper deposits at Yanqul in northern Oman.

The uptick in mining licence issuance comes against a backdrop of heightened investment in mineral exploration and processing activities. Aided by technologies including VTEM, and forthcoming regulatory changes including a new mining law and a comprehensive mining strategy, the sultanate is primed for a resurgence of investor interest in copper segment activities.

The latest technologies are being employed in the search for new copper deposits in northern Oman, including Versatile Time Domain Electromagnetic surveying techniques.

Work is under way on the country's single-largest copper resource at Washihi. The project will include a copper concentrator that will yield around 30,000 tonnes of copper concentrate per annum.

Transport & Logistics

Expansion work on port infrastructure under way

Newly formed holding company to manage state assets

Aviation industry continues to experience rapid growth

Private sector takes the lead in several key segments

Transport and logistics sector targeted to contribute 7% to GDP by 2020

Gulf gateway

Investments in infrastructure and streamlining help the country capitalise on its prime location

Investment in transport infrastructure is a key pillar of diversification plans, with expansions expected across the aviation, maritime and road- and rail-based segments.

Oman's location gives it a unique opportunity to act as a gateway to the GCC's 50m-plus marketplace, and a key trans-shipment hub between Asia and Europe.

Bolstered by steady investments from a government cognisant of its potential, Oman's transport and logistics sector has continued to expand even as the impact of lower oil prices continues to be felt. The sector's real growth rate registered at 1.1% in 2015 after rising 9.4% in 2014, giving it a value of OR1.7bn ($4.4bn), according to the latest available figures from Central Bank of Oman (CBO). It has been sustained by robust growth in passenger arrivals by air, and of cargo by land and sea. With a coastline of 2100 km at the mouth of the Gulf, and a history of friendly relations with its neighbours, Oman has a unique opportunity to become the logistics gateway to the GCC's 50m-plus consumers, and a key trans-shipment centre between Europe and Asia.

Government officials have given this idea traction by making investments in transport infrastructure a key pillar of the country's diversification plans. In recent years they have facilitated investments in the billions of dollars into expanding the country's ports, not just at established centres like Sohar and Salalah, but also a greenfield free zone site at Duqm that aspires to become the top industrial and trans-shipment hub on the Indian Ocean rim. This push was accelerated in 2017 by a 50-year development deal with Chinese companies that has already secured around one-third of $10.7bn in planned investment.

A new airport terminal in Muscat looks set to open in 2018, driving fresh growth in the airline industry, which saw a new budget carrier formed in 2017. On land, investments in the road network continue apace, as vehicle registrations reach new highs. Though postponed in 2017, a $14bn national rail project holds significant potential for efficiency gains in overland transportation, particularly to support the country's burgeoning mining sector.

STRATEGY FOR GROWTH: All of this brings important opportunities for foreign investors. The country's ninth five-year plan for 2016-20 foresees investments of OR6.1bn ($15.8bn) and an annual growth rate of 5.4% over that period, raising the sector's GDP contribution from 6.2% to 7%.

With the oil price recovering modestly in the second half of 2017, to around $65 a barrel from roughly $45 in June 2017, many projects that were pared back or paused in the 2016-17 budgets – which assumed a $45 oil price – could be revived under more cost-optimised plans. Private firms and multinationals should also have ample opportunities to share in the industry's growth story in the years ahead: the government's logistics strategy and most recent five-year plan both call for a greater role for the private sector, including through joint ventures and public-private partnerships.

"After a decade of strong investments Oman's transport infrastructure is now at a solid threshold, reaching critical mass," Erwin Mortlemans, commercial director at Port of Duqm, told OBG. "In the current macro environment, however, investors are becoming more careful with their choices, requiring a proven business case to support each project."

SIZE & PERFORMANCE: By nearly all measures, Oman's transport and logistics sector has seen consistently strong growth patterns in recent years. In 2015 the sector was worth an estimated OR1.7bn ($4.4bn) at current prices, or 5.6% of GDP, according to the CBO. At constant (2010) prices, this represented growth of 1.1% on the previous year, following a 9.4% rise between 2013 and 2014. This was driven by increasing movements of goods and people in, out and within the country as Oman builds its connectivity in line with its economic development plans.

International aircraft arrivals numbered just over 49,000 in 2016, bringing 5.8m passengers and 104,700 tonnes of cargo, according to the most recent full-year data from the National Centre for Statistics and Information (NCSI). Four years earlier, the figures were roughly 33,700 flights, 3.5m people and 71,700 tonnes – with more or less linear upticks in the intervening years. Growth in domestic traffic was also strong, with 8750 internal flights in 2016 transporting just under 1m people and 2600 tonnes of cargo, up from around 6000 flights, 610,000 passengers and roughly the same tonnage in 2012.

Port activity also grew substantially over that period, especially in its mainstay category of oil exports shipped, which rose from 37m barrels to 321m barrels in 2012-16. Goods received by sea totalled 21m tonnes in 2016, nearly twice the 11m tonnes of 2012, while those coming by land more than doubled from 7000 to 18,000 tonnes in that span. Road traffic remained robust, judging by the number of issued driving licences having grown from 129,000 in 2012 to 172,000 in 2016.

MANPOWER: As of end-2016 there were just over 90,000 people employed in the private transport and storage sector (aggregated with communications in official data), of which 80% were expatriates and 20% Omanis, according to the NCSI; fully 94% were male.

The public sector – consisting of ministry officials and state-run port operators – while a fraction of the private sector workforce at just 1188 workers, showed the opposite demographic trend, with 98% being Omani and 2% expatiate; some 75% were male. Disaggregated data from the Ministry of Transport and Communications (MoTC) show the transport and logistics sector workforce was around 40,000 strong as of mid-2015, with the Sultanate of Oman Logistics Strategy 2040 (SOLS 2040) aiming to double this figure by the end of the decade.

To facilitate this expansion while reducing its reliance on foreign labour, the Ministry of Manpower began exploring the possibility of building a logistics training centre in Muscat in September 2016, as well as a professional association to help attract more Omanis to work in the sector. Though no update had been announced as of late 2017, in September state-owned logistics holding company Asyad and the National Training Fund signed an agreement to collaborate on training schemes, and the privately run Muscat University began offering bachelor's degrees in supply chain management, and master's degrees in logistics and air transport management. The International Maritime College Oman, founded in 2005, also offers two- and four-year degrees for Omanis wishing to enter the sector's workforce.

"Mechanising production processes could improve the attractiveness of the logistics sector to Omanis, who do not think well of manual jobs," Warith Al Kharusi, executive director at Al Safwa Group & Partners, a supply chain management firm for the oil and gas sector, told OBG. "As sector integration increases, such upgrades will better align efficiencies between large and small companies, allowing new job creation at a higher value added per worker."

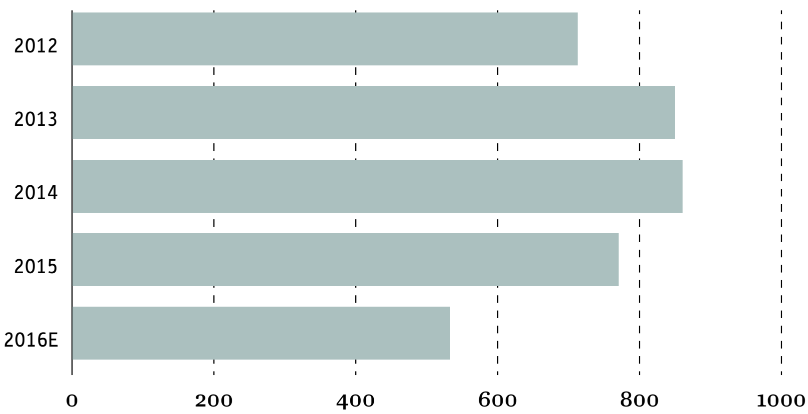
REGULATORS: The sector's main regulator is the MoTC, which is responsible for overseeing the building and maintenance of the country's roads, airports, seaports and other infrastructure, as well as drafting policies and improving the quality of public transport services. Founded in 1973 soon after independence, it was originally merged with the public services ministry until 2000-01, when it was divested of its responsibilities in housing and gained comprehensive oversight of communications. Led by Ahmed Salem Al Futais, the MoTC is currently overseeing large investments in public infrastructure under the ninth five-year plan for 2016-20 and its long-term development blueprint, Vision 2040. In early 2015 the MoTC set up an Oman Logistics Centre to implement and oversee the country's logistics strategy.

The Ministry of Finance controls budget allocations for both current and development outlays, while the Ministry of Manpower oversees vocational training and Omanisation quotas at public and private companies. Industry clusters, of which several are located in port free zones, are created and regulated by the Public Establishment for Industrial Estates. Founded in 2012 by royal decree, the Public Authority

The urban transit plan envisions an expansion of bus services in Muscat

As of end-2016 there were just over 90,000 people employed in the country's private transport and storage sector, of which 80% were expatriates and 20% were Omanis.

Civil development spending on transport*, 2012-16E (OR m)



Source: CBO

*and communications

The number of driving licences issued reached a record high of 172,000 in 2016, up from 156,000 in 2015

A major change in the sector's organisation in recent years has been the formation of a large holding company to manage government assets in transport and logistics.

for Civil Aviation regulates the country's airspace in concert with the Oman Airports Management Company and the National Service of Meteorology; it also issues licences for airline and maintenance crews, and develops and enforces policies on transport security. The NCSI and CBO detailed sector statistics on a monthly, quarterly and annual basis to inform decision-making among authorities, while Ithraa, the state investment promotion agency formed in 1996, assists foreign investors with things like business registration, information requests, finding local partners and project proposals.

NEW MANAGEMENT: One significant change in the sector's organisation in recent years has been the formation of two large holding companies, Oman Aviation Group and Asyad. They were tasked with managing state assets in aviation and logistics, respectively. Asyad, a rebranding of Oman Global Logistics Group founded in 2016, serves as an umbrella group for a host of subsidiaries that include some of the sector's largest companies. "The creation of Asyad is a welcome development for the transport and logistics sector in Oman," Tarik Al Junaidi, CEO of Oman Shipping Company, told OBG. "It will streamline the kind of coordination necessary to foster multimodal transport, and ultimately the sultanate's position as a global logistics hub."

Firms under Asyad fall into three categories, which corresponds to its main branches of remit: ports and free zones, freight and public services. Among the companies it controls are several free zone-related entities (Salalah Freezone Company, Sohar International Development, Oman International Container Terminal and Oman Logistics Company); a number of freight service providers (Oman Shipping Company, Oman Drydock and Oman Rail); and a range of sectoral public service entities (Oman Post, the Mwasalat public bus system, the National Ferries Company and the International Maritime College Oman). In each of these spheres, it has been charged with reviewing assets and coming up with more efficient ways of managing them – a task in which it has been very active so far (see analysis). "Growth in the Oman market has led to a greater need to strategise, regroup and accelerate decision-making," Omar Mahmood Al Mahrizi, vice-president of Asyad, told OBG. "What we are finding in our sector-wide review of state companies is that there are great economies of scope as well as of scale."

LEGISLATION: The sector is governed by Oman's Basic Law, which lays out the legal structure for the country's institutions, as well as a maritime law passed in 1981 in line with UN standards on territorial claims; the labour law of 2003; the traffic law of 1993; free zone legislation of 2002; and a series of environmental laws passed in 1990, 2001 and 2004. More recently, in March 2016 the MoTC issued a Land Transport Law that came into effect a year later laying out rules governing transport activities. It obliges all companies or parties conducting transport activity to obtain approval from the ministry, and establishes rights and duties of carriers and commission agents, issues strictures on liability for logistics firms, and sets out compensation and penalties. In early 2017 work began on drafting a multimodal transport law that will clarify the roles and duties for each party involved in a multimodal contract. According to Hanah Al Rahbi, the ministry's director-general of planning and studies, the law will boost the confidence of foreign firms in shipping their wares to or through Oman.

A workshop held in February 2017 called for ideas from more than 50 representatives from the public and private sectors, seeking to codify international best practices that can give certainty for managing risk in transport activities. Al Rahbi said he expected the law to be issued by early 2018.

Oman also benefits from several cooperation agreements on land transport, including with Turkey (2004), Syria (2005), Yemen (2006) and Jordan (2013). It is working on securing a similar agreement with the UAE; another with Spain has been signed but not yet approved by Parliament as of late 2017.

STRUCTURE: Given the public interest inherent in developing transport connectivity, the state runs most of the largest firms across the sector, particularly those under the Asyad umbrella. However, the authorities are increasingly looking to the private sector for investment and expertise, particularly to develop the project pipeline through joint ventures or public-private partnerships, such as Khazaen Logistics City, a greenfield development still in design stages. Many ports throughout the country, for example, are managed by foreign firms. The Dutch operator APM Terminals runs the Port of Salalah, while the Port of Duqm Company is a joint venture between the government and Belgium's Consortium Antwerp Port. Duqm is currently looking for private operators to run the four terminals it is developing for containers, general cargo, bulk goods and liquids.

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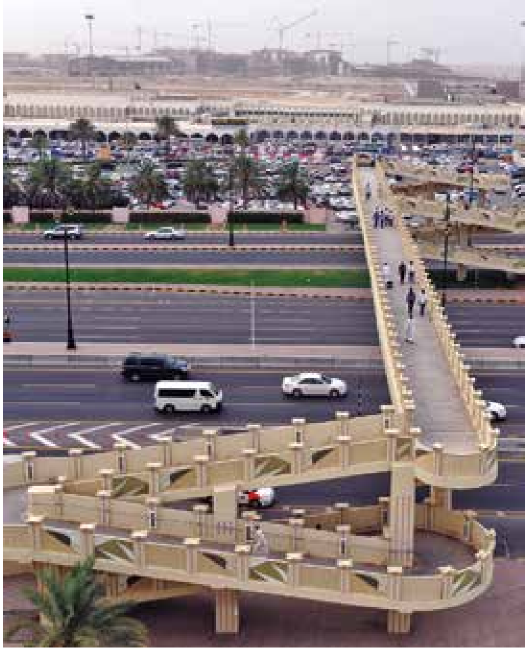


Oman outranks its MENA peers in international logistics indices

In mid-2015 the authorities issued the Sultanate of Oman Logistics Strategy 2040, which is aimed at transforming the country into a top-10 logistics centre by that year.

COMPETITIVENESS: In the World Economic Forum's "Global Competitiveness Report 2017-18", the sultanate moved up four places to rank 62nd out of 138 countries. Landing above the MENA average in all four of the report's "basic requirements" pillars – institutions, infrastructure, macroeconomic environment, and health and primary education – it received particularly high marks for the quality of its transport infrastructure, scoring 4.4 on a scale of 7. That is well above the MENA average of 4 and ranks 40th best in the world. Oman also made top ranks in many sub-indices, placing 32nd for overall infrastructure quality, as well as 14th for its roads, 48th for ports and 56th for airports.

In a second international benchmark, the World Bank's logistics performance index, Oman ranked 48 out of 160 countries in 2016, with a score of 3.2 on a scale of five, above the MENA average of 2.9. In fact, it outstripped the MENA average in every one of the six "key dimensions" on the index: at 2.8 to 2.6 for efficiency of Customs clearance, 3.4 to 2.8 for transport infrastructure, 3.4 to 3.0 for international shipment pricing, 3.3 to 2.8 for logistics service quality, 3.1 to 2.9 for ability to track and trace consignments, and 3.5 to 3.3 for timeliness of delivery.

This is notable considering Oman had fallen from its 2007 ranking of 48th to as low as 62nd in 2012, before climbing back up through the ranks thanks to a half-decade of large infrastructure investments and reforms to logistics processes. Its 2016 rank also surpassed the average for other high-income, non-OECD countries, according to World Bank data.

"To achieve its goal of becoming a global logistics hub, Oman must benchmark itself against the best practices of the likes of Hong Kong, Singapore, Antwerp and so on," Pankaj Khimji, director of Khimji Ramdas, an Oman-based conglomerate, told OBG.

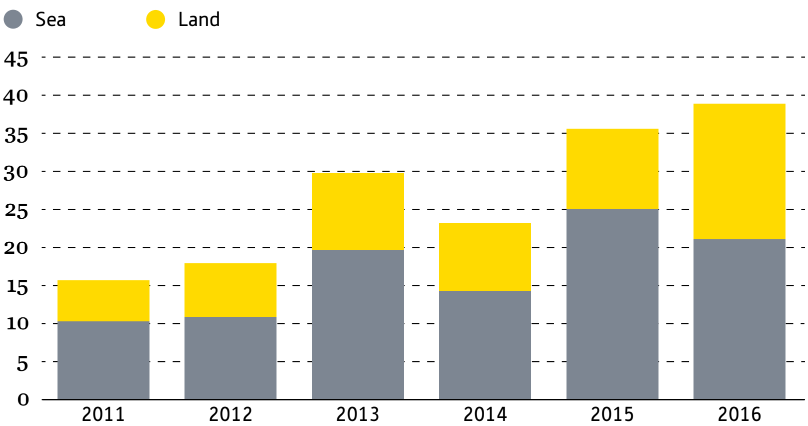
STRATEGY: The country's current economic transformation is guided by its overarching development blueprint, Vision 2020. This lays out broad goals for economic diversification and government strategy, subsumed under its four pillars – economic balance, human resources, economic diversification and private sector development. Objectives of the strategy include expanding the country's industries, growing the share of Omanis in high-paying jobs, boosting in-country value by encouraging value-added innovations, developing small and medium-sized enterprises, and involving the private sector more comprehensively in contributing to the economy. Vision 2020 is currently under review by the Supreme Council for Planning, which is developing a new iteration called Future Vision 2040.

Subordinate to these blueprints, Tanfeedh lists transport and logistics as one of five priority sectors (alongside manufacturing, tourism, fisheries and mining) for furthering diversification through state-led initiatives and policies. Its targets for the sector include achieving growth of 5.4% a year, investing OR6.1bn ($15.8bn) over the five-year period, and raising its GDP contribution from 6.2% to 7%.

TANFEEDH: The government launched the National Programme for Enhancing Economic Diversification, or Tanfeedh, in 2016 to monitor and implement initiatives aimed at diversifying the economy. The programme will follow eight steps, the fifth of which – the implementation phase – is set to begin in 2018. The result of step three – following nearly 52,000 man-hours of analysis by stakeholders from both the public and private sectors – was the identification of 121 specific projects and initiatives worth a combined OR14bn ($36.4bn) for implementation through to 2020, as well as 263 key performance indicators, and 2000-plus pages of detailed proposals. In mid-2015 the authorities also issued its logistics strategy, SOLS 2040, aimed at transforming Oman into a top-10 logistics centre by that year.

Through a range of long-term initiatives – including expanding deepwater ports and free zones, developing the road and airport network, and building a national railway – the plan aspires to double the

Goods received by Customs ports*, 2011-16 (m tonnes)



Source: NCSI

*excl. by air

sector's GDP contribution to OR3bn ($7.8bn) by 2020 and to OR14bn ($36.4bn) by 2040, in the process doubling sector employment to 80,000 then 300,000 jobs, respectively. In May 2017 the MoTC unveiled a public transport strategy laying out government plans for urban transit through to 2025, including reducing the government's share in Mwasalat from 75% to 52%; commissioning a feasibility study on a light rail system for Muscat; expansion of bus routes in and around the capital city; building a new training centre for public transport operators; and founding a new regulatory entity for public transport.

FREE ZONES: A royal decree issued in 2002 allowed authorities to create free zones offering special financial incentives to investors. These include 100% foreign ownership, exemption from income tax and Customs duties, zero minimum capital, lower Omanisation requirements, no restrictions on imports or repatriation of capital, and easier access to visas and residency permits for foreign workers. Since that year, the country has established four such zones, three at the main ports of Sohar, Salalah and Duqm and one 4 km from the border with Yemen called Al Mazunah. The zone at Sohar, built on a 4500-ha plot and housing 26 companies and a large oil refinery, in 2014 received the bulk of cargo traffic from Muscat's Port Sultan Qaboos, which is being retooled as a tourism complex (see Tourism chapter). Salalah's free zone has seen more than $5.6bn in investments since its founding in 2006. The 19m-sq-metre free zone will complement the port, which boasts a capacity of 4.4m twenty-foot equivalent units (TEUs) per year.

Duqm, the most recent of the three, was set up in 2011 on 2000 sq km, with planned investments of more than $10.7bn under way in the industrial city complementing the port. All three ports are seeing large expansion projects in 2017-18 (see analysis).

Al Mazunah, built on 450 ha and divided into 100 plots of 2000-16,000 sq metres, has seen the number of projects operating there rise from 33 in 2012 to 115 in 2016. Its throughput volume has nearly tripled in that period from 10,000 to 28,000 tonnes, according to the zone's director-general, Salah Al Alawi.

INVESTMENT: Due to lower oil prices Oman's public budget has faced constraints, particularly in 2016 when its fiscal deficit reached 21% of GDP, driving a series of budget cuts. Its civil current spending on transport (and communications) continued to rise over 2012-16, from OR45.7m ($118.7m) to OR61.4m ($159.4m), while outlays on civil development were pared back in that period from OR712m ($1.8bn) to OR532m ($1.4bn), a drop of 31%, according to the central bank. Bank lending to the sector was also trimmed, from OR1.1bn ($2.9bn) in 2014 to OR782m ($2bn) in 2016, or about 4% of total bank credit.

Another proxy for organic investment in transport, as well as possible augur of future demand, is imports of machinery associated with the sector. In 2016 Oman's foreign purchases of this type of kit – including vehicles, aircraft, vessels and transport equipment – totalled some 306,000 tonnes worth OR1.1m ($2.9m). This was a considerable deceleration on the 488,000 tonnes and OR1.8m ($4.7m) purchased in 2015, and the 654,000 tonnes and OR2.6m ($6.8m) in 2014. It was driven by lower oil prices during those years, affecting private outlays and state spending on sector projects and developments.

In 2016 the country's airports facilitated over 49,000 international arrivals carrying 5.8m passengers

Four free zones are in operation – one each at the main ports of Sohar, Salalah and Duqm, and one near the boarder with Yemen – offering a range of incentives and logistics link-ups for investors.

AIRPORTS: Air traffic within and through Oman has seen increasing volumes in recent years. As of November 2017 the country's airports facilitated over 98,625 international flights, including landing and departures, and handled 14.1m passengers, according to the NCSI. In November 2017 passenger numbers at Muscat International Airport (MCT) reached 12.8m, up 16.8% year-on-year. Aimen Al Hosni, CEO of Oman Airports Management Company, told press in December 2017 that he believed MCT would welcome 13.5m passengers by the end of2017, while the smaller Salalah Airport would handle 1.5m, up from 1.2m passengers in 2016. Both of these figures represent records for Oman's aviation segment. Cargo throughput, meanwhile, reached 2.6m tonnes in 2016, down from around 3m the year before but roughly even with the 2012-14 average.

Meanwhile, as of early 2018 a new terminal at MCT was scheduled to open by the end of the year. Under construction since 2010, the facility will have a capacity to handle 12m passengers. In June 2017 the Oman Airports Management Company tendered a contract for a new warehouse and maintenance services for the airport's electromechanical systems, followed in September by bids to provide customer services, manage a trolley system, and run a feasibility study on installing solar cells to power parts of the terminal. According to local media, the company conducted three weeks of "readiness trials" in late autumn 2017 to test its systems and ensure smooth flow of passengers once the terminal is open.

CARRIER INDUSTRY: The country's airline industry experienced significant changes in 2017. This started

The new terminal at Muscat International Airport will have a capacity of
12m
passengers

with the founding of the nation's first budget airline, SalamAir. Having obtained an air service licence the year before, the carrier began operations in January with a fleet of Airbus A-320s, flying three daily flights from Muscat to Salalah and two daily to Dubai. In April 2017 the airline added a new route to Jeddah, Saudi Arabia, and it has plans for a fourth destination – Taif, Saudi Arabia – in the future.

An investment of Muscat National Investment and Development Company, or ASAAS, SalamAir's entrance should boost competition in the industry. Its budget offerings for three categories of travellers – "light" (those carrying only hand baggage up to 7 kg), "friendly" (with up to 20 kg checked baggage) and "flexi" (the above plus priority check-in and free flight changes) – put downward pressure on prices.

Meanwhile, another potential entrant has aimed at the market's top end. In July 2017 a second, private airline called Salalah Air geared up to launch charter flights, signing a memorandum of understanding (MoU) with Brazil's Embraer to purchase two aircraft – a Phenom 300 and Legacy 450 – as "flying taxis" for hire, targeting businessmen travelling to the country's tourism resorts and industrial areas. This followed a deal earlier that year with Canada's Viking Air to supply two mixed-use aircraft with a capacity of 19 passengers each. In August 2017 it signed a third MoU with RUAG Aviation for six Dornier 228s, also 19-seaters. As of December 2017, however, the service had not yet taken off.

Sector-wide, the number of routes and seats have been increasing. In August 2017 Sohar Airport saw Qatar Airways begin operating three flights a week from Doha, adding to the existing three from Salalah run by SalamAir, and three from Sharjah in the UAE run by Air Arabia. Oman Air boosted its seat capacity for flights between Muscat and Salalah by some 57%, to around 1600 per day, during June-September 2017, to cater to increased demand during the monsoon season, known as the *khareef*, when many locals retreat to Dhofar to enjoy that region's soft summertime rains. In the whole of 2016, Oman Air raised its seat capacity by 20% to cater to growing demand, partly through the purchase of four new Boeing 737-800s. Adding new routes that year to Guangzhou, China and Najaf, Iraq, its passenger numbers grew 21%, to 7.7m, with its revenues rising by 1% to OR472m ($1.2bn), according to its 2016 annual report. Routes to Manchester, UK and Nairobi, Kenya opened in 2017. As a result of these increases to routes and capacity, Oman Air saw its passenger numbers rise another 10% to 8.5m in 2017. Opening access to new tourism and business markets is likely to be key in maintaining growth. "Airlines in the region are coping with a challenging economic environment marked by intense competition, supply and demand imbalance, and lower oil prices," Abdul Aziz Al Raisi, acting CEO of Oman Air, told OBG.

SHIPPING: Port expansions in 2017 have occurred in tandem with the ambitions of the country's shipping and maritime industries. The largest domestic shipping firm, state-owned Oman Shipping Company – with a fleet of 51 vessels and a total capacity of 8m deadweight tonnes – took early steps to move into the bulk carrier market during the year.

Port expansions in 2017 have occurred in tandem with the ambitions of the shipping and maritime industries

Passenger numbers on the flag carrier rose from 7.7m in 2016 to

8.5m

in 2017

According to local media reports, elevated growth in aggregate exports has led the firm to seek two to 10 bulk carriers for transporting loose cargo, partly to serve the needs of a recent deal with Kuwait to supply crude oil to Oman's planned 230,000-barrel-per-day refinery in Duqm. Company officials told press in October 2017 that the firm was also seeking two second-hand carriers with a 3000-TEU capacity each to replace its current chartered ships.

MARITIME: The maritime industry is likewise taking steps to expand further. In June 2017 Oman Drydock Company, an Asyad subsidiary founded in 2006, announced plans to set up a new ship-repair unit offering "on-voyage" services to vessels at sea that are in distress or need standard repair while en route or at anchorage off-shore. The new unit – composed initially of "flying squad" vessels based in centrally located Duqm – would also be despatched to all waters in the vicinity of the three commercial ports at Sohar, Salalah and Muscat. "If the ship cannot come to the shipyard, the shipyard is coming to the ship – wherever required," its CEO, Stephan Aumann, told local press. This potentially gives it access to a ready market on its doorstep, tapping the large stream of traffic heading towards or into Gulf waters.

On land, meanwhile, the firm is looking to build out its crane-lifting kit, as well as construct a new floating dock to give it more flexibility in addressing its queue of vessel repair orders.

Mid-2017 also saw the drydock repair two large carriers of iron ore for Oman Shipping Company, the first such services provided under a new umbrella effort by Asyad to integrate the offerings of its subsidiaries. "Oil majors are moving out of shipping to focus on their core business," Wasam Moosa Al

The state-owned shipping company, which has a fleet of 51 vessels and a total capacity of 8m deadweight tonnes, took early steps to move into the bulk carrier market in 2017.

As of end-2016 there were **37,000** km of paved roads

Najjar, general manager of corporate affairs at Oman Shipping Company, told OBG. "By taking over the management of those services and integrating them with other state-owned enterprises in logistics, we can achieve better performance through cost reduction, and eliminate the need for third-party fees."

Shipping capacity continues to grow in line with demand forecasts. Container volumes at Sohar Port saw year-on-year growth of 24% in the first quarter of 2017 and 11% in the second, according to the latest data. Having reached 1m tonnes a week at the end of 2016, the volume of sea cargo handled has stayed above that level, as of July. This comes on the back of three-fold growth over the past five years at its Terminal C, which can handle vessels of up to 20,000 TEUs. Upgrades of soft infrastructure have aided this: Sohar recently added remote-controlled quayside cranes, integrated with a new automated gate and appointment systems to shorten wait times for drivers hauling freight to and from the port. In August 2017 the port entered a partnership with Qatar shipping firm Milaha, allowing it to set up logistics and warehousing operations in Sohar Freezone.

That same month, the greenfield Port of Duqm saw its first containers arrive from global shipping lines CMA CGM and Mediterranean Shipping Company, bearing equipment to be used for expansion of its commercial quay. Its more-developed sister port, Salalah, meanwhile saw its throughput grow 29% in 2016, to 3.33m TEU, lifting its rank 17 places in 2017 to 44th out of 100 top ports worldwide on the Lloyds List, the world's oldest shipping journal.

In short, both quality and quantity are combining to lift Oman's presence on the international logistics stage. "Recent consolidation in the global shipping industry means competition is tighter and shipping companies are demanding lower tariffs," Ahmed Akaak, deputy CEO of the Port of Salalah, told OBG. "Oman fits well into this environment not just because we have a convenient location on trade routes, but because we are investing in infrastructure and increasingly integrating services to provide better connectivity and efficiency."

ROADS: Until Oman's national railway is completed, road transport remains the staple method of inland transport. The number of driving licences issued reached a record high of 172,000 in 2016, up from 156,000 the year before and just 129,000 in 2012, according to the NCSI. As of November 2017 the total number of registered vehicles in the country was 1.44m, up from 1.4m in March 2017.

Such increases, occurring alongside rapid economic and population growth, have sustained a need for building new highways. As of end-2016 Oman had 37,000 km of paved roads – 7.4% of this being dual carriageway – and 32,300 km of graded roads, representing increases of 18% and 2.3% on 2012, respectively, according to NCSI data.

Several recent projects have contributed to this increase. MoTC records show that as of mid-2017 there were 118 road projects under way, including 77 interchanges, 41 bridges, 23 flyovers, 67 underpasses and 34 pedestrian bridges throughout the sultanate. Among the largest were the Mirbat-Hasik rehabilitation project, a $500m road stretching 200 km between Bidbid and Sur, and the 283-km Al Batinah Expressway – all set for completion by the end of 2018, the ministry has reported.

The Batinah project, a four-lane carriageway stretching from the outskirts of Muscat to the border with the UAE at Shinas, is split into six separate packages comprising 31 bridges over *wadis* (valleys), 23 interchanges, roadway pull-off areas for traffic control and emergency vehicles, and internal and external shoulders spanning five metres on each side.

In March 2017 the MoTC opened a 34-km stretch of the road from Shinas to the Liwa interchange south-eastwards towards the capital. This followed the opening of another chunk connecting Barka, on the western outskirts of Muscat, to Rustaq, at the foot of the Jebel Shams mountain range and home to one of Oman's most frequented tourist attractions. As of June some 93 km of the expressway had been opened, according to the ministry.

The Bidbid-Sur Road is a six-lane highway of some 247 km being built between its two namesake cities. At a cost of OR423m ($1.1bn), the infrastructure package consists of two underpasses and two overpasses, as well as nine interchanges, 171 reinforced culverts and retaining walls. Construction has been under way since 2011, and in November 2017 the ministry announced it would start work on two additional tunnels of 450-600 metres each, added to the project post-tendering to protect vehicles from potential landslides. The ministry is also expanding its network of dirt roads linking remote villages to main thoroughfares. The most recent completion of this sort came in July 2017, when the Muscat municipality announced it had opened a 33-km stretch of road tying in the eastern villages of Quriyat, including Ta'ab, Harima, Salmah, Al Adnah and Faiq.

RAIL NETWORK: Oman has long been planning a national railway, a network of 2135 km that would speed up transportation of freight from the country's natural resource assets to its top intermediary destinations for export abroad.

Oman has long been planning a national railway, a network of 2135 km that would speed up transportation of freight from natural resource assets to intermediary destinations for export abroad.

Billed at an estimated cost of around $11bn, the rail service would be built virtually from scratch, with its main arteries connecting Muscat to border crossings with the UAE and Yemen as well as to the country's three main three ports – Sohar in the north, Salalah in the south, and Duqm in the centre. Additional offshoots would then link it to key mining assets in Ibri, Ibra and Thumrait, as well as to oil and gas fields in the country's central desert hinterland.

Designed as a double-track, standard-gauge railway system capable of supporting double-stack container trains with axle loads of 32.4 tonnes, the project would require construction of some 12,000 km of railway lines, 35 km of tunnels, 132 km of bridges, as well as 245 overpasses and underpasses, according to specifications reported in *Rail Journal*.

OMAN RAIL: Planning has been in the works since at least 2010, with a state-owned enterprise called Oman Rail founded in June 2014 to lead the project – in 2017 its ownership was subsumed under Asyad. Initially designed as part of the proposed region-wide GCC rail network – and including the possibility of upgrading to passenger services – the Oman railway continued to move forward even when the regional project was paused in 2016 on the back of lower oil prices, particularly after the UAE's Etihad Rail suspended its tender for railway links to Oman. Work on the first segment, a 207-km stretch from the UAE border at Al Ain to Sohar, was to start in 2018 and be up and running within two years.

COMMERCIALLY DRIVEN: Recently, however, Oman too has seen construction plans delayed until further analyses are completed. In May 2016 the MoTC nullified a $149m consultancy contract under way with Spain's Tecnicas Reunidas "to avoid extra costs", while giving assurances the project itself had been delayed, not cancelled. Feasibility studies and design work continued in 2017 as the government adjusts its models to fit a more commercially driven system based on expected development in the mining sector.

In a positive sign, a royal decree issued in mid-July 2017 announced that Oman Rail had completed initial design work and prepared tender documents for a 655-km segment of railway running from Haima in central Oman to Thumrait. The planned railway is expected to require nine bridges, two road crossings, 11 loading stations and 10 rail maintenance facilities.

OUTLOOK: Oman's strategic location will serve it increasingly well as its logistics infrastructure grows and connectivity improves. This will be complemented by ongoing expansion of industrial estates and state-owned enterprises (see Industry chapter), which provide anchor clientele for logistics and can build fresh momentum in trans-shipment, adding further appeal for foreign investors. Such synergies between industry and logistics should see the sector grow by 6.9% annually until 2020, according to consultancy Frost & Sullivan.

The challenge in the short term will be financing amid budget constraints and oil price uncertainty. By the language of official strategies, this will involve a larger role for the private sector, not only in providing capital, but increasingly in tie-ups with the public sector to help manage state assets. In public announcements and the signing of contracts, authorities have made one thing clear: their willingness to partner with businesses in cases where they can provide credible proposals that optimise costs. "The new thinking with public investments is that commercial viability comes first, but also that the state is no longer the primary source of financing and expertise," Akaak told OBG. "The government may provide infrastructure and guidance, but development needs to be driven by the private sector."

A royal decree issued in mid-July 2017 announced that initial design work had been completed and tender documents had been prepared for a 655-km segment of railway running from Haima to Thumrait.

Sector strategy aims to raise the value of logistics to $36.4bn by 2040

Sensible synergies

New holding company moves to consolidate sector management and find new efficiencies

The formation of a new transport holding company is part of a larger government strategy under way since March 2016, in which the authorities aim to create large holding companies of state-owned enterprises with broad oversight powers.

A major holding company formed to manage state assets in transport and logistics has seen a raft of new activity in the period running up to 2018, as it moves to integrate operations among its subsidiaries and speed Oman towards becoming a top-10 logistics hub by 2040. Overseeing operations from shipping and ports to the postal service and supply chain management, Asyad is a rebranding of state-run conglomerate Oman Global Logistics Group that occurred in June 2017.

Its formation represents the transport portion of a larger overarching government strategy under way since March 2016, in which the authorities aim to create large holding companies of state-owned enterprises with broad oversight powers – such as the Oman Food and Investment Company set up to promote food security, and Nama, a utilities conglomerate managing water and electricity services. "We need a systematic and scientific way to ensure that the logistical setup in Oman remains sustainable," Abdulrahman Al Hatmi, CEO of Asyad, said at the company's launch. He added that the transition would take around two years, saving OR7m ($18.2m) in the first six months alone.

BACKDROP: The firm's existence is the culmination of a vision that began four years ago. In 2013 authorities from the Ministry of Transport and Communications set up a taskforce of 10 experts from state agencies, private companies and academia to develop a long-term sector blueprint with help from 65 specialists. The result, the Sultanate of Oman Logistics Strategy 2040, published in mid-2015, set the ambitious goal of making the country one of the world's top-10 locations for logistics through a range of state-led investments. In the process, the plan will create 300,000 jobs and raise the sector's value from OR1.5bn ($3.9bn) to OR14bn ($36.4bn) by 2040. "The impetus behind holding companies like Asyad is to look at each sector comprehensively, unify strategy, and capitalise on synergies in order to gain better control of the markets," Omar Mahmood Al Mahrizi, vice-president of transport at Asyad, told OBG. "One important result is the greater negotiation power that comes from scale." Another factor was the need to address the logistics component of Tanfeedh, a diversification enhancement programme set up in 2016 to accompany the release of Oman's ninth five-year plan for 2016-20, its aim being to monitor and manage the process. "We see our role in the style of an NGO," Al Mahrizi told OBG. "We are not just favouring Asyad subsidiaries in reorganising assets; rather, we are seeking a better balance with the private sector."

STRATEGY: The group's strategy rests on three main pillars. The first is to manage a range of investments at special economic zones in the main ports of Sohar, Duqm and Salalah. These offer incentives and tax benefits to foreign firms that are capable of driving logistics as foreign investors build industrial centres under Oman's long-term development blueprint, Vision 2040. The second pillar is to enhance freight operations through three subsidiaries – Oman Shipping Company, Oman Rail and Oman Drydock Company – to deliver efficient, comprehensive services in shipping. As part of this, Asyad will own several warehouses and spaces for light industry, upgrade technology and practices, and build a connectivity network to serve the country's growing trans-shipment industry, which receives more than 3000 requests catering to 52 port destinations each year, according to Asyad. "The creation of Asyad is a positive development in Oman's transport and logistics sector as it will be incentivised to be a strong advocate for simplifying procedures within the sector, Stephen R Thomas, CEO of Renaissance Services an Oman-based investment firm, told OBG.

The third pillar is to consolidate and improve public services through Asyad's four other subsidiaries: Oman National Transport Company, National Ferries Company, Oman Post and the public bus system, Mwasalat. The underlying goal is rationalisation, achieved through both new investments and reorganisation of existing assets, as well as by modernising logistics processes, reforming import-export procedures and upgrading soft infrastructure. "Currently, 90% of our revenue comes through shipping and handling, and this is very unsustainable," Al Hatmi explained. "We want to streamline our logistics and shipping, so that it accounts for about 50% of all our revenue."

LOGISTICS INTEGRATION: Asyad has been busiest in three main areas. The first is integration of data systems. In August 2017 the group floated a tender for consultancy services to conduct feasibility studies on a new ports community system (PCS), an electronic platform that would synthesise data on all logistics activity to streamline operations. Bids closed in mid-September and an award announcement was expected by year's end, Al Mahrizi told OBG in October.

Modelled on the concept of a single window, the new PCS would integrate disparate datasets from its various stakeholders, including the three main seaports, the international airports, the Royal Oman Police, and the Ministry of Agriculture and Fisheries. These agencies' data will then be transmitted securely to a central software and analysed for key trends that can inform decision-making. "I am confident that the creation of Asyad will lead to a more efficient and synergistic transport and logistics sector in Oman," Abdulmalik Abdulkarim Al Balushi, CEO of Oman Post, told OBG.

FERRIES & CARGO: The second main area of activity is maritime transport services. In September 2017 Asyad signed a deal with Qatar Ports Management Company – known as Mwani – to develop ferry services that can carry cargo and passengers between Qatar and Oman. The agreement stipulates that the two will develop a joint strategy for offering cargo and logistics services between Hamad Port in Doha and Oman's three primary seaports, and paves the way for a commercial venture that would boost joint connectivity and share the costs of the investment. The move is part of a broader effort to enhance bilateral collaboration and deepen economic relations between the two neighbours.

PORT OPERATION: A third major development was announced in October 2017, when the Ministry of Transport and Communications granted Asyad the licence to operate Sultan Qaboos Port in Muscat, including passenger shipping services, starting on January 1, 2018. As of that date the current operator, Port Services Corporation, transferred most of its employees and liquidated its assets, passing full control to Asyad, according to a ministry statement. Oman Investment Fund, the country's sovereign wealth fund, had owned a 35.5% stake in the company. In December 2017 Asyad announced it had formed a new subsidiary called Marafi specialising in ports management to run the facility.

The move complements efforts by a state-run developer of tourism infrastructure, Omran, to transform the port – long a cargo hub until its commercial operations were transferred to Sohar in 2011 – into a mixed-use development comprising hotels, restaurants and retail outlets in a $1bn partnership with Dubai's DAMAC called Mina Sultan Qaboos Waterfront. Mina abuts the Muttrah *souq* (market), one of the oldest souqs in the Arab world and Oman's most-visited tourist attraction. "Ports

A new electronic platform has been proposed to synthesise logistics data and streamline operations

management is our most profitable segment, so we are building up capacity in that space," Al Mahrizi told OBG. "This will enhance multimodal transport and maximise our ability to meet 2040 targets."

IN THE WORKS: Several other projects still in assessment and design stages at Asyad were shared with OBG. According to Al Mahrizi, one is an integrated call centre merging currently separate systems for the public buses, postal service and ferry transport. Other synergies will be to launch joint products, such as a single ticket valid for all public transport, or to offer unrelated products at a single location, such as the purchase of bus tickets at branches of the Oman Post. "We have identified a model for reviewing subsidiary portfolios: it's to be asset-light, to own only what we need to," he told OBG. "This will mean some divestments, but also acquisitions, executed in phases as we complete reviews and feasibility studies. To hit our targets we must move quickly and use funds wisely." He also said the group is currently piloting a logistics corridor facilitating swifter shipments to Yemen. Under the system, goods could land in Salalah having already declared Customs at their point of origin, thus allowing more seamless trans-shipment across the western border.

ON THE HORIZON: In the medium to long term Asyad has ambitions to expand its operations abroad. According to Al Hatmi, after an initial period of 18-24 months focused on restructuring its domestic assets, the group will target "inorganic" growth through mergers and acquisitions overseas. To make the global top-10 for logistics will require expanding Asyad's business outside Oman, Al Hatmi told local press in June 2017. "[We] need to go beyond [current port assets] and look at integrating services between a host of supply chains in the logistics sector," he said. In the meantime, to achieve near-term milestones the company is looking to attract more foreign capital into special-purpose vehicles, adding: "We want more of private investment or foreign investment and less government money."

In a move to deepen bilateral economic relations, a deal was signed in September 2017 to develop ferry services to carry cargo and passengers between Qatar and Oman.

Goods entering by sea have more than quadrupled over the past decade

Ports of call

Seaports expand to take advantage of strong commercial edge

In 2016 the Port of Sohor handled

85%

of goods that entered the sultanate by sea

Expanding its seaports is a core part of Oman's plans for diversification and economic growth. Strategically located on global trade routes between the vast markets of Europe and Asia – and positioned just outside the Strait of Hormuz, a bottleneck for shipping traffic headed into the oil-rich GCC – the country has a strong commercial case to further develop its maritime transport business.

Half of the goods entering the sultanate come through its seaports, according to the National Centre for Statistics and Information (NCSI). Understanding this, authorities continue to invest in boosting connectivity, particularly at its three main seaports of Sohar, Salalah and Duqm. As a result, goods entering by sea have more than quadrupled over the past decade: from just 4700 tonnes in 2007, it surpassed 10,000 tonnes by 2011 and reached nearly 21,000 tonnes in 2016, according to NCSI data. "Congestion in the Strait of Hormuz and the capacity of the existing and planned infrastructure in the Gulf will be taxed with the forecast increases in traffic moving into the region," Philip Marquis, operations manager at Oman Rail, told OBG. "The planned transportation infrastructure enhancements in Oman gives us vast potential to become a logistics hub for the region: the efficiency gains of offloading goods in Oman then transporting them over land are substantial."

SOHAR: A case in point is the Port of Sohar on the country's northern coast. Just 150 km from the UAE border, it offers near-direct access to the rest of the Gulf region, which is one reason why it accounted for some 85% of goods coming into the country by sea in 2016, according to the NCSI. With 22 berths and a free zone industrial area covering 4500 ha, it saw a further spike in traffic in 2017, with the number of vessels received rising by 26% in the first three quarters, to 2224, according to the Ministry of Transport and Communications. On December 26 the port tweeted it had passed the 3000 mark for the year.

With three main clusters dedicated to logistics, petrochemicals and metals, Sohar's industrial area has seen more than $25bn in investment, driving throughput above 1m tonnes a week.

Such growth is unsurprising given the size of both demand and continuing investment. Sohar's industrial area, with three main clusters dedicated to logistics, petrochemicals and metals, have seen investments of more than $25bn, driving throughput of more than 1m tonnes a week. This is split between terminals dedicated to general cargo (operated by US-based firm C Steinweg), liquids (run by a joint venture of US operators Oiltanking and Odfjell) and containers (managed by Hong Kong's Hutchison Whampoa). To this will soon be added the country's first terminal designated for handling bulk agricultural goods. Being built by Atyah Investment and Oman Flour Mills since early 2015, the $170m terminal will be able to handle 600,000 tonnes of grain each year, though as of late 2017 no update on its progress was available.

FOOD PROCESSING: The burgeoning food processing cluster of which the terminal is a part is expected to drive further demand for packaging facilities. In response, Oman International Petrochemical Industry Company plans to build a packing materials plant with a capacity of 1.5m tonnes a year; Liwa Plastics has expressed interest in setting up Sohar operations; and Oman Oil Refineries and Petroleum Industries is developing a $3.6bn steam cracker project to be integrated with existing plants for oil refining, polypropylene and aromatics, according to Edwin Lammers, the port's commercial manager.

More recently, Singapore's Trescorp announced in September 2017 it will build a 45-ha terminal in Sohar dedicated to receiving, storing and blending oil and gas products to the tune of $600m. Construction of the first phase is to commence in 2018 on a facility with a capacity of 600,000m cu metres, to be finished in 2020 and then expanded to 1.8m cu metres. Other developments ahead include a $60m plant for rare-earth metals to be built by a UK-led consortium, and an auto assembly plant with a capacity of 200,000 units a year catering to mostly Asian vehicle brands.

The Sohar oil refinery is expanding capacity by 50% to reach 180,000 barrels per day, and five ferrochrome smelters are currently under construction. All of this should fuel further import-export activity, driving demand for shipping services.

SALALAH: Oman's second major port, at Salalah on the south-west coast near Yemen, is also seeing major growth and expansion. According to Salalah Port Services, it handled 13.6m tonnes of cargo in 2017, up from 13m tonnes in 2016. Managed by Dutch operator APM Terminals, the port can accommodate draughts up to 16 metres and has two terminals, one for containers with a capacity of 5m twenty-foot equivalent units (TEUs) per year, and one for general cargo, as well as warehousing, a freight station, bunkering and repair facilities. According to APM, the port has tendered the design contract for a second container terminal with a capacity of 3m-4m TEU that, when finished, will extend the port's quay wall distance from 2205 metres to 3555 metres.

Construction is also under way on two new berths, each 450 metres long with a draught depth up to 18 metres – capable of docking the world's largest vessels – and served by ultra-large gantry cranes called Super Post Panamax. A further three deepwater berths are being planned. According to Mahmoud Sakhi Al Baloushi, CEO of Al Madina Logistics and Muscat Container Terminal, his company plans to build a Customs warehouse there in the future.

DUQM: The next big frontier for logistics development is the Port of Duqm, being built up largely from scratch on the country's central coast between Sohar and Salalah. Though it makes up just a fraction of goods imports, at 5000 tonnes in 2016 per NCSI data, for sheer scale it looks on track to rival Sohar. At the heart of expansion plans is a deal signed with a Chinese consortium called Oman Wanfang in May 2016, giving it 50-year rights to develop an area of 11 sq km in the Duqm special economic zone (SEZ) into a $10.7bn Sino-Oman Industrial City.

Divided into three zones dedicated to light manufacturing, heavy manufacturing and mixed-use development, the city comprises 35 planned projects including an oil refinery, petrochemicals facilities, steel smelter, a building materials distribution centre, auto assembly factory, and plants responsible for producing solar panels, glass, aluminium, and oil and gas equipment. "That the government has remained committed to Duqm Port's timely completion despite the adverse economic conditions, should serve as a very positive signal to investors," Reggy Vermeulen, CEO of Port of Duqm, told OBG.

The development broke ground in April 2017, and Oman Wanfang has pledged to finish 30% of planned projects by 2022. To support this activity, the consortium has announced plans to build accommodation for up to 25,000 people, as well as schools, offices, a hospital and sports centre. The city's infrastructure will be financed by Chinese banks, while individual firms will cover the costs of their own facilities within it, according to the consortium's chairman, Ali Shah.

Major expansion projects are under way at the country's two main ports, located in Salalah and Muscat

CONTRACT AWARDS: Many contracts have already been tendered, both inside and outside the industrial city. In February 2017 the zone's regulator, the Duqm Special Economic Zone Authority (SEZAD), awarded contracts worth OR84.7m ($219.9m) to build roads, storm-water drains and dams, followed by a OR107.3m ($278.6m) deal with a joint venture of Turkey's Serka and Portugal's MSF to build an infrastructure package called IP2 – a prerequisite for operation of Duqm's four planned commercial terminals. In April 2017, 10 agreements worth $3.2bn were signed by Chinese companies alone for construction of the zone's hotel, as well as plants for water desalination, power generation, synthetic pipes, building materials, bromine, automobiles and energy sector equipment.

More deals may soon be on the way: in September 2017 Oman Wanfang signed an memorandum of understanding (MoU) with the Chinese Petrochemical Industries Federation to tap its network of private firms to build petrochemicals plants, oil storage structures and other facilities.

TOURISM ZONE: Alongside industrial operations are plans for an integrated tourism complex in the Duqm SEZ, called "Little India". At a cost of OR288m ($747.8m), the mixed-use development will include commercial offices, beachfront villas and apartments, a marina, a five-star hotel, restaurants and theatres. As of late 2017 SEZAD had signed an usufruct agreement allocating 600,000 sq metres to the master developer, also called Little India, whose managing director, Pradeep Nair, said construction of phase one would start in early 2018 on an initial investment of $12m. This will comprise a 25-unit Villa Resort to be run by the Marriott hotel chain, construction of which is set to finish in September 2018, and a 96-unit apartment building to be completed by February 2019. To secure the necessary funds, in December 2017 the company signed an MoU for financing arrangements with Bank Muscat.

The oil refinery in Sohar is expanding capacity by 50% to reach

180,000

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In February 2017 the Duqm Special Economic Zone Authority awarded $219.9m worth of contracts to build roads, storm-water drains and dams.

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Agriculture & Fisheries

Sector growth reflects importance of funded research

Agri-business development to increase food security

Investment in new technologies improves yields

Aquaculture becomes a focus for fisheries segment

Total cultivated farming area in the sultanate rose to 84,800 ha in 2016

Growing green

Strategic investments in a promising sector boost self-sufficiency and exports

In 2016 the agriculture and fisheries sector grew by

16.3%

to $1.3bn, well above its five-year average of 6.4%

Targeted investments to enhance food security have seen Oman's agriculture and fisheries sector make advances as the government seeks ways to sustain a growing population and foster a more diverse economy. According to the Ministry of Agriculture and Fisheries (MAF), in 2016 production rose by 4.3% for agriculture and 8.7% for fisheries to 1.87m and 280,000 tonnes, respectively. Production is estimated to increase further given ongoing state support in areas ranging from dairy and aquaculture, to livestock and produce. Although Oman is in a strategic location between the vast markets of Europe and Asia, it is constrained in the types of products it can easily make commercially viable due to its arid climate, soil salinity and water scarcity. Still, the sultanate forges ahead with development plans by leveraging technology to open up new pathways to growth.

Under its ninth five-year plan (FYP) for 2016-20 and the overarching Vision 2040 blueprint, the government is funding research to identify and test the most efficient and sustainable means to use available resources, including switching fields to crops that can tolerate high salinity levels, installing wireless smart meters to regulate water usage and using seawater to cool greenhouses. According to Fatma Rashid Al Kiyumi, the director of strategy and planning at the MAF, Oman could double or triple its food production simply by managing resources efficiently, with a focus on value-chain analysis and integration. To carry this out in an age of low oil prices, the sultanate is turning to the private sector, creating new opportunities for foreign investors and multinationals.

SLOW & STEADY: In 2016 the agriculture and fisheries sector grew by 16.3% to OR506m ($1.3bn), well above its five-year average of 6.4%, according to the Central Bank of Oman (CBO). This pushed its GDP contribution to 2%, up from 0.7% in 2014 and above its previous five-year average of 1.3% – a phenomenon partly due to the drop in oil price that shrank the value of Oman's top-earning industry by over one-third. It declined slightly to 1.5% of the total in the first half of 2017, as petroleum activity recorded a nearly 35% year-on-year rebound in current price terms. Oman's Vision 2040 goal is to reach a combined 5.1% by 2020: 3.1% for agriculture and 2% for fisheries.

Agriculture and fisheries has expanded to account for a greater share of GDP, up from 0.7% in 2014 to 2% in 2016, due in part to lower oil prices.

Although still a relatively small contributor to GDP, agriculture and fisheries play a key role in the economy. As of 2015 these two industries employed around one-third of Oman's workforce of nearly 1m people, while the food security of approximately half of its 4.4m population depends on their success, according to a report by the Australian-based research institute, Future Directions International.

RULES & REGULATIONS: The sector's supervisory authority is the MAF, which has broad powers to draft laws, set policy, issue directives, conduct research, supervise quality and safety, and invest in development, though separate authorities oversee special economic zones where factories and processing centres are located. The Ministry of Commerce and Industry, for its part, oversees all commercial licensing, while the Ministry of Manpower regulates labour and training. Laws affecting the sector include but are not limited to those on product quality control (1998), conservation (2001), the establishment of a development fund (2004), and a package covering pest control, plant disease prevention, bee-keeping and enforcement (2006). Others that followed concern fertiliser use (2006), new plant varieties (2009), irrigation support (2010) and aquaculture (2012).

DEDICATED DEVELOPMENT: The Omani Agriculture Association – known as the Al Batinah Farmers Association until the Ministry of Social Development renamed it in February 2017 – pursues local development projects and represents farmers to government officials and in public forums. After Cyclone Gonu hit the country in 2007, damaging many productive facilities and causing significant food shortages, the government established a state-owned enterprise called Oman Food Investment Holding Company (OFIC), tasked with the primary mandate to develop food security through partnerships among state agencies, private firms and investors. OFIC companies now operate across staple food industries including dairy, flour, poultry, livestock, meat and fisheries.

In 2011 the government established The Research Council (TRC) as an independent body with the mandate to build Oman's research capacity and encourage innovation in both agricultural and non-agricultural science sectors. The TRC now runs several grant programmes to this end, as well as an animal and plant genetic research centre, and since 2012 has commissioned the UN to conduct science, technology and innovation policy reviews to assess needs and make policy proposals. Additional state-funded research is carried out at the College of Agricultural and Marine Sciences at Sultan Qaboos University (SQU).

PUBLIC SPENDING: As the government continues its diversification initiatives amid a push for cost-optimisation, public spending on the sector has shifted away from subsidies that prop up the private sector and towards targeted investments that help industries stand on their own. While recurrent spending in the sector was cut by 2.7% to OR60.9m ($158.1m) in 2016, according to the Ministry of Finance, development spending, including direct investment in new projects, increased by 1.6% to OR38.1m ($98.9m).

Research and development spending shows a similar pattern. Recent data from the International Food Policy Research Institute shows Oman boosted public spending on agricultural research and development by one-third in constant price terms from 2007 to 2012 to $110m at purchasing power parity. At 6.5% of agricultural GDP, this gave the country one of the highest research and development intensity ratios in the world, and the highest among Arab nations, supporting 244 full-time-equivalent researchers, or 64 for every 100,000 farmers. Meanwhile, credit issued for agricultural and related activities in 2016 rose 7.7% to OR7.9bn ($20.5bn) – on trend with the previous two years at about 40% of total bank lending.

GROWING CONDITIONS: Oman's arid climate and soil conditions place constraints on what it can easily produce. According to the Oman Soil Atlas prepared by the UN, average rainfall is about 110 mm per year, of which just 15% soaks into the soil after evaporation (80%) and seaward flows (5%); as a result, nearly two-thirds of its 310,000 sq km of land area is desert, and 93% is not arable. Due to this topography, most agricultural production occurs in a fertile, 400-km strip in the north-east between the Hajar Mountains and the Al Batinah coast, where alluvial soils and groundwater irrigation are able to support the growth of dates, vegetables, fruit trees, livestock and fodder. In coastal plains near Salalah, in the south-west Dhofar Governorate, there is substantial cultivation of coconuts, bananas, vegetables, maize, papayas, fodder and Rhodes grass. Further inland, in the Hajar, various *wadis* (valleys) – which constitute approximately half of Oman's productive agricultural area – receive runoff from the northern mountain ranges, and support the growth of date palms and other crops. Lands suitable for animal grazing total around 1.4m ha, mostly in the Al Batinah and Dhofar regions, while fodder crops covering around 1200 ha in Dhofar supply just over half of national demand, with the remainder imported.

Private and public research is under way to determine which crops can tolerate high soil salinity levels

Oman's extensive coastline of over 3000 km is lined with fishery landing sites receiving catches of sardines, bluefish, mackerel, tuna, lobster, oysters and abalone from the Indian Ocean, mostly through traditional fishing but also from limited commercial trawling in the 400,000-sq-km exclusive economic zone waters it controls and regulates.

FARM OUTPUT: Agricultural production has grown at a significant rate in recent years. Total output in 2016 reached 1.87m tonnes, up 4.3% on the previous year and 49.8% higher than the 1.25m tonnes output of 2012. The National Centre for Statistics and Information (NSCI) indicates cultivated area rose to 202,000 feddans (84,800 ha) in 2016, up 2.5% on 2015 and nearly one-quarter higher than in 2013.

As a result of this increase, as well as the oil price drop that shrank the value of Oman's main revenue-earning industry, agriculture contributed 1.2% to GDP in 2016, up substantially from 0.7% in 2014. According to the NCSI's 2017 estimates, the largest haul continued to be fodder crops, which made up 52% of the 1.87m-tonne total crop production, followed by fruit at 24% (of which dates made up 80%), vegetables such as tomatoes and cucumbers at 22%, and field crops such as maize and wheat at 2%. Honey production did exceptionally well, up 54% to 600,000 tonnes from 389,000 tonnes two years earlier.

HOLDING STEADY: The livestock industry continued its steady growth in 2016 with a total of 3434 tended animals, an increase of 2% over 2015 but a 28% rise over 2012. Between 2012 and 2016 distribution of

Between 2007 and 2012 Oman spent $110m on agricultural research and development, supporting 244 full-time-equivalent researchers, giving it a 6.5% development intensity ratio – one of the highest in the world and the highest among Arab nations.

The government plans to create 20,000 jobs and deliver returns of $1.9bn in the fisheries segment by 2020

The ninth five-year development plan names fisheries as one of five key industries to be a focus of economic diversification efforts, driven by $2.9bn in investment.

livestock also continued to be steady, with approximately 64% goats, 17% sheep, 11% cows and 8% camels. Production of dairy rose, up 2% in 2016 to 95,000 tonnes, red meat production increaed by 2.3% to 44,000 tonnes, eggs by 17% to 400,000 tonnes, and poultry by 1.2% to 84,000 tonnes.

FISH CATCH: Traditional fishing accounted for 99% of Oman's total catch of 280,000 tonnes in 2016. According to the NSCI, this was up 8.7% on 2015 and 46% on 2012. The number of fishing licences reached 47,900 in 2016 after the MAF renewed 7545 and issued 1320 new ones, an overall increase of 65.5%. The licences are split between 47,900 fisherman and 25,800 boats, up 2% and 12% on 2015, respectively.

As a result, the industry was able to boost its exports of fish in 2016 by 2.7%, or 114,000 tonnes, earning OR58.8m ($152.7m), 20% more than in 2015. Currently, the largest export market is the GCC, which received 57% of the total, worth OR15m ($39m), followed by the US at 17%, or OR4.7m ($12.2m), and Europe at 1% with OR1.7m ($4.4m).

PUBLIC SUPPORT: Sector expansion is enabled mostly through government support, ranging from improved seed distribution and research, to veterinary services and vaccinations. The ministry conducts horticulture experiments at its 21 research farms, 16 plant and 10 animal laboratories throughout the country, and has around 2400 extension fields set up at private farm operations to help ensure the nation's food security, covering 1730 feddans (725 ha). In 2016 the ministry distributed 89,000 kg of seeds and 235,000 kg of fruit seedlings to farmers through 76 agricultural development centres, while for livestock it conducted 2.7m vaccinations and 2.3m animal treatments at its 68 vet hospitals and clinics. However, in the wake of the oil price drop, the ministry enacted a selection of cost-cutting measures, including cancelling its distribution of fishing equipment in 2016; in 2014 and 2015 the governorates had provided 774 boats, 891 outboard engines and 93 cranes. It also phased out its provision of insecticides to combat agricultural pests between 2010 and 2012.

DEVELOPMENT STRATEGY: The government's plans to support the development of the sector are laid out in a range of published policy documents. The ninth FYP names fisheries as one of the five key industries to be a focus of diversification efforts – alongside manufacturing, tourism, logistics and mining – and it expects growth of 7% per year over the five-year span driven by investments totalling OR1.1bn ($2.9bn).

To accompany the FYP, a sister programme was drawn up in 2016 called the National Programme for Enhancing Economic Diversification (Tanfeedh). In order to enable and accelerate the FYP's implementation, Tanfeedh conducted deliberative workshops with experts and stakeholders in late 2016 to identify development challenges, propose solutions, and outline ways to monitor and evaluate key performance indicators so as to audit and ensure accountability. The results of these workshops were published in the "Tanfeedh Handbook" in July 2017. In addition, between 2013 and 2017 the UN Food and Agriculture Organisation (FAO) conducted $1.4m worth of studies and technical missions to advise the Supreme Council for Planning on its forthcoming Sustainable Agriculture and Rural Development Strategy 2040, submitting its conclusions in October 2016. During this same period the MAF and the World Bank published a programme called Sustainable Management of the Fisheries Sector in Oman, laying out steps to manage overfishing and put the sector on a sustainable path to growth. To address the continuing problem of seawater intrusion that is raising soil salinity levels in coastal areas, the MAF and Dubai's International Centre for Biosaline Agriculture developed and published the Oman Salinity Strategy in 2012. Further relevant documents include the National Water Resource Management Master Plan and the Oman Food Security Strategy.

FOOD SECURITY: Oman enjoys a high degree of food security for a country with its growing population and climate challenges. According to the Economist Intelligence Unit's Global Food Security Index (GFSI) from September 2017, Oman is ranked third out of 15 countries in the MENA region and 28th out of 113 nations worldwide, in line with its reputation as one of the region's most stable markets. Out of 19 categories contributing to its overall rank, Oman received perfect scores in five (agricultural infrastructure, proportion of population under global poverty line, presence of food safety net programmes, nutritional standards and public expenditures on agricultural research and development) and received strong marks in seven (food safety, food loss, volatility of agricultural production, agricultural import tariffs, sufficiency of supply, diet diversification and access to financing for farmers). The only identified challenges are political stability risk, at 17% below the global average, and urban absorption capacity – a measure of food security's resilience to urbanisation pressures – at 21%

below. Oman enjoys the best self-sufficiency ratios – domestic production as a share of consumption – in the key food groups: fruit (74%), vegetables (73%) and eggs (51%), followed by milk (45%), poultry (41%) and red meat (34%). Grains consumed in the sultanate are 99% imported and are likely to remain so given the amount of water required to grow them, at 500 litres per pound of product. "Importing grain makes sense given water scarcity: Oman is correctly using most of its water for fruits and vegetables, which have a higher yield value per litre used," Rhonda Janke, professor of crop science at SQU, told OBG. "Beef and dairy are water-intensive per unit of output, but largely because of the water that is required to grow the feed. They are feasible in Oman if at least some of the hay and other feeds are imported." As in many GCC countries, Oman may not be able to achieve full self-sufficiency in other water-intensive categories of the sector, such as rice production.

AGRI-BUSINESS: Boosting agricultural production and processing of poultry, dairy and beef is at the forefront of state-led efforts to improve food security. In each, OFIC is carrying out projects through subsidiaries at a total cost of OR270m ($701.1m). The first is A'Namaa Poultry, a large-scale chicken farm that aims to produce 60,000 tonnes of white meat by 2020 and, according to OFIC's action plan shared with OBG, is set to reduce the imported share of poultry consumption from 71% to 34%. The second initiative is Mazoon Dairy, a OR100m ($260m) farm and factory complex in As Sunaynah that will start production in 2018 with 4000 cows and has a projected herd size of 25,000 by 2026. Milk production is slated to reach 985m litres by 2040. In total, Mazoon Dairy and other dairy projects are meant to close the gap between consumption and production from 71% to 33% by 2020. In the beef category, red meat company Al Bashayer Meat is set to start production in 2019, producing 12,000 tonnes by the following year, cutting imports from 64% of consumption to 56% by 2020 and 41% by 2028. "Our model with all of these projects is 'least-cost production' that can deliver local halal products at a reasonable price," Saleh Mohammed Al Shanfari, CEO of OFIC, told OBG. "Oman imports a significant portion of its foodstuffs. But with the right investments and economies of scale, it can build its own industry in these areas, thereby enhancing food security, boosting economic diversification, and creating new wealth and jobs."

In fisheries, Oman has 66 factories for salting and drying seafood, four producing fish meal and fish oil, and one focusing on advanced processing. Under the current FYP, the government plans to boost production from 260,000 tonnes to 480,000 tonnes, creating 20,000 jobs and delivering returns of OR739m ($1.9bn) per year by 2020. A significant fisheries project is the Duqm Fishery Harbour, where OR100m ($260m) is being invested in fishing and fish-processing facilities. The government has identified aquaculture as well as value-added fish products as areas with potential that are in need of further development. "For value-added products, we encourage investors to target the industry, fisheries, aquaculture and advanced processing, as it can yield high economic returns," Hamed Said Al Oufi, undersecretary of fisheries wealth, told OBG. Increasing margins is a high priority for this sector, given some of the challenges inherent to the local market. "An increase in transport and transfer costs and high export duties have had a negative impact on the profit margins of Oman's food sector," Prem Maker, managing director of Areej Vegetable Oils & Derivatives told OBG. "However, opportunities remain for those that process and package food in Oman."

Boosting production of poultry, dairy and beef is part of an ongoing effort to improve food security

RESEARCH & DEVELOPMENT: A range of initiatives are being pursued to substantially raise sector productivity through the modernisation of existing crop technologies. The ministry is supporting the cultivation of improved varieties of wheat, such as the 81 ha pilot wheat project in Al Batinah which will grow the improved "Wadi Qurayyat 110, 226" wheat crop and is expected to produce 250 tonnes in the 2017/18 season. According to Salim bin Al Omrani, director-general for agriculture and livestock in the region, the project's expected productivity of 486 kg per ha is an achievement given the climate and water resource constraints. The results of the project will therefore be studied for application elsewhere. Similar projects focus on a variety of other key Omani staples such as barley, maize, fenugreek and beans.

In another promising project, in 2016 Sohar University was awarded a $500,000 grant from the UK's University of Sheffield. Led by professor Barry Winn, the vice-dean of Sohar University, researchers are using low- and high-tech methods to develop so-called grow-dome greenhouse prototypes that use a combination of mirrors and seawater to regulate temperature, and use solar energy to desalinate the same water, which is then used to irrigate growing produce. The project also incorporates synthetic soil polymers that are able to retain water longer than

The government has identified aquaculture as well as value-added fish products as areas with potential that are in need of further development.

To address water scarcity, Oman is developing and testing a variety of indoor farming technologies

standard Omani soil, releasing it slowly over time, achieving even further water savings. If successful and economically viable, this grow-dome could raise yields while reducing groundwater draw, creating a method for anywhere with a similar growing environment.

A third initiative is developing small-scale integrated agricultural production by allocating 50,000 plots to citizens and small to medium-sized businesses for cultivation. Each plot's 10 feddans (4.2 ha) are to be distributed into segments: five for open-field growing of climate-resilient crops such as potatoes and melons, three for the greenhouse production of less-resilient fruits and vegetables, and two for aquaculture using recycled irrigation water. Output from these plots will be linked to agro-processing and marketing through ties fostered and supported by the ministry. The second step of Tanfeedh, which consisted of deliberative workshops hosted by the ministry in 2016, saw stakeholders identify more than 90 new projects that, if carried out, have the potential to triple the sector's GDP contribution and provide 8000 jobs. Of the initiatives' OR1.7bn ($4.4bn) cost, the private sector expressed interested in providing 93% of the needed investments during the lab. Additional help for these projects may come from a commitment to increased public lending. November 2017 saw the Oman Development Bank (ODB) announce it was extending financing worth a combined OR5.7m ($14.8m) to more than 1300 entrepreneurial micro-projects. In partnership with the Oman Chamber of Commerce, the ODB financed 1306 fisheries, and 35 agriculture and livestock projects.

Ongoing greenhouse technology feasibility studies – which promise to reduce crop freshwater requirements by 67% – have implications for Oman and anywhere freshwater is not readily available.

ADAPTATION & RESILIENCE: Among the sector's biggest challenges are limited natural resources and resilience, for which the Economist Intelligence Unit's GFSI ranks Oman 106th out of 113 index countries. Although scoring relatively high for its adaptive capacity (68th), its overall rank was affected by continuing demographic stresses (where it ranks last) and water scarcity (97th). Water is a scarce resource in Oman, with UN FAO numbers recording an annual shortage of more than 300m cu metres per year. According to the Ministry of Regional Municipalities, Environment and Water Resources, agriculture uses approximately 94% of all available water. Despite this, Oman's renewable water resources are currently around 400 cu metres per inhabitant per year, making it – in this respect – the best placed within the GCC, although according to the UN, still in the "extreme water scarcity" category, applied when the figure is below 500.

Oman is developing and testing a variety of means to address the current and future scarcity of water. In September 2017 the Middle East Desalination Research Centre and the Korea Agency for Infrastructure Technology Advancement signed a memorandum of understanding to collaborate on seawater desalination technology to reduce consumption of limited groundwater resources. Another area of focus for Oman is the testing and installation of seawater greenhouse (SWGH) technology, which uses indoor farming to replicate the hydrology cycle to separate salt from water through condensation, reducing crop freshwater requirements by 67% compared to current open-field cultivation. In 2015 Abdulrahim Al Ismaili and Hemantha Jayasuriya of SQU conducted the first feasibility study of SWGH technology, concluding further research and design is essential to developing economically viable ways to implement these technologies, underscoring the need for technical research to be done alongside cost-benefit analyses. Where desalination technology is not an option, another series of government-supported field trials and feasibility studies are under way, installing smart water meters at farms and monitoring groundwater usage through a centralised online management system in an effort to rein in aquifer depletion. Such an undertaking could have a net present value of $1332 per ha per year, with a 93% internal rate of return. A 2017 study by Slim Zekri, head of the Department of Natural Resource Economics at SQU's College of Agricultural and Marine Sciences, found smart meters can help authorities gauge and regulate water usage at low cost and with minimum intrusion. Zekri told OBG, "This has been done before at the municipal level, but we need similar detail on a national scale." These collaborations have implications not just for Oman, but any country where only saline groundwater or seawater is readily available.

OUTLOOK: Oman's agriculture and fisheries sectors continue to expand cultivated area and catch, boosting output of products in a concerted effort to sustain the population with fewer imports. Ongoing government emphasis on food security increases the likelihood that investments will continue beyond these medium-term projects in poultry, dairy and red meat. The authorities' support for the study, research and implementation of solutions to long-term challenges – such as water scarcity and refitting existing technologies – need to continue if Oman is to retain its status as one of the most stable markets in the region.

Fuad bin Jaafar bin Mohammed Al Sajwani, Minister of Agriculture and Fisheries Wealth

Reel opportunities

Fuad bin Jaafar bin Mohammed Al Sajwani, Minister of Agriculture and Fisheries Wealth, on developments in commercial fishing and aquaculture

How can food import dependence be reduced as Oman works towards its ninth five-year plan goals?

AL SAJWANI: Oman is highly self-sufficient in fish. In 2014 our self-sufficiency in fish peaked at 216%, and in 2016 it remained high at 176%. Moreover, the Ministry of Agriculture and Fisheries Wealth (MAFW) is planning to increase production from wild fisheries and aquaculture, from 280,000 tonnes in 2016 to 480,000 by 2020 and more than 700,000 by 2025.

To achieve our production goals, the MAFW plans to improve coordination with the private sector to both build new fishing ports and upgrade existing ones. There are 22 existing fishing ports, with others under construction and in the design phase. These ports will provide important infrastructure for both local and international fishing fleets to land and process fish, and provide services to other supportive industries. The MAFW is also developing aquaculture and an industrial fishing fleet in the Indian Ocean.

What role will commercial fishing and aquaculture play in meeting the ninth five-year plan goals?

AL SAJWANI: In 2017 the MAFW initiated a programme to develop an industrial fishing fleet, which investors have been invited to participate in. The overall goal has been to upgrade the current traditional, artisanal fishing fleet that operates on Oman's coastal areas to an industrial fleet focused on exploiting fish resources in the Omani Exclusive Economic Zone and beyond. Currently, there are 22,720 traditional boats, 700 artisanal fishing vessels, and 134 coastal fishing vessels.

To ensure a sustainable harvest of fish, the MAFW is developing bylaws and guidelines for the operation of the industrial fishing fleet, which will permit large industrial fishing vessels to utilise the pelagic resources in the Arabian Sea and the Indian Ocean.

Aquaculture will also play an important role in this regard, and the strategy aims to produce 200,000 tonnes by 2030. The first fin fish cage farm was commissioned in July 2017 in the Quriyat coastal area to produce 3000 tonnes of high-quality sea bream. Two other farms with a total production capacity of 6000 tonnes of sea bream will be launched by the end of 2017. Preparation efforts to open two shrimp farms, as well as two abalone farms in the south, are ongoing.

What is the state of downstream processing and value addition in the fishing industry?

AL SAJWANI: The fish processing industry grows in line with fish production in order to cope with additional quantities of fish landed. There are 52 processing and packaging facilities, 26 of which are factories with quality control certification, which means they can export to the EU. There is one canning factory for tuna and sardines, and there are many applications from private players who wish to invest in similar facilities. There are 66 facilities for salting and drying, and four factories for fish meal and fish oil production. The MAFW is currently preparing a bylaw to regulate this important industry.

For value-added products, there is currently one factory, but the MAFW encourages investors to target this industry, as it can yield high economic returns. There are also about 400 fish outlets and shops in different regions to distribute fresh and frozen fish.

How are farmers and the MAFW dealing with depleting groundwater and increasing salinity?

AL SAJWANI: The MAFW is conducting several studies on the effects of high salinity on farms along the Al Batinah coast. These studies have many goals, including finding alternative agriculture crops that are resistant to high salinity. In terms of fisheries, the MAFW is developing the integrated aquaculture sector, where farmers can use fish in their farms to better utilise limited underground water resources. The farmers will use this water to harvest both fish and plants. The production from integrated aquaculture is expected to increase from 3 tonnes in 2014 to 30 tonnes in 2016.

The government had awarded 19 aquaculture licences by August 2017

Tipping the scales

Investments in aquaculture increase with government backing

To make the fisheries sector more sustainable and boost long-term food security, the Ministry of Agriculture and Fisheries (MAF) has singled out aquaculture – commercial fish farming – as a priority segment for investment, creating opportunities for food businesses, investors and consultancy services. The ministry has identified a pipeline of 24 projects worth OR852.7m ($2.2bn) to develop the segment which, if carried out, would produce 293,000 tonnes of fish per year with a value of OR733m ($1.9bn).

CARRYING CAPACITY: Measured by production, the industry is still quite small. In 2016 it brought in a total catch of 103 tonnes, down from a 2013 peak of 353 tonnes and accounting for a fraction of a percent of Oman's total fisheries production, according to the National Centre for Statistics and Information (NSCI). However, after a recent series of tenders, the ministry estimates the segment could grow to as much as 220,000 tonnes per year by 2030 (including fish meal), bringing in $500m-900m a year.

In an effort to achieve this, the government – under guidance from the World Bank and the UN Food and Agriculture Organisation – set up the independent Agriculture and Fisheries Development Fund (AFDF) with an aquaculture component in 2004, bringing it under ministry supervision in June 2017. In 2014 it also founded the Oman Aquaculture Development Company (OADC) as a subsidiary of the country's sovereign wealth fund, Oman Investment Fund, to direct investment in fisheries projects, and cultivate foreign investors and expertise.

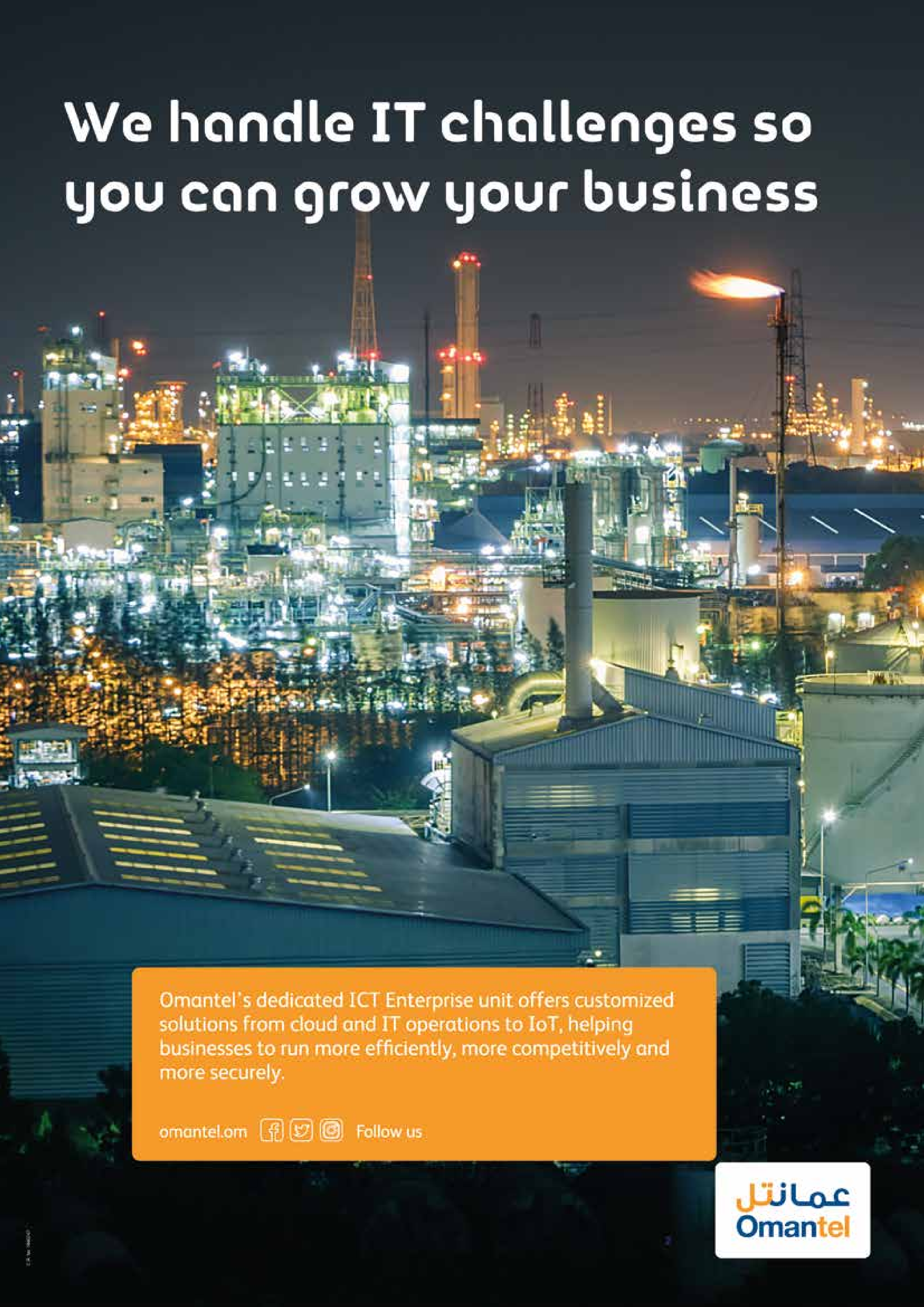
CURRENT PROJECTS: Of the 24 projects in the pipeline, the ministry is focusing on five to be launched in the 2017-18 period, with a combined production capacity of 13,100 tonnes. Several of these are already making progress. In May 2017 local firm Aljazeera Investment signed a OR12m ($31.2m) deal with domestic fishing company The Five Oceans to develop a 300,000-sq-metre aquaculture project producing abalone and hamour on the Shalim and Al Halaniyat Islands. Later that year, the ministry approved a commercial licence for the project, which now has a budget of OR45m ($116.9) to begin production in 2020. In a second project announced in November 2017, the Blue Waters Company began the first phase of aquaculture development in the *wilaya* (province) of Qurayyat capable of producing 3000 tonnes of koffer fish (long-finned sea bream), worth OR3m ($7.8m). Fish will be grown in 32 floating cages for 12-14 months until they are ready to harvest. The facility – built in a 1.7m-sq-metre area allotted by the Ministry of Housing in 2016 – will also include a land-based factory for processing and packing fish, and a unit for producing fish feed.

> "According to ministry estimates, aquaculture could produce as much as 220,000 tonnes of fish and fish meal by 2030, bringing in $500m-900m a year"

Fish packing and aquaculture facilities are especially important. "Oman has the potential of becoming one of the Arabian Peninsula's main suppliers of canned seafood," Osama Maryam, CEO of Al Hosn Investment Company told OBG. To bolster Oman's aquaculture capacities, two later phases are to be carried out in nearby villages of Bima and Dhabab, boosting total output to 9000 tonnes per year.

As of late 2017 three projects remained in the planning stages: one in Jalan Bani Bu Ali to produce 4500 tonnes of white prawns, one in Duqm to farm 1500 tonnes of grouper and 1000 tonnes of sea cucumbers, and one in Sur producing 600 tonnes per year of barramandi. According to global law firm Dentons, as of August 2017 the government had awarded 19 licences for aquaculture projects totalling investments of OR128m ($332.4m).

The Ministry of Agriculture and Fisheries has identified a pipeline of 24 projects worth $2.2bn. If carried out, they would produce up to 293,000 tonnes of fish a year at a value of $1.9bn.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Mobile telecoms and internet penetration rates high
Third mobile operator expected to launch in 2018
Fibre optic expands under national broadband strategy
New 24/7 digital security operations centre opens

A third mobile network operator is set to enter the market in 2018

On the line

Telephony and mobile services expand and diversify

Developments in Oman's telecoms sector in 2017 were centred on the announcement of a third mobile network operator (MNO) licence and an increase in royalty rates from January 1, which led to a 35-40% drop in net profits that year for the two existing operators, Omantel and Ooredoo. With market penetration in the mobile sector at close to 150%, the sultanate's third licence – to be awarded to a consortium of local investment funds and a "strategic global partner", still unidentified as of early 2018 – is expected to significantly tighten market competition.

In view of shrinking margins and expectations of higher competition, both of Oman's major telecoms companies were reportedly reviewing planned capital investments moving forward. Each nevertheless continued to invest in expanding service coverage and upgrading infrastructure in 2017, providing a strong foundation for small and medium-sized enterprises (SMEs) at a local and regional level to offer services that leverage recent gains in connectivity. Looking ahead, the country's operators recognise a need to diversify away from the near-saturated telecoms market and are pivoting to digital services, launching new subsidiaries and gaining footholds in regional markets through share acquisitions and strategic partnerships.

SECTOR STRUCTURE: Oman had two established domestic network operators in 2017. The first is 51% state-owned Oman Telecommunications Company, known as Omantel, and the second is Ooredoo Oman, 55% owned by Qatari incumbent Ooredoo. Two low-cost, pre-paid resellers or mobile virtual network operators (MVNOs) – FRiENDi Mobile and Renna Mobile, the latter acquired by Integrated Telecoms Oman (TeO) in mid-2016 – are active in the wireless segment.

The Telecommunications Regulatory Authority (TRA) facilitates growth by introducing regulations and rules to enhance competition. Broad objectives for the regulator include increasing local employment potential and developing skills for a knowledge-based economy.

Omantel (previously the General Telecommunication Organisation) served as sole domestic service provider for over 30 years before the telecoms market was liberalised under the TRA in 2005. In March that year Qatar Telecommunication Company (Qtel) and its partners entered the market with a Class I mobile licence, initially operating under the name Nawras and, from March 2014, as Ooredoo. This entity was awarded the second fixed licence in 2009, the same year Oman became the first country in the Middle East to introduce a "mobile reseller model", which allowed new, smaller players to leverage host operator infrastructure. Ooredoo and Omantel have implemented digital transformation strategies to capitalise on their roles as integrated providers of communications services offering fixed and mobile broadband and fixed and mobile telecoms.

TERRAIN: The sultanate is sparsely populated outside its major cities, and its topography poses certain challenges for infrastructure development. Servicing remote rural communities far away from Muscat, Salalah and Sohar can be difficult for both fixed and mobile services, with the cost of extending network access reaching as much as 10 times that of extending the same service across mainly flat areas.

Lifestyle preferences also increase the costs of connectivity. Unlike in cities like Dubai, where one cable can be used to service 100 flats in a tower complex, in Oman most people reside in private villas and expect service to be connected to their individual units. Operators currently incur all expenses for connecting or dropping that line. If the customer cancels the service before the two or three years required to make back the initial investment, operators incur the loss.

Oman's challenging topography, scattered population and preference for private villas among nationals all play an important role in determining the cost of infrastructure for telecoms services.

Localising the manufacturing of such infrastructure should help contain costs in the sector. To this end, a

An increase in royalty rates that took effect on January 1, 2017 led to a 35-40% drop in net profits for the year among the two existing mobile operators.

Market penetration in the mobile segment is close to

150%

The two existing telcos continued to invest in expanding service coverage and upgrading infrastructure in 2017

number of promising initiatives are under way in the design and manufacture of communications towers and related products. In October 2017 US-based Rohn Products International Holdings announced it had opened Oman's first tower manufacturing plant in Sohar at a cost of $26m to service the telecoms sectors in Oman and the broader Middle East and East Asia regions. An initial monthly production capacity of 28 towers may be doubled based on demand levels following completion of Phase II in mid-2018. The facility will use Omani raw materials and special services that already exist in the country, and will employ a US-certified tower climber programme to train Omani technicians on how to safely climb, inspect and maintain towers in line with international standards.

SUBSCRIBER GROWTH: The number of fixed-line telephone subscribers grew to around 471,000 in the first seven months of 2017, up 11.5% on the previous December, according to the National Centre for Statistics and Information (NCSI). In the same period mobile phone subscriptions went up by 3.8% to 7.13m, yielding a penetration rate of more than 150%. Pre-paid subscriptions in the country totalled 6,422,006, and post-paid subscriptions stood at 631,721.

The country's incumbent telecoms operator, Omantel, held a 58.9% mobile network market share (including mobile resellers) and a revenue share of 59.4% in the third quarter of 2017, according to company financial reports. As of September 2017 its market share for fixed-line telephone subscribers (post-paid and pre-paid) was estimated at 77.2%, with a revenue market share of 84.1%. Meanwhile, the company's domestic subscriber base (including both mobile and fixed businesses) rose to 3.57m (excluding mobile resellers) in that quarter, up from 3.32m in 2016.

The number of fixed-line telephone subscribers grew by

11.5%

to 471,000 in the first seven months of 2017

ROYALTY RATE HIKE: Despite this growth in subscriptions, profits for telecoms operators were down in 2017 due to the rollout of scheduled royalty and corporate tax hikes. Effective January 1, 2017 the Omani Council of Ministers increased the royalty fee payable by all telecoms operators in the sultanate from 7% of gross annual revenues to 12%. The decision returns the country to the royalty rate applicable prior to 2007.

Operators also experienced an increase in the corporate tax rate in 2017, from 12% to 15%. As a result of its new tax obligations, Omantel reported a 37% year-on-year (y-o-y) drop in net profits in the first nine months of 2017, from OR95.1m ($247m) to OR59.9m ($155.5m), despite its revenue growing by 3% to OR406.8m ($1.06bn). The company paid OR29m ($75.3m) in royalties over the first half of 2017, compared to OR17m ($44.1m) in the same period of 2016.

ZAIN ACQUISITION: Unlike other GCC operators, Omantel has largely kept its activities domestic. To diversify its exposure and mitigate the risk of operating in a single market, in 2017 Omantel increased its equity stake in Kuwait-based Mobile Telecommunication Company (Zain Group) to 21.9%, roughly equivalent to $2.19bn in equity value. The total purchase includes the acquisition of a 9.84% stake from shares owned by Zain in August 2017, and an additional 12.06% of shares from Kuwait-based Al Khair, an investment vehicle of the Al Kharafi merchant family, acquired in November.

The deal has made Zain the third-largest combined telecoms group in the MENA region, with over 52m customers, and provides Omantel with a unique opportunity to leverage Zain's knowledge in digitisation and operations in high-growth-potential markets. The Kuwait-based firm is a market leader in five of the nine international markets in which it operates. Omantel also expects the transaction to yield operational synergies, particularly on wholesale and equipment purchases from technology vendors, where the ability to negotiate and receive better rates on network equipment will likely improve significantly.

Lastly, Zain's accumulated experience in services that have not yet been introduced in Oman provides significant opportunities under Omantel's Corporate Strategy 3.0, which is focused on transitioning the company from a traditional telecoms provider to a firm offering full digital services. By cooperating across commercial activities and through shared investments in research and development, Omantel gains access to a fast-growing and lucrative portfolio of diversified products and services that includes data monetisation, business-to-business services, fixed broadband, fibre-to-the-home and smart city initiatives.

THIRD LICENCE: The path to a third MNO licence took a few turns in 2017. Just days after the first share purchase by Omantel was announced in August, the TRA was scheduled to shortlist qualified applicants for the licence. The rationale behind tendering it had been to enhance competition and bring down tariffs in the mobile telecoms market. Mobile phone users in Oman had long complained about poor internet package offers, high prices, lack of mobile coverage and blocked internet calling services via voice over internet protocol. Customers even launched a daily two-hour boycott campaign against Omantel and Ooredoo in October 2016, prompting the TRA to issue a directive urging the incumbent network operators to speed up network quality enhancement, conduct a nationwide coverage survey and bring down the prices of services.

Many believe these challenges with operators will improve with the introduction of more competition. "The entry of a third MNO will undoubtedly benefit consumers, especially given that the mere announcement of an additional operator has prompted current ones to invest in improving their telecommunications services," Said Abdullah Al Mandhari, CEO of Oman Broadband Company, told OBG.

The third MNO licence was initially scheduled to be awarded on September 4, 2017, attracting attention from regional operators interested in Oman's market potential and proximity. The award process was later postponed to November, reportedly to give the TRA time to examine the potential implications of Omantel's acquisition of a minority stake in Zain Group. Zain was competing for the licence in a consortium with TeO against rival bids from Abu Dhabi-based Etisalat, Saudi Telecom Company and Sudan's Sudatel Telecom Group.

However, one month after delaying a decision on the licence, in October 2017, Oman's Ministry of Transport and Communications directed the TRA to cancel the tender process and instead award the sultanate's third MNO licence to a consortium of local investment funds and a "strategic global partner", as yet unidentified in January 2018, with the aim of strengthening the role of wealth funds in the country and enabling them to contribute to economic growth. In early 2018 it remained an open question when the third operator would be introduced and what ownership structure will be adopted by the company.

MOBILE BROADBAND: The number of active mobile broadband subscriptions was around 4.4m in 2017, falling as low as 4.3m in June, a drop of around 10% compared to end-2016. In that period, penetration rates for mobile broadband dropped from 97% to 94.4%.

Ooredoo Oman continued to invest heavily throughout the year in expanding service coverage and upgrading sites to the 4G long-term evolution (LTE) mobile communication network. In the past three to four years the company has spent a total of OR150m ($390m) on the project, its CEO told a press conference in October 2017. He added that as of that month, Ooredoo 4G coverage extended across 55% of the country, with plans to expand the network to 1600 sites covering more than 90% of the sultanate by the end of the year. More than 70 sites for 4G LTE connection were laid every month in 2017, and Ooredoo was reportedly working with vendors and standards agencies to prepare for the launch of 5G technologies once the relevant guidelines are established. The availability of a range of additional radio spectrum for mobile networks is expected to facilitate new services, particularly in mobile broadband, for consumers in Oman.

APPLICATIONS: Capitalising on improvements in connectivity and access, local and regional companies are stepping up efforts to provide mobile application solutions in sectors as varied as education and retail. For example, in 2017 Omantel launched a digital inclusion

Mobile broadband subscriptions numbered around 4.4m in 2017

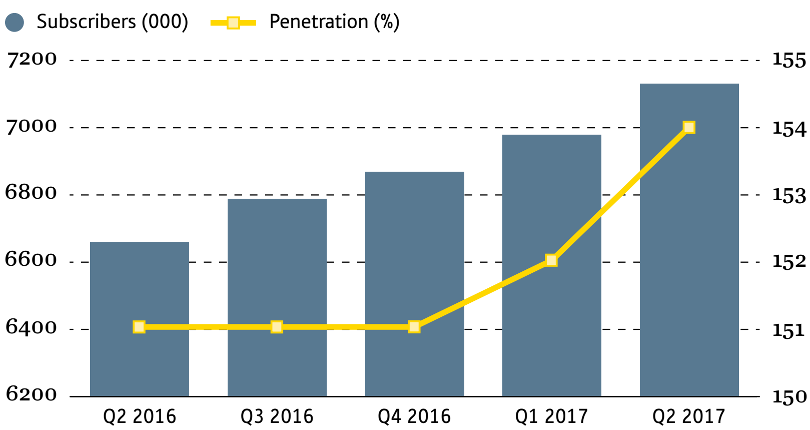
strategy called Education as a Service – a programme serving the education sector that allows access to online materials both at schools and remotely. A number of regional tech start-ups in the education space also entered the Omani market in 2017, including the newly launched Darisni (Arabic for "Teach me"), which provides families and students with the opportunity to access qualified online private tutors in subjects such as mathematics, English and Arabic. These initiatives are already yielding positive results.

"The availability of local IT talent has been noticeably growing in the last few years, though more is needed in the area of app development," Alain Sawaya, managing partner of Oman Data Park, told OBG.

Online retail in Oman is similarly poised for a breakout year in 2018. While internet spending in the broader Middle East is booming, with e-commerce in GCC countries expected to hit $41.5bn by 2020, web sales and home delivery make up less than 1% of all purchases in Oman, a situation analysts say is partly due

E-commerce in the GCC is expected to hit $41.5bn by 2020, though web sales and home delivery currently make up less than 1% of all purchases in Oman.

Mobile indicators, Q2 2016-Q2 2017



Source: TRA

The sultanate became the first country in the Middle East to introduce a mobile reseller model in 2009

to the lack of a unified postal address system. However, this could soon change. In 2017 the NCSI submitted the National Infrastructure for Geographic Information Project to Muscat Municipality, which detailed a four-stage plan to introduce a unified address system in time for the 2020 Census.

Once in place, this is expected to streamline various logistics issues, speeding up home deliveries and driving rapid growth in online spending and e-commerce. Mall of Oman, a large bricks-and-mortar shopping centre scheduled to open in 2020 in Muscat, has already announced plans to capitalise on the anticipated improvements by launching a mobile app that can deliver purchased items to any residential address – for which having a unified postal system is crucial. Similar systems have been successful in the Kingdom of Saudi Arabia and other countries, improving the efficiency of e-commerce deliveries.

VIRTUAL PERFORMANCE: Oman is also home to two providers in a category known as mobile virtual network operators (MVNOs). Oman became the first country in the Middle East to introduce a mobile reseller model in 2009. Class II licences, known internationally as MVNO licences, are operated under the mobile reseller framework, whereby an MVNO in effect purchases the service capabilities of a hosting operator and sells them on to consumers. The two resellers active in the sultanate – FRiENDi and Renna – arrived on the scene in the second quarter of 2009 and have since experienced growth that has far outstripped demand for the services of the two incumbent network operators. In the 12 months ending June 2016, the combined subscriber base of the MVNOs rose by an impressive 30.4%, while Omantel and Ooredoo together registered an increase of just 0.1%.

The combined subscriber base of mobile virtual network operators rose by

30.4%

in the 12 months to June 2016

Such virtual players have since shuffled operations further. Renna was acquired by TeO in 2016, which was itself launched in 2010 as Samate under a Class II reseller licence. TeO also operates a Class I International Gateway (IGW) licence, which enables the company to conduct international wholesale business with Tier 1 operators including Vodafone, Bharti Airtel and Singtel. Using the infrastructure afforded by the Class I IGW licence, the firm launched Oman's first calling card service, Allo, in 2014. Having submitted a bid with Zain for the withdrawn 2017 MNO licence tender, TeO is now focusing on rebranding for growth within the constraints of the licences and services it already owns. These include an international voice gateway and a licence to operate international voice services, including the ability to terminate voice traffic coming into Oman and running through TeO infrastructure.

Both FRiENDi and Renna today own a combined 20% of the mobile user market share at roughly 600,000 customers each, many drawn from lower-income groups including migrant workers and teenagers. The popularity of relatively affordable MVNO services was also aided by the drop in oil prices, which has reduced overall spending power in the population. The re-sellers are expected to continue to experience strong subscriber growth in the coming years, spurred on by their launch of 4G services in May and June 2016.

Whereas FRiENDi and Renna compete largely on cost, other firms have successfully positioned lifestyle sub-brands. These include Oman Ooredoo, whose youth-focused Shababiah sub-brand recently passed the 1m-customer mark. The pre-paid plan, which caters to "tech-savvy millenials", has gained traction by marketing itself as a "lifestyle partner". With a third network operator coming on-line, Oman's telecoms companies are expected to continue innovating as they vie for subscribers.

OUTLOOK: With two domestic operators and two MVNOs serving a population of roughly 4.75m people, Oman has some industry observers questioning whether the market has enough room for a third full-service operator. Some suggest that the increased competition and pricing pressures from the entry of a third operator will lead to reduced margins and diminished investment capacity for incumbent providers, which could upset the delicate balance between pricing, service quality and investment.

Both Omantel and Ooredoo have been investing at some of the highest capital expenditure ratios in the world, at up to 29% of revenue in 2016. If the market entry strategy for the new player is to initially depend on existing networks and compete on lower prices, its ability to match investments in network expansion will be constrained. "Though more competition is better for consumers, the arrival of a third operator may be too soon," Talal Said Marhoon Al Mamari, CEO of Omantel, told OBG. With 4G coverage in the country at 80% and 3G coverage at 92%, Al Mamari said the third operator announcement could be better timed when coverage ratios are closer to 100%.

Still, the announcement of a third player has directed attention to the need to improve service quality. While the new provider may cut into the incumbents' revenues, its impact is likely to be softened by their transition to integrated services, which is already under way.

The country ranks first in the Middle East for internet inclusiveness

Digits and bytes

Government strategies help guide a digital transformation

Operators in Oman's IT sector have recently made big strides forward, moving beyond infrastructure to develop applications and applied business solutions for increasingly sophisticated customers. The government has made it clear that ICT is a key priority in improving the standing of Omani businesses in the international arena, and in 2017 the Information Technology Authority (ITA) was developing a 2030 Digital Oman Strategy (eOman) focused on developing IT skills, digital literacy and new technologies.

The drive to improve network connectivity across the sultanate is supporting the expansion of fixed broadband infrastructure in Oman, particularly fibre-optic networks, under the National Broadband Strategy (NBS). The expansions laid out in this strategy are already bearing fruit, boosting the quality and speed of broadband connections and facilitating a pivot among the country's telecoms majors to embrace markets created by new technologies, such as services around "smart city" installations, big data and cloud services.

INTERNET SERVICES: Since the internet was introduced in the sultanate by Omantel in 1997, the country has seen dramatic gains in access. Oman was ranked first in the Middle East and 24th globally among 75 countries in a 2017 Inclusive Internet Index commissioned by Facebook and developed by the Economist Intelligence Unit to assess the enabling environment for the adoption and beneficial use of the internet. The index highlighted the country's infrastructure as a key strength, propelling Oman to 17th of 75 countries surveyed on the strength of its 4G coverage.

Demand for broadband services – which denote internet access that is always on and is faster than traditional dial-up services – continues to grow in Oman. Driven by demand for residential connectivity, fixed broadband internet subscribers – including DSL and WiMAX – grew by 19.4% to 318,754 in the year to July 2017, bringing the household penetration rate to roughly 54%. Dial-up subscriptions meanwhile fell by 0.8% to 2545 subscribers at the end of April, according to NCSI data. Broadband network architecture that uses optical fibre in lieu of copper cables for last mile connection (fibre-to-the-home network, or FTTH), is available to licensed telecoms companies in Oman, including Omantel, Ooredoo and Awasr, as well as to government-run utilities and third-party service providers.

GOVERNMENT IN ICT: State agencies are the primary spenders in Oman's IT sector, driving progress in ICT initiatives from data centres to cloud computing. In 2017, the ITA was in the process of developing a 2030 Digital Oman Strategy (called eOman) focused on developing IT skills, digital literacy and new technologies. The strategy will be used to develop policies and regulations based on ITA's seven pillars, which include security, infrastructure, e-government and social development.

Successfully implementing the strategy and achieving desired objectives will require overcoming significant budget constraints and establishing a feasible roadmap. In this regard, the creation of the $200m Oman Technology Fund (OTF) within the country's sovereign wealth fund, Oman Investment Fund, in October 2016 was broadly viewed as a positive signal, as it provides a means of generating new innovation partnerships. Pursuant to its mandate, the OTF announced a partnership with the Qatari Foundation (QF) in September 2017 aimed at supporting the creation and growth of tech start-ups and driving the shared development and commercialisation of new technologies.

While the IT ecosystem has become more established in recent years, the government's capacity to invest in the sector has somewhat diminished, as the country grapples with a growing budget deficit amid the oil price downturn. The impact of the resulting

The 2030 Digital Oman Strategy will be used to develop policies and regulations in security, infrastructure, e-government and social development.

Fixed broadband internet subscribers grew by

19.4%

in the year to July 2017

There has been a push to improve fixed broadband infrastructure

The government is aiming to open up the market to increased competition to boost high-speed broadband coverage and access in rural areas.

belt tightening has been felt most acutely in the state's adoption of certain technologies, with small providers, in particular, feeling the effects of lower investment in the sector. To mitigate the impact of the decline in spending, government agencies are therefore looking increasingly to the public-private partnership model to meet the demand for IT solutions and advance e-government initiatives. For example, the Ministry of Housing in 2017 was looking for a private sector partner to digitise and streamline interactions with the public. Customers in the private sector have also been cautious on spending in the oil price downturn, avoiding or postponing IT investments until the market improves. Those companies that are investing have recently become more selective and price-oriented.

REGULATORY CHALLENGES: The IT market is fairly young in Oman and as such is plagued by gaps and inconsistencies in sector regulations that the government has been working to remedy. Labour classifications in the IT sector, for example, occasionally lag behind the pace of growth in the industry, with the result that some companies have reported difficulties registering employees because certain job categories, such as 3D animators, are simply not recognised by the government. Responding to issues around recruiting for technical positions, the Ministry of Commerce, followed by the Ministry of Manpower, is expected soon to adopt the newest International Standard Classification of Occupations, making it easier to register a new position.

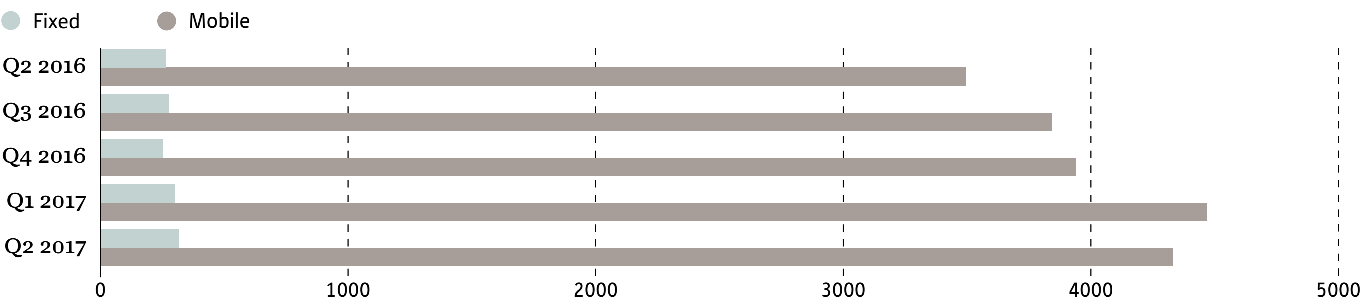
The government is also aiming to open up the market to increased competition to boost high-speed broadband coverage and access in rural areas. In April 2016 the Telecommunications Regulatory Authority (TRA) passed comprehensive legislation on "Access and Interconnection Regulation", obliging all holders of public telecoms licences to provide interconnection services on an equal and non-discriminatory basis to all requesting parties and wholesale customers, and to provide requesting parties with access to certain physical infrastructure and other facilities. "The licensing framework today demands investments in infrastructure," Milan Jovancic, CTO of TeO, told OBG. "That's not going to change in any way. New regulations supporting interconnected access are another important step for the regulator to establish a framework to define infrastructure requirements."

NATIONAL STRATEGY: Recently there has been a renewed push towards improving fixed broadband infrastructure, particularly fibre-based networks. The policy reflects the goals of the TRA, the ITA, the Ministry of Transport and Communications (MoTC) and other public entities in implementing the Digital Oman strategy, which calls for widespread internet access across the country.

Consumer uptake of high-speed broadband internet services has benefitted from significant improvements in service quality and a 30% drop in broadband prices over the past two years. As of 2017 for the same price of OMR30 ($77.90) per month, end-users in Oman have had the option of buying either ADSL or basic fibre, the latter offering significant improvements in speed and quality of connection. With user density at three or four customers per home, the high latency of ADSL connections is driving growth of fibre optic.

Responding to this growing demand, in September 2013 the Council of Ministers approved the NBS,

Broadband subscriptions, Q2 2016-Q2 2017 (000)



Source: TRA

charging the MoTC with overseeing its implementation in cooperation with the TRA. The NBS aims to encourage and promote investments in "soft" infrastructure to optimise investment in the sector, reduce the cost of services offered by providers, and overcome various constraints for the expansion of mobile broadband coverage, including spectrum limitations, provision of backhaul connectivity, the need for additional towers, and limited competition among broadband operators.

The three pillars of the strategy include reviewing the regulatory framework, stimulating demand for broadband (such as by increasing the percentage of fixed broadband take-up) and enhancing broadband infrastructure. The NBS also includes specific objectives aimed at spreading broadband access and usage to remote communities, which represent 23% of the total population. Due to current budgetary constraints caused by lower oil prices, however, the government is not currently prioritising the subsidies required for rural expansion. These areas would primarily be covered by satellite connectivity or by the Universal Service Obligation (USO) of both telecoms service providers, though that combined obligation is limited to a total of 300 sites. Because of the challenging cost ratios in rural and remote areas, neither Omantel nor Ooredoo are reported to be considering expansion beyond their USO obligations, and satellite connection projects are on hold until the government allocates the necessary funds.

OMAN BROADBAND COMPANY: State-owned Oman Broadband Company (OBC) was established in January 2014 to act as the delivery arm of the national strategy for the third pillar of the NBS, providing infrastructure (specifically fibre optic) with the objective of having 95%, almost full coverage of urban areas, with broadband infrastructure by 2030. The company is licensed by the TRA to construct and operate broadband infrastructure for use by licensed service providers on an equal and non-discriminatory wholesale basis. "Oman Broadband deploys passive fibre-optic infrastructure. Deployment is project based, meaning divided by areas. As soon as a certain area is completed, service providers are informed and their sale activities can commence," Dubravko Horvatic, OBC's commercial and strategy advisor, told OBG. "It is important to note, that Oman Broadband does not sell service to end users. End-users apply to one of the service providers, who then submit the request back to us for a delivery of a home connection."

The impact of OBC network expansion activities has been swift, pushing down home broadband fees and increasing the quality and speed of broadband connections. This has enabled service providers to offer FTTH connection broadband services to a growing number of customers.

Specific planning objectives for OBC include extending coverage of its fibre-optic network to cover at least 50% of the country's urban areas by 2020, rising to 95% by 2030. By the end of 2017 OBC aimed to provide coverage to a total of 210,000 residential and commercial units representing around 55% of Muscat Governorate, according to Salim bin Said al Alawi, general manager of projects at OBC, in a statement to the state-run Oman News Agency. OBC reports that adoption rates and demand for fibre connections in the capital have significantly surpassed early expectations.

The government is working to remedy gaps and inconsistencies in regulation in the nascent IT industry

In line with the government's vision for a knowledge-based economy, OBC also increased network expansion activity outside of Muscat in 2017, undertaking civil works projects to connect optic fibres in Al Musannah and Salalah. The company that year was also working on implementing a project at the industrial estate and city centre in Sohar and in the *wilaya* (province) of Khasab.

Recent difficulties related to sourcing local companies to lay fibre-optic cables have reportedly been resolved, and the time required to connect customers to operator networks has dropped significantly. In the process of doubling daily delivery, OBC has helped to develop knowledge among local fibre-optic installers, many of which are now growing at pace with network expansion activities in the sultanate.

INCUMBENT OPERATORS: For the incumbent telecoms operator, Omantel, investments in IT are critical to sustaining growth in an increasingly saturated telecoms market. The firm is the market leader in fixed broadband, serving over 210,000 fibre and DSL home broadband customers in the first half of 2017. The company fully owns its own fibre-optic infrastructure, leasing out extra network capacity and operating alongside OBC in certain areas.

In July 2017 Omantel announced plans to accelerate the rollout of high-speed broadband in a joint deployment with Chinese equipment supplier Huawei in what is being referred to as the first "G.fast" network in the Middle East. The solution is aimed at making the process of constructing networks more

At least 50% of the country's urban areas will be covered by a fibre-optic network by 2020, with this figure rising to 95% by 2030.

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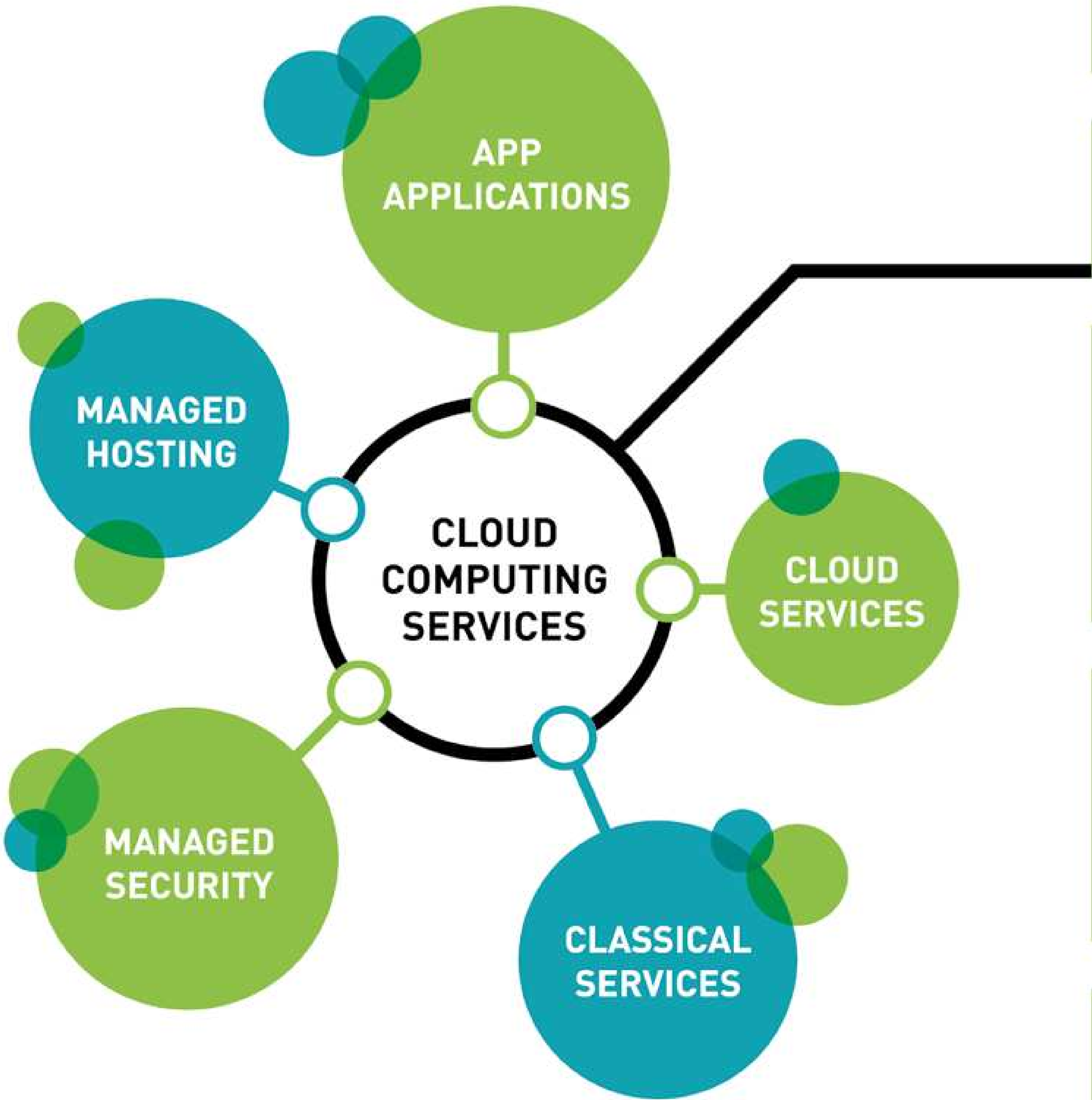

OMAN
DATAPARK

Maqbool Al Wahaibi, CEO, Oman Data Park

How has awareness about IT solutions evolved over the last few years in Oman?

When Oman Data Park was founded in 2011, it was the first provider of co-location and managed infrastructure services in the sultanate. Indeed, one of the challenges at the time of the founding was the need to increase awareness about these services in the markets a challenge we have overcame. Now there is an appreciation for these services and how they can help corporations reduce their total cost of ownership and to have a better return on investment in information technology. The lower price environment and the subsequent economic downturn have only sharpened this appreciation and have led consumers and companies to reduce their costs and maximize the quality of their output by a greater use of IT solutions.

How widely are Internet-of-Things (IoT) solutions used in Oman?

IoT solutions are not yet used much in the sultanate, but this is likely to change in the next three to five years. Indeed, when it comes to reducing operational costs, there is no choice but to use IoT and other technological solutions as much as possible. Oman Data Park intends to capitalise on the expected increase in demand for IoT services. In addition to what the company offers in terms of managed hosting, cloud services, app hosting, etc., we are introducing IoT solutions.

Where can IoT solutions best be applied in Oman?

One of the fields that could benefit from the application of IT solutions is tourism. For example, the government aims to further develop Muttrah as a touristic area. With Momkin, Oman Data Park could develop IoT solutions that could significantly enhance the experience of visitors. IoT apps could help tourists find the best tourism spots and more easily find parking. Moreover, utility companies in Oman are seriously looking at using this technology through the greater use of smart metering. The sultanateís transport and logistics sector could also leverage IoT solutions to reduce their operational costs and increase the efficiency of customs procedures. The sky is limit when it comes to IoT. Indeed, the goals of developing smart cities and becoming a smart nation will require greater use of IoT solutions among Omani companies across all sectors of the economy. At the same time, I am confident that the sultanate has the necessary components in place to achieve these goals. For example, Oman already benefits from the existence of companies like Momkin, a subsidiary of Omantel focused on developing IoT solutions, and Oman Data Park.

How would you assess Oman's exposure to and preparedness against cyber security threats?

The IT infrastructures of most organisations in Oman are now well-secured, which has made it difficult for hackers to directly infiltrate their networks. That being said, hackers are now going behind humans as they are often the weakest links of an organisationís IT infrastructure. Our strategy is to prevent people from being an organisationís first line of defence. To that end, we are trying to convince organisations to implement preventive controls and technologies to avoid situations in which employees are exposed to, for example, phishing scams. The volume of cyber security attacks is increasing in Oman, and any organisation or individual that has valuable information is at risk. The biggest recent attacks in the sultanate have been related to business email compromise, which constitutes one of the most significant cyber security risks in Oman. One of the most effective means of preventing such attacks is by implementing an email-validation system called DMARC, which is why the demand for related services has increased.

What are the advantages of working with managed service providers MSPs?

MSPs are well-established in North America and Europe but they are relatively new in Oman and the MENA region. Companies often have the impression that cyber security services are expensive, and they often are when companies follow the traditional model of investing in in-house people, processes and technology. However, cyber security solutions provided by an MSP are much more affordable because MSPs are able to leverage economies of scale that make it possible to provide the best services at the best price. In recent years, Omani companies have turned to MSPs because they donít have the necessary internal human resources to tackle cyber security threats on a 24/7 basis. Moreover, one of the greatest advantages of turning to MSPs is that they allow their clients to focus more on what matters to themótheir core business and their bottom line.

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Cloud service providers are relatively new to the country, dating back to the launch of a data park in 2012

efficient and repurposing existing copper lines in the basements of tall buildings to deliver fibre-like speeds using G.fast technology. Supported by the deployment of new technologies, Omantel plans to cover 90% of home subscribers in Muscat by 2020, offering speeds of between 200 Mbps and 1 Gbps in high-value areas. The firm's broader aim is to position itself as a leading digital service provider, moving beyond advisory services and email exchange hosting into cloud applications, security and the internet of things (IoT).

The company's ambitions in this space received a boost in 2016 with the establishment of an ICT unit and launch of the Omantel 3.0 transformation strategy, aimed at innovating and streamlining its digital "smart" home and business services. The initiative focuses on fully connecting businesses and devices, and developing smarter systems to save resources and improve efficiency. The company's ICT business is also its fastest-growing line of work, registering a 150% expansion in 2016 and, according to Omantel officials, was on pace to grow significantly over the course of 2017 in terms of revenue, market share and operations. Purpose-built subsidiaries include Oman Data Park, which hosts data centres and cloud services, and mOmkin, established in April 2016 to specialise in smart cities and IoT communications services. Both will be key to sustaining growth and driving in-country innovation into the next decade.

Similar to Omantel, the country's second-largest fixed-broadband operator by subscribership, Qatar-backed telecoms company Ooredoo Oman is engaged in significantly extending its home broadband network to communities across Oman. By the end of June 2017, Ooredoo had extended its Fast Home Broadband services to cover major cities within the governorates of Dhofar, Ad Dakhiliyah, Muscat, Al Batinah, Ash Sharqiyah, Ad Dhahirah, Al Buraymi and Musandam. Recent high-speed FTTH service expansions have targeted new areas of Muscat Governorate, including Aynt, Darsait, Hamirya, Wadi Kabir, Wadi Adai, Madinat Al Ilam, Al Qurum, Ruwi and Al Wataya. The company has also made significant upgrades to its fibre offering, providing superfast, buffer-free services of up to 1 Gbps, with unlimited internet access and free installation in areas under coverage.

New smart city installations aim to deliver greater connectivity, automated intelligence and immersive technology, connecting sensors with everyday objects and the internet to revolutionise building management systems.

INTERNET OF THINGS: The main thrust of Oman's latest and most innovative ICT services is focused on smart city installations, which aim to deliver greater connectivity, automated intelligence and immersive technology. The combination of industrial and utility components, sensors and everyday objects with internet connectivity and powerful data analytics carries the potential to revolutionise smart metering and building management systems, saving millions in operational costs. Other applications where IoT systems can help manage resources include smart transportation and parking, tourism services, warehousing, and retail behaviour.

With required infrastructure services provided by telecoms and entities such as OBC, new smart city initiatives in Oman include a logistics city near Muscat, Duqm, and Madinat Al Irfan, which includes IoT municipal integration strategies in its urban development plans. The shift to smart city technologies and the IoT is in keeping with the Omantel 3.0 strategy, which is predicated on enhancing the smart capabilities of Oman, including the mOmkin subsidiary, which specialises in IoT communications services using technology designed by SIGFOX, a French company that builds wireless networks connecting low-energy objects like electricity meters.

CLOUD SERVICES: Cloud Service Providers (CSPs) are relatively new to the sultanate, dating back to 2012, when telecoms service provider Omantel and data centre company 4Trust launched the joint venture Oman Data Park (ODP). Rather than invest in a less-expensive Tier I data centre and establish ODP as a proxy for international CSPs (similar to what has been done in other countries in the region), Omantel created a Tier III+ data centre with a 99.98% availability factor, capable of meeting the criticality profile of vital infrastructure providers in Oman. ODP today offers co-location services, private cloud solutions and a public cloud portal launched in 2013 that includes infrastructure as a service and SAS-ERP solutions for small businesses. ODP plans to launch Version 2 of the public cloud soon, as well as a third data centre in Duqm.

For the time being, ODP remains the only CSP in the country, operating its own cloud stacks and localising data. The company is actively seeking to partner with multinational CSPs like Microsoft Azure, Dell EMCs and Amazon AWS to build its ecosystem and assist with marketing, research and development, pricing on licensing, and product resale. As awareness and appreciation of the value of cloud services grows in the sultanate, ODP has seen relatively strong growth, in the range of 20-25%. A 2016 mandate issued to government entities to avoid co-locating outside of the country contributed to a significant boost in the number of public agencies co-locating their data with ODP. The company also anticipates a substantial increase in private sector uptake when market conditions stabilise. "In the next three to five years, outsourcing data centre and IT hardware requirements will become the primary option for businesses in Oman," Maqbool Al Wahaibi, CEO of ODP, told OBG. "Companies find it of great help to be able to focus on their own initiatives instead of procuring hardware, servers, storage and creating their own IT environment. The model is similar to electricity as a metered utility; there is no need to have your own generator when you have access to a local power station." Competition is likely to heat up in this space in the coming years, with companies like Omani internet provider Awasr already teaming up with German multinational software corporation SAP in September 2017 to start providing cloud computing services.

CYBERSECURITY: Rapid economic growth and new digital initiatives in the sultanate have introduced new challenges, and many organisations are beginning to recognise the need for an efficient cybersecurity system. The country has developed a strong reputation for cyber risk mitigation and remediation, being ranked number one in the Middle East and fourth overall behind Singapore, the US and Malaysia in the 2017 Global Cybersecurity Index compiled by the UN ICT Task Force.

The country maintains a robust organisational structure in this area, including a high-level cybersecurity master plan and comprehensive road map for improving data security. In addition to responding to cyber incidents when they occur, the ITA issues cybersecurity policies and frameworks, and its Open Source Computer Security Incident Response Team (OCERT) regularly publishes information security

Domestic firms are moving rapidly into new areas like cloud services

A new 24/7 digital security operations centre opened in late 2017

warnings and notifications concerning various threats and vulnerabilities.

The sultanate's ongoing commitment to cyber defence provides opportunities for local and foreign ICT security service providers to capitalise on strong demand growth in both the public and private sector. In this vein, global professional services provider EY opened a new 24/7 digital security operations centre (DSOC) in November 2017 to monitor the security of client IT systems in Oman and the GCC region. Senior EY officials told local press a key objective of the DSOC is to make the sultanate a hub for cybersecurity operations in the region.

OUTLOOK: Since the internet was introduced in the sultanate by Omantel in 1997, the country has realised dramatic gains in improving web access. Fixed broadband network expansion remains a key priority for the government as a prerequisite to meeting the development goals laid out in the 2030 Digital Oman Strategy, and progress on infrastructure development is expected to meet intermediate and long-term objectives clearly outlined in a range of official strategy documents.

Though the government's capacity to invest in the sector has diminished in recent years, as a result of the impact caused by lower oil prices, major operators and small and medium-sized business are stepping up with innovations and digital transformation strategies in order to meet the demand for IT solutions from what is becoming an increasingly sophisticated customer base in Oman.

With Omantel and Ooredoo leading the charge, and a third mobile network operator set to emerge in 2018, the country's ICT sector is bound to see increasing competition, and is rapidly moving beyond advisory services and email hosting into cloud applications, security and the IoT. The future therefore belongs to companies that can identify opportunities for innovation in these categories.

The country has developed a strong reputation for cyber risk mitigation and remediation, and was ranked number one in the Middle East in a 2017 global cybersecurity index.

أساس
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ASAAS tourism

strategy is based on analyzing the Tourism Supply Chain and identifying and investing in projects that would help develop the tourism industry as a whole

Tourism

Ongoing efforts to boost year-round visitor numbers

Cluster destinations set to become major attractions

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Encouraging domestic travel remains a key focus

Promotion of conferences and exhibitions under way

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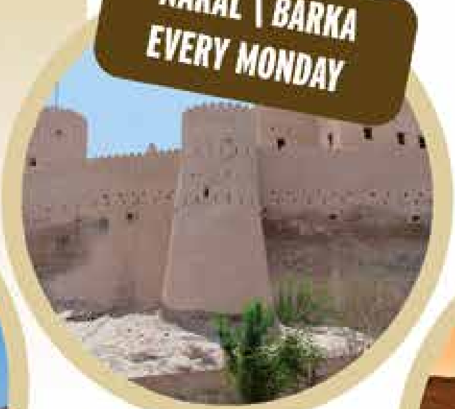

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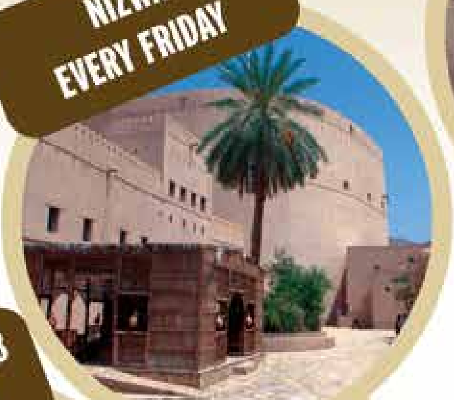

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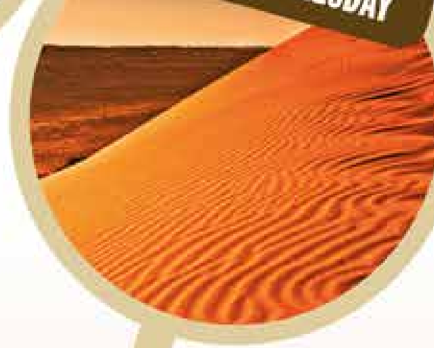

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Developing cultural, natural and urban sites is a tourism sector priority

Rising star

Efforts to attract higher numbers of foreign and local visitors gather pace

While the focus on preserving Oman's natural surroundings and cultural traditions has allowed the sultanate to retain much of the spirit of historic Arabia, the arrival of modern infrastructure and an emphasis on new sectors like activity-based tourism and ecotourism suggest that the country is firmly adapting to the needs of the modern global travel market. Oman has some of the most diverse offerings in the Gulf region, including several UNESCO World Heritage sites, contemporary urban centres, and natural and coastal areas, yet it continues to rely on a few specific destinations and times of the year.

While the country welcomed a record number of visitors in 2015 and 2016, the ultimate goal of transforming it into a year-round destination that appeals to a broader set of travellers continues apace. With the addition of the Oman Convention and Exhibition Centre (OCEC), infrastructure initiatives, new hotels and other flagship developments, the country is well on track.

STRATEGIC PLANNING: Another key aim is to boost annual international arrival numbers from 2.6m in 2015, to 5m in 2020 and 11.7m by 2040. In early 2016 the government released its 25-year National Tourism Strategy (NTS) to help develop travel-related infrastructure across the country. Being implemented by the Ministry of Tourism (MoT) and Spanish consultancy THR, the NTS targets an increase in the sector's contribution to GDP from 2.6% in 2015 to over 6% in 2040. It is expected that upwards of 500,000 direct jobs will be added over that period, with 75% of those to be taken by locals.

To help achieve these ambitions, the authorities have pledged to invest OR20bn ($51.9bn) in the industry, with media reports suggesting that government is also seeking strong input from the private sector. In 2016, for example, it was reported that the MoT was hoping to attract more than 88% of the estimated $3bn required investment from private funding. In 2016, 82% of the financing channelled into the country's tourism industry came from private sources, according to local media reports. In October 2017 there were signs the country's strategy was beginning to have an effect, with visitor numbers up 21% year-on-year (y-o-y), and likely to hit 4m in 2017 – an increase of 1.4m in just two years.

CLUSTERS: Central to the NTS is the development of 14 tourism clusters aimed at boosting the number of visitors and encouraging longer stays in the country. The targeted sites run the gamut of being already well known, like the old cultural areas within the capital Muscat, to others that will be built from the ground up. The complete list of sites is not set in stone, and development of the clusters will not be launched simultaneously, as the MoT views some sites as more ripe for development and critical to the success of the NTS than others. Each cluster will target a specific experience and type of visitor.

The first five-year phase, which runs up to 2021, will include cultural, natural and urban sites such as the historic Frankincense Trail in the Dhofar region, the rugged coastal areas of the Musandam Governorate on the Straight of Hormuz, the forts and mountainous villages in Al Dakhiliyah, and the coast of Al Sharqiyah South Governorate.

Later phases of development will comprise Bedouin areas in the Al Sharqiyah North Governorate, parts of Al Batinah South and Masirah Island. Three additional clusters in the Al Dhahirah, Al Wusta and Al Batinah North governorates are also targeted for development starting from 2026. While from 2031 the MoT plans to invest in the dunes near the UAE border and other desert areas.

In late 2017 the MoT and the state-run Oman Tourism Development Company (Omran) signed an agreement for the maintenance and promotion of Nizwa Fort, one of Oman's oldest and best-preserved examples of local architecture, with parts dating

82%

of tourism investment in 2016 came from the private sector

Government officials are pushing ahead with ambitious expansion targets to increase international arrival numbers from 2.6m in 2015, to 5m in 2020 and 11.7m by 2040

In 2017 Oman ranked in the top 10 on the Global Muslim Travel Index

The travel and tourism sector was estimated to have indirectly contributed $5bn, or 7.3% of total GDP, in 2017. This is predicted to increase to $9.7bn by 2027, equivalent to 9% GDP.

back to the 12th century. "This collaboration marks a new era for one of Oman's treasured sites and demonstrates the sultanate's commitment to finding innovative ways to promote Oman's unique tourism offering," Mohammed Al Mahruqi, a board member for Omran, told local media in September 2017. "The management and rejuvenation of historical sites such as Nizwa Fort will create a unique experience in the region," Al Mahruqi added.

INVESTMENT OPPORTUNITIES: With the authorities seeking stronger private sector involvement in the NTS – citing an investment expectation of approximately $30.8bn by 2040 – there are likely to be plenty of opportunities for collaboration between the private and public sector.

Some sites selected as clusters for later stages of the NTS have not served as traditional tourist destinations, and the existing transport infrastructure in and around those areas is significantly lacking. Upgrades to the country's road systems would certainly benefit from public-private partnerships going forward, and the construction of hotels, restaurants and entertainment facilities – as well as the training of employees – should also create opportunities for new partnerships and other types of private sector involvement in the coming years.

BY THE NUMBERS: According to the World Travel & Tourism Council (WTTC) "Travel and Tourism Economic Impact 2017" report for Oman, the direct contribution of travel and tourism to the economy reached OR841.3m ($2.2bn) in 2016, or 3.2% of total GDP. This was forecast to grow by 8.1% over 2017 and to continue by an average of 6% per year between 2017 and 2027, by which time the sector will be worth OR1.63bn ($4.2bn), or 3.9% of GDP. Indirectly, the travel and tourism sector was estimated to have contributed OR1.93bn ($5bn), or 7.3% of total GDP in 2017, with this predicted to increase to OR3.72bn ($9.7bn) by 2027 to hit 9% of overall GDP. The WTTC reported that the sector's direct contribution to GDP placed it 110th out of 185 surveyed countries in 2016 in terms of overall percentage. However, Oman's estimated real growth of 8.1% in 2017 placed it 15th overall in terms of direct contribution to GDP, almost double the Middle East average of 4.6%, and 9th overall in terms of total contribution.

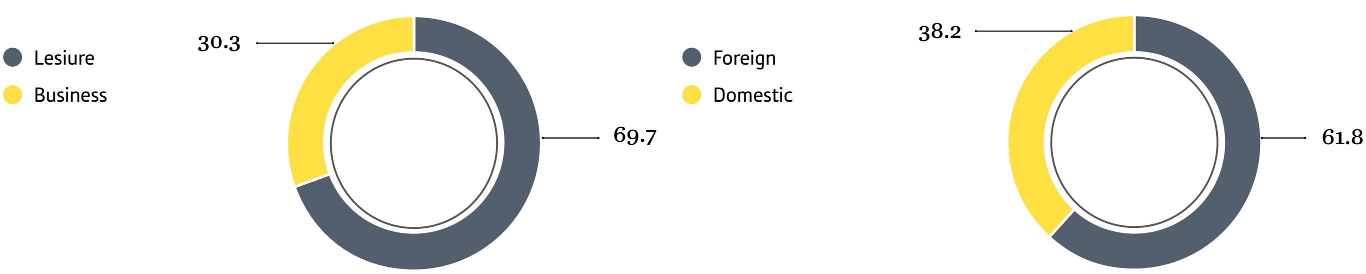
Investment in 2016 hit OR273.3m ($709.7m), accounting for 3% of total funding, and was predicted to rise by 10.5% in 2017, and by an average of 5% per year over the next decade to reach OR492.8m ($1.3bn) in 2027, according to the report.

While the official data had not been released at the time of publishing, the predicted growth for 2017 means Oman would have had the third-fastest rate of tourism investment growth among the countries listed that year. This is against international and Middle East averages of 4.1% and 7.3%, respectively.

TOURISTS: Oman's National Centre for Statistics and Information (NCSI) supported these findings, reporting that tourism will rank among the sultanate's main growth drivers for economic development in the near future, alongside manufacturing and wholesale and retail trade.

According to the NCSI, the number of inbound tourists to Oman has nearly tripled, from 1.1m in 2005 to 2.6m in 2015 and 3m in 2016. In the first nine months of 2017, 2.7m people visited the sultanate, with the highest number of people coming from the GCC (1.39m), India (253,000), the UK (142,000), Germany (119,000) and Pakistan (72,000).

Travel & tourism GDP by segment, 2016 (%)



Source: WTTC

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However, it was also noted that numbers during the *khareef* (monsoon) season fell slightly y-o-y in 2017. The event is usually a high point for both domestic and inbound tourists, when the mountains around Salalah turn into a rich green landscape. Between June 21 and September 21 total khareef season visitor arrivals were down from 640,775 in 2016 to 638,119. Visitors from the GCC, including domestic travellers, accounted for 89.7% of the total.

PROMOTING OMAN: While foreign demand has been increasing over the last few years, industry insiders feel that more still needs to be done to market Oman abroad. "The promotion of Oman's tourist offering must be done through a unified approach to make sure stakeholders don't pursue independent promotion efforts, which could potentially flood the market resulting in oversupply," Nasser Al Sheibani, CEO of Al Mouj Muscat, a waterfront residential, leisure and retail community, told OBG.

In 2010 the sultanate launched its first global branding campaign. Since then, it has continued to invest in promoting itself, primarily as a premium destination but also targeting other segments of the sector. While the MoT experienced some budget cuts in 2016 due to reduced government revenues caused by low global oil prices, it still managed to launch several major initiatives. Most notable was a digital and social media strategy aimed at increasing the country's online presence, which led to the ministry winning the "Best Usage of Social Media" award at the Arabian Travel Market expo in Dubai in April 2017. The ministry has since continued to pursue its digital strategy, with a particular focus on large markets like Europe, China and India.

SAFETY & EASE: The sultanate's image also benefits from the fact that many observant Muslims find travel in the country to be easier than in Europe or the US. In 2017, and for the second year in a row, Oman made the list for the top-10 countries on the Global Muslim Travel Index, issued by MasterCard and halal travel and tourism ratings agency CrescentRating, placing 7th in 2016 and 9th in 2017. Oman ranked highly for safety, airport facilities, ease of access to prayer spaces and halal dining options. This is increasingly important, with the Muslim travel market expanding rapidly and expected to be worth approximately $220bn in 2020, up from $155bn in 2016, according to the index.

The sultanate has also benefited from its stability in a volatile region, with travellers – especially those from the GCC – coming to Oman ahead of places that have been caught up in civil unrest. "Oman's tourism sector has flourished despite the instability of other tourist destinations in the region. It has consolidated its position as an attractive tourist destination by leveraging its diverse landscape and tourist-friendly local culture," Ahmed Dabbous, CEO of Muriya, an integrated tourism project developer, told OBG.

VISA REFORMS: In recent years Oman has eased visa restrictions in an attempt to opened up visitation rights to more nationalities. In October 2017

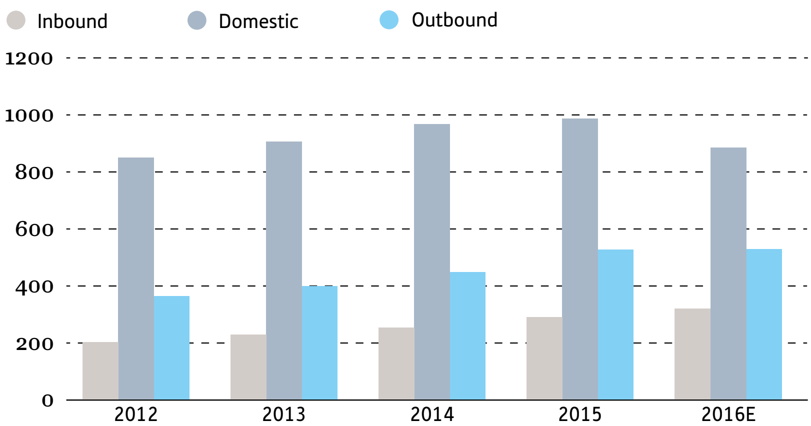
The tourism and travel sector directly supported 75,000 jobs in 2016

the sultanate expanded the list of countries whose citizens qualify for unsponsored e-visas. Indians, Russians and Chinese joined citizens of 25 other countries, including Azerbaijan, Iran, Bosnia, Peru, Turkmenistan, Vietnam and Mexico, recently added to the list of those who are now able to travel to Oman as long as they have a passport valid for six months, round-trip flight tickets, a confirmed hotel reservation and an entry visa to the US, Canada, Australia, the UK or Schengen zone. Certain family members, such as spouses or children, are also able to enter the country while accompanying them.

"I think this [was] a move many people in the hospitality sector were waiting for," Firas Rashid, director of sales and marketing at Anantara Al Jabal Al Akhdar Resort, told local media in October 2017. "The MoT has made this one of the areas for Oman to expand its economy, and if you look at Russia, India and China, these are three of the countries with the largest growing portion of travellers," he added.

The number of monsoon season visitors was down marginally from 640,775 in 2016 to 638,119 in 2017. Visitors from the GCC, including domestic travellers, accounted for 89.7% of the total.

Tourism expenditure by segment, 2012-16E (OR m)



Source: NCSI

In the first half of 2017 the total number of passengers at the country's two largest airports reached 8.7m

Officials also issued new regulations on one-year multiple entry visas in 2017, allowing visitors to spend a full month in the country, rather than the previous three weeks. At the same time, it increased the price of short-stay visas, removing the OR5 ($13), 10-day visa and replacing it with a one-month visa that costs OR20 ($52). According to Firas Matraji, CEO of Barr Al Jissah resort development, this is unlikely to have a negative impact on foreign tourist arrivals. "This reform was actually very positive," he told OBG. "Because the visas are for 30 days instead of 10, it can encourage tourists to spend more time in the country. There has been a major improvement in the visa situation in recent years. While there is still significant room for growth, if you compare it to two years ago, it is a large change."

TAKING TO THE SKIES: Located 32 km from the old city centre, Muscat International Airport (MIA) is the main gateway into the country for most international visitors. The airport, which first opened its runways in 1973, has recently undergone a major expansion with the addition of an international terminal completed in late 2017 and set to open by the end of 2018. The new terminal, under construction since 2010, will have the capacity to handle 12m passengers per year, with the airport able to accommodate up to four times that amount after a series of scheduled future expansions. The project has been billed as the largest civil construction undertaking in the sultanate's modern history.

MIA now covers an area of 580,000 sq metres, has 86 check-in counters, 20 self-service check-in kiosks, 12 transfer desks, 56 arrival counters, 10 baggage carousels, a 90-room airport hotel and car parking for up to 8000 vehicles. The airport's previous runway was extended in 2014, and is now 4 km long, with a new 4-km runway added as part of the most recent slate of upgrades. This means that MIA now administers two runways each capable of handling up to 40 flights per hour, including Airbus A380s, the largest passenger plane currently in operation.

Muscat International Airport has undergone a major expansion, with a new international terminal to open in 2018. The facility will be able to accommodate 12m passengers per year.

Additional airports link Oman to the outside world. Located in the Dhofar Governorate, Salalah International Airport (SIA) is the second-largest airport in the country. SIA began operations in June 2015 after an investment of around OR300m ($779m) replaced an older 500,000-capacity airport. SIA spans roughly 65,000 sq metres and can accommodate around 2m passengers per year, with future expansion plans aiming to increase this to 6m. Like MIA, SIA is managed and operated by the government-owned Oman Airports Management Company.

A new airport in Sohar, 220 km north-west of Muscat, saw its first commercial landing in November 2014, despite incomplete construction on its terminal building. In 2015 Larsen & Toubro (Oman) was awarded the OR36m ($93.5m) contract for the third phase of construction on the airport to build a passenger terminal building and a dedicated cargo terminal capable of handling around 50,000 tonnes of air freight per year. The airport is set to have a capacity of 250,000 passengers per year. In July 2017 Sohar International airport became the third hub for global airlines, after MIA and SIA, following the launch of flights by the UAE's Air Arabia between Sharjah and Sohar. A month later Qatar Airways started its own international service, between Doha and Sohar, with three weekly flights (see analysis).

FLY HERE, NOT THERE: Several other regional airports have also been established in recent years, including one in the central-eastern city of Duqm, where an entirely new port city is being constructed.

Duqm Jaaluni Airport, which has been up and running since 2014, has four weekly flights to and from Muscat, a capacity of 500,000 passengers per year, and a 4-km runway capable of handling wide-bodied jets, paving the way for the airport to receive international flights in the future. Until now the airport

Citizens from 28 countries are now eligible for unsponsored e-visas

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has been using a temporary terminal, but according to media reports, a new terminal is estimated to be completed by January 2018.

Located in the Al Sharqiyah South Governorate, in early 2016 construction on the first stage of the OR250m ($649.2m) Ras Al Hadd tourism project began. The joint venture between Omran and the Qatari Diar Real Estate Investment Company will see construction of the new airport as part of the development and will include a 4000-metre-long, 60-metre-wide runway, in addition to a 500,000-capacity passenger terminal.

ARRIVALS: During the first half of 2017, total passenger numbers at MIA and SIA reached 8.7m, up 19% y-o-y, according to figures released by the NCSI.

Flights, both domestic and international, at MIA grew 10% y-o-y to reach 64,879, with the number of passengers at the airport reaching 7.9m. Transit passenger numbers, meanwhile, grew by 144.9% to reach 19,679, up from 8036 in the first half of 2016, pointing to the growth of the airport as a transit hub. At the same time, the total number of domestic flights increased by 29%, with domestic passenger numbers up 20.3% y-o-y, from 549,111 to 660,798.

Over the same period, SIA saw a 51.6% y-o-y growth in flights, from 5512 to 8358, with the number of international and domestic flights up 34.3% and 65.3%, respectively. International passenger numbers, meanwhile, grew 46.8% y-o-y over the same period, from 224,803 to 329,926.

NATIONAL CARRIERS: Also contributing to rising numbers of passengers is the national flagship airline Oman Air. Established in 1993, Oman Air has been enlarging its global reach, including launching its first flights to China and new services to Najaf in Iraq and Mashhad in Iran in 2016, as well as a second daily flight to London's Heathrow Airport in 2017. These are in addition to daily flights to Paris and new routes to Singapore, Manila, Jakarta, Goa

Top-tier courses have made Muscat a regional golfing destination

The number of flights with the country's national carrier increased from 30,978 in 2016 to 68,457 in 2017

in India and Dhaka in Bangladesh. Over 2016 and 2017 Oman Air increased the size of its fleet to 48 aircraft, with the introduction of four new Boeing 737s. This coincided with a growth in capacity, with the number of flights increasing from 30,978 in 2016 to 68,457 in 2017, and total passenger numbers rising from 7.7m to 8.5m.

Meanwhile, the country's first budget airline, SalamAir, launched its maiden flight in early 2017. The low-cost carrier currently links Oman with nine destinations, including airports in Saudi Arabia, Qatar, Pakistan and the UAE, with four new routes expected to be added in 2018. The growth of the domestic low-cost carrier is part of concerted efforts to connect to other destinations with affordable air travel, opening the country up to different segments of the tourism market (see analysis).

HOTELS: Despite its drive to attract broader tourism segments, the local hotel landscape continues to be heavily weighted towards internationally branded four- and five-star hotels.

According to a February 2017 report on Oman's hospitality market by commercial real estate company Colliers International, a respective 17% and 26% of hotels in Muscat are in the internationally branded four- and five-star categories. The report added that corporate demand is the main driver for hotels in Muscat (54%); followed by leisure (16%); and meetings, incentives, conferences and exhibitions, whose limited contribution is expected to rise with the recent opening of the OCEC (see analysis).

The NTS is expected to have a significant impact on the hotel sector, with room numbers set to increase heavily over the next two decades. The first stage of the strategy, which runs from 2016 to 2020, is targeting an additional 5620 hotel rooms, with the second phase, running from 2020 to 2030, raising the total number of rooms to 15,400 and the third, between 2030 and 2040 seeing supply

The National Tourism Strategy is targeting the addition of 5620 hotel rooms by 2020, with the total number of rooms to reach 15,400 by 2030.

Guest numbers at three- to five-star hotels rose by 7% year-on-year in the first half of 2017, to reach 758,601

hitting 30,000. In the first five months of 2017 alone, thirteen additional hotels opened in the Oman, with this number expected to increase to 81 throughout the whole of 2017 and 2018. This includes 38 in Muscat, seven in Al Batinah North Governorate, five in Al Batinah South Governorate and three in Dhofar. As of June 2017 the total number of hotel establishments in Oman had reached 352.

Industry insiders see strong potential in the lower star range. "In the past, we were promoting mainly five-star experiences, but there is also a huge demand for other categories," Srinith De Silva, CEO of Aitken Spence Resorts (Middle East), told OBG. "If you look at the last few years, the new hotels in the pipelines are often in the four- and three-star category. There is huge potential here," he added.

As more hotel rooms of various budget classes come on-line, it is estimated that Muscat's share of the sultanate's total accommodation options will decrease from 53% to around 31% by 2040. By comparison, Dhofar is set to see its share of accommodation options increase from 12.6% to 23.8%.

According to the NCSI, guest numbers at three- to five-star hotels rose by 7% y-o-y in the first half of 2017, hitting 758,601, with occupancy rates growing 0.8% to reach 57.3%. Meanwhile, revenue from three- to five-star establishments was up 3.3% y-o-y, from OR94.1m ($244.3m) to OR97.2m ($252.4m). However, as of October 2017, total occupancy rates were at 61.3%, down 3.2% y-o-y, with Europeans making up the largest number of guests: 58,652 out of a total of 135,000 during the month.

As of June 2017 Oman was home to

352

hotel establishments

KEY PROJECTS: In April 2017 there were 11 tourism-related mega-projects that were either ongoing or had received approvals for construction. These included the development of the Salalah Beach project, which aims to build eight hotels, 2000 rooms and 3000 real estate properties by 2035; and the Ras Al Hadd eco-themed resort with more than 700 hotel rooms, 700 residential properties, 23,000 sq metres of retail space, a marine life park and a dedicated heritage village. The resort village at Muscat Bay – a planned integrated tourism complex (ITC) located at the foot of the Al Hajar mountains and a short drive from downtown Muscat. In the first quarter of 2018, 260 properties are set to be completed, of which half will be occupied by end users and half set aside for vacation housing. Muscat Bay will also feature two five-star Jumeirah hotels, with a combined 280 rooms, 50,000 sq metres of parkland, and a village square with community amenities to support the needs of the residents, including a school, supermarket, gym and restaurants.

INTEGRATED PLANS: Other ITCs include Naseem A'Sabah, a 400,000-sq-metre waterfront project located in the Muscat Governorate, which will include over 1200 residential units, a five-star hotel, various retail and leisure zones, office suites and a yacht club. In March 2017 the MoT signed an agreement with Amouage Hotels and Resorts to develop the OR400m ($1bn) project.

One of the largest ongoing projects in Oman, however, is the OR500m ($1.3bn) redevelopment of Muscat's traditional port and harbour area into a waterfront tourism, leisure and commercial centre. The flagship project, called the Mina Sultan Qaboos Waterfront, is expected to provide 12,000 direct jobs and 7000 indirect jobs across the food and beverage, hotels, maintenance and retail management industries upon completion. The site will feature a leisure boat marina, a fisherman's wharf, a fish souq, four- and five-star hotels, cafes, offices and waterfront restaurants. The first phase of development is set to be finished by 2020, with three subsequent phases continuing until 2027. In June 2017 it was announced that Omran had partnered with the UAE's DAMAC International for the redevelopment project. Much of the investment for these projects

In 2020 the Muslim travel market will be valued at around $220bn is coming from private sources. "More than 80% of investments in tourism come from the private sector, which reveals the attractiveness of Oman as a competitive destination in the region," Maitha Al Mahrouqi, undersecretary of the MoT, told OBG. However, she added, "keeping Omanis involved in the development of the sector is a must in order to preserve the incomparable mix of traditions and modernity that characterise the country."

WORKFORCE: According to the WTTC, both tourism and travel directly supported 75,000 jobs in 2016, representing 3.4% of total employment in the country. This number is expected to grow by 3.8% per year to hit 106,000, or 4.5% of total employment, by 2027.

Including indirect jobs, the WTTC estimates that the sector accounted for 7.2% of all employment in 2016. By 2027 total job numbers are forecast to grow from 157,500 to 216,000, accounting for 9.2% of the total. The government's tourism strategy aims to significantly increase the number of jobs in the sector, generating 76,384 direct jobs between 2016 and 2020, 126,900 between 2021 and 2030, and direct employment for another 243,000 people by 2040. Officials are also looking to train 800 tour guides by 2020, with prospective guides required to obtain a licence before operating as part of new regulations issued by the MoT. Traditionally, however, Omanis have not always been attracted to hospitality services, even though the burgeoning sector currently offers plenty of career opportunities. The MoT is attempting to change the mindset of its citizens in this regard, by promoting the industry as an attractive career option. Some feel that as the sector grows more nationals will consider a career in the business. "If more tourism comes to Oman soon, the industry will develop and more students will think of a career in this field," Jasim Al Balushi, the deputy head of education and professional development at Oman's Caledonian College of Engineering, told local media in September 2017.

EXPANDING OUT: Industry insiders see it as crucial that the country moves towards becoming a year-round travel destination. This will involve growing the sultanate's cultural offerings, as well as adventure tourism, ecotourism and the number of visitors arriving on cruise ships, among other segments.

Between January and October 2017, 168,000 people arrived on cruise liners at one of the sultanate's various seaports, up from 144,000 in the corresponding period of 2016. German passenger numbers alone grew by approximately 14,000 y-o-y in the first four months of 2017.

Other activities are in the pipeline. In 2016 Oman became the first country in the Middle East to host the Louis Vuitton America's Cup World Series event, firmly placing the sultanate on the international sailing map, while the addition of a number of top-tier hotels with golf courses in and around Muscat has

Officials are looking to train and certify

800

tour guides by 2020

Promoting sports tourism will have the double benefit of attracting more international visitors while contributing to public health and wellness goals.

made the capital city a regional golfing destination. “Athletic tourism in Oman is poised for exponential growth within the next five years,” David Graham, CEO of Oman Sail, told OBG, adding that Oman’s governorates are safe enough and have the necessary infrastructure to support activities including sailing, running, cycling, mountain biking and triathlons. “To ensure the development of sports and adventure tourism, however, the sultanate will need more three-star hotels at the service of athletes. Developing this area will have the double benefit of attracting more visitors and of contributing to public health and wellness goals,” he added.

The opening of the Royal Opera House Muscat in 2011 has also helped to further place the country on the cultural map of the region, while the launch of the Hawana Aqua Park, the sultanate’s first waterpark, in late 2017 should bring in a more family-orientated demographic of visitors (see analysis).

It is clear stakeholders in tourism-related activities have adapted to a development philosophy appealing to a new set of travellers, and over time Oman’s offerings have become more varied. It should be noted that authorities will need to provide guidance for such advancement at the heart of the industry to ensure a smooth transition. The promotion of Oman’s tourist offering must be done through a unified approach. Stakeholders of the sultanate’s tourism sector pursue independent promotion efforts that are sometimes redundant,” Nasser Al Sheibani, CEO of Al Mouj Muscat, a waterfront residential, leisure and retail community, told OBG.

OUTLOOK: Promoting Oman’s tourism offering to new international markets and altering the perception of the country as a seasonal – not a year-round – destination are challenges that will take time to overcome. However, recent growth figures suggest the sector is on an upward trajectory.

Major infrastructure upgrades and projects set to come on-line in both the near and medium term are ample evidence that the government is accumulating the tools needed to fulfil the broad goals of the NTS and boost tourism’s contribution to total employment and national income.

Furthermore, the 25-year timescale of the tourism strategy means there will be plenty of opportunity for more players to get involved, particularly if the initial cluster developments are a success. With growing engagement from the MoT, investment bankers, trade partners, global travel and hospitality providers, and international travellers and organisations, positioning the country as a global brand is becoming more feasible.

While some issues persist in raising awareness of the sultanate as an inviting destination, ongoing developments such as the airports and hotel infrastructure, suggest that the next few years are going to be important ones for the tourism sector.

Developing natural landscapes is part of the push to attract more people

No place like home

Encouraging domestic travel has become a key area of focus

In addition to raising the overall awareness of Oman as a global destination and increasing the number of foreign visitors to the country, the Ministry of Tourism (MoT) and related agencies are actively seeking to tap the domestic market. By tailoring services specifically to locals, developing lesser known destinations, and creating specialised attractions and infrastructure, this push could have a strong impact on growing the number of nationals travelling around the sultanate.

GROWING NUMBERS: Domestic travel has been expanding at pace in recent years, with numbers tripling between 2005 and 2014, according to figures published by the National Centre for Statistics and Information (NCSI). Since 2012 the number of domestic holiday-makers has been growing at a rate of between 33% and 36% per year, Maitha Al Mahrouqi, undersecretary of the MoT, told OBG. Even so, authorities are focusing additional attention on this segment, with the aim of further developing domestic tourism in the short term.

According to the World Travel & Tourism Council's "Travel and Tourism Economic Impact 2017" report for Oman, domestic spending generated 38.2% of travel and tourism's contribution GDP in 2016. The segment was forecast to rise by 6.4% to hit OR584.2m ($1.5bn) in 2017, and by 2.2% per annum until 2027, by which time it would be worth OR727.5m ($1.9bn).

Meanwhile, spending within the country by international visitors was forecast to grow by 8.5% in 2017 to reach OR964.1m ($2.5bn), and by 7.6% per year until 2027, totalling OR2bn ($5.2bn).

STAYING HOME: At times in the year Omanis make up the bulk of those travelling as tourists in the country, for example, during the annual *khareef* (monsoon) season, when the rains turn the mountains around Salalah, the capital city of the Dhofar Governorate, into a verdant green landscape. Over the 2017 khareef season, which ran from June 21 until September 21, locals made up 71.3% of all visitors to the area, according to the NCSI, up slightly from 70.5% during the same period in 2016.

However, at other times of the year the role of domestic tourists, as well as the income they generate, has far less impact. In October 2017 the latest month with available data, Omanis accounted for 25.1%, or 33,913, of the total 135,000 hotel guests in the sultanate, down from 43,830 in October 2016, at which time they accounted for 29.6% of all guests.

For sector authorities, encouraging nationals to spend more vacation time in their own country rather than going abroad has become a key focus. Creating opportunities in local destinations, increasing marketing campaigns for domestic tourism sites and experiences, and developing new attractions is likely to attract more numbers, especially as recent instability in the region, and tighter budgets due to lower oil prices are leading many locals to reevaluate their travel plans.

In 2015 the MoT collaborated with leading hospitality players to launch an innovative three-day campaign targeting domestic summer holidaymakers. The campaign offered special discounts and package deals with more than 38 properties and service providers to Omani citizens and residents. Included in this drive are ongoing efforts to develop additional hotel capacity to appeal to a broader set of travellers. "The promotion of three- and four-star hotels will be a big factor in encouraging domestic tourism," Srinith De Silva, CEO of Aitken Spence Resorts (Middle East), told OBG.

TOURISM STRATEGY: In early 2016 the government launched its National Tourism Strategy, with the aim of maintaining and growing its burgeoning domestic market, calling for the development of 14 tourism clusters to further expand cultural, ecological and urban locations. The targeted sites range from improvements to already popular areas, like Nizwa Fort, one of Oman's oldest and best-preserved castle-forts, to the completely new developments (see overview).

Infrastructure projects, such as the addition of new roads and the widening of existing highways, are expected to improve the connectivity of attractions

In 2016 domestic spending accounted for

38.2%

of travel and tourism sector GDP

The government's National Development Strategy looks to further expand cultural, ecological and urban locations, as well as improve the connectivity of these attractions via infrastructure projects.

Government initiatives are encouraging nationals to set out on improved road networks to explore Oman

and make travelling across the country easier for both foreign and domestic sightseers alike.

In July 2017 the MoT announced that it would be launching 17 integrated travel stations in 2018. The project is designed to enhance tourism-related services and infrastructure, with a strong emphasis on encouraging nationals to set out on the various road networks to explore their own country.

The stations will feature hospitality and tourism facilities, with each station including a hotel, air-conditioned buildings for restaurants and retail, as well as information centres, rest areas, children's play areas and separate prayer rooms for men and women. In areas of the country with less developed infrastructure, these initiatives are expected to go a long way towards improving the level of connectivity.

Additionally, the expansion of hotels and other related facilities could have a major impact. Duqm, for instance, located halfway between Muscat and Salalah, is experiencing a boost in investment in infrastructure, including the construction of multiple hotels, and is seen as having major tourism potential.

In addition, with the January 2017 launch of SalamAir, Oman's first low-cost carrier, came three daily flights between Muscat and Salalah facilitating domestic travel possibilities. SalamAir offers links between Salalah and the northern port city of Sohar with ambitious plans to expand the number of its domestic and international routes in the near future (see analysis).

In 2016 the total number of domestic flights increased by 29%, with domestic passenger numbers up 20.3%, from 549,100 in 2015 to 660,798, meaning more Omanis were flying between domestic destinations for work and leisure. This trend continued into the first nine month of 2017, with domestic flight numbers growing by 28.6% year-on-year, from 7295 to 9378.

In first nine months of 2017 the number of domestic flights grew by

28.6%

year-on-year to 9378

NEW DEVELOPMENTS: Locals are increasingly being seen as the most important tourist market by industry insiders. "You need to take into consideration that our primary target market is an aspirational Omani audience," Paul Jessup, vice president of sales and marketing at Muscat Bay, an integrated tourism complex, told OBG. "Currently, those wanting to do something different on the weekend don't fly to Salalah, they drive to Dubai."

Jessup also pointed to the 4.2-sq-km Oman Botanic Garden being built in Al Khoud, some 20 km outside Muscat, as an example of where the country can create something big and bold. The preliminary designs for the garden were unveiled in November 2017, and upon completion it will be the largest ecological oasis on the Arabian Peninsula and one of the largest in the world. Located in the foothills of the Al Hajar Mountains, the site will feature habitats that showcase the eight regions of the country, with guests able to explore the flora of various *wadis* (valleys), mountains and deserts in the space of a day, including a space to mimic the rich green forests around Salalah during the khareef season. The overall site, which will help to celebrate and conserve the country's geography and botanic diversity, is likely to become a major draw for both international and domestic visitors. Indeed, efforts to exploit the country's natural environmental landscapes are part of the push to attract more people. "As part of its ongoing diversification efforts, the government is doing more to market the sultanate's varied geography," Awad bin Mohammed Bamkhalif, CEO of Oman & Emirates Investment Holding Company, told OBG.

Another development likely to appeal to a domestic audience is the country's first waterpark, which opened its doors in January 2018. Located in Salalah, Hawana Aqua Park features a host of water activities, a food court, retail shopping area and entertainment facilities, with the overall aim of providing a day-long destination for visitors. The park has a capacity of 500 people per day, with a lazy river, wave pool and spa pool. In January 2017 a OR3m ($7.8m) expansion project was awarded to Wasal Development and Investment Company to build a five-star hotel, commercial complex, a multipurpose hall and restaurants at the park. "Oman should foster a well-diversified offering. For example, theme parks and attractions would further consolidate the sultanate's position as a tourist destination," Khalid Al Yahmadi, CEO of Muscat National Development and Investment Company, told OBG. "The development of Oman's tourism sector would benefit from projects that are bold but also stay true to the sultanate's heritage."

LOOKING AHEAD: The development of these kinds of new attractions, as well as the renovation of historic and cultural sites, is likely to appeal to both foreign and local tourists, and could significantly raise the number of Omanis that choose to spend their leisure time within their own borders. "To keep Omanis in the country at the weekends, we have to create excitement and build unique experiences that will interest the public with assets that connect local discoveries to future aspirations – not just copies of Dubai," Jessup told OBG.

While visitors from overseas are always likely to represent a significant share of the local market, ongoing efforts to expand the role of the domestic tourism sector could have a strong impact in the years ahead.

Ahmed bin Nasser Al Mahrizi, Minister of Tourism

Open doors

Ahmed bin Nasser Al Mahrizi, Minister of Tourism, on how the Oman Tourism Strategy (OTS) is shaping the sector

In what way is strategy being developed to better promote Oman's tourism offerings abroad?

AL MAHRIZI: The OTS provides a structured and comprehensive roadmap for future growth, from now until 2040, ensuring tourism's importance to the economy. The OTS is based on two fundamental pillars: tourism clusters and unique experiences. Under the OTS, we will be creating geographic tourism clusters, which will include a wider variety of destinations and experiences for different categories of tourists, with the goal of encouraging extended visits and greater engagement with the country's culture and natural sites. Beyond visitor numbers and contributions to GDP, by 2040 the OTS will also add more jobs to the sector – particularly for Omani nationals – and create opportunities for new small and medium-sized enterprises in the industry.

How is the Ministry of Tourism (MoT) encouraging private sector participation?

AL MAHRIZI: Whilst the OTS offers clear strategic directions and defines tourism products and visitors segmentation, the cluster master plans, currently being developed, will provide clear operational opportunities for private sector participation. The master plans will define the tourism attractions to be enhanced, renovated or created, while the tourism clusters themselves will attract a large number of diversified investment stakeholders with clear development objectives.

In addition to high-end tourism, what else is on offer for visitors, and where does this fit into the OTS?

AL MAHRIZI: The OTS focuses on three broad categories of tourists: overnight visitors (regional and international), same-day visitors and domestic tourists. With the accelerated pace of infrastructure development witnessed in the last few years, more and more nationals are getting to discover their country, while regional and international tourists are also becoming more aware of Oman's unique touristic offerings. From high-end luxury trips to adventure tourism, special interest groups, sports and leisure visitors, and culture and history enthusiasts, the OTS addresses all niches within the cluster configuration, as well as the number of unique and distinctive experiences to be promoted.

What is being done to streamline administrative procedures for those involved in the tourism sector?

AL MAHRIZI: The National Programme for Enhancing Economic Diversification (Tanfeedh) was created in 2016 with the aim of defining non-oil sectors that could be developed for the benefit of the economy. One priority non-oil sector was identified as tourism. In turn, several initiatives were set for immediate implementation. At this stage, those initiatives are being focused on by teams looking at the public and private sectors. The streamlining of procedures and intra-government coordination are considered key to the success of Tanfeedh initiatives, and considerable efforts have already been made in order to achieve them.

How important are marketing efforts in the context of developing the tourism sector?

AL MAHRIZI: Given intense global competition, it is very important to brand Oman, particularly as a tourism destination. Countries around the world have increasingly understood the importance of the role of their global image in attracting infrastructure and investment players. However, it should be kept in mind that building a nation's brand equity requires time, funds, and a sustained long-term effort. The MoT's marketing strategy is working towards the aim of promoting Oman internationally and, in doing so, spreading the benefits of tourism across the Sultanate of Oman. The ministry's portfolio of marketing activities showcases Oman as a preferred destination for leisure, meetings, incentives, conferences and exhibitions, and investments. The MoT will lead marketing efforts to position Oman as a premium destination for an authentic Arabian experience.

Since 2016 three foreign budget airlines have started flights to Oman

Taking flight

Low-cost airlines are opening up possibilities to a broader set of travellers

With the sector dominated by four- and five-star hotels, tourism in Oman relies heavily on luxury and business travellers. However, in recent years the Ministry of Tourism (MoT) has been looking to tap other markets, including budget-conscious holiday makers. This approach has been aided by the arrival of cheaper airfares from foreign airlines and the establishment of Oman's first low-cost carrier, SalamAir. Coupled with the building of more hotels outside of the five-star range, the appearance of budget airlines is poised to have a real impact on local tourism and the economy.

SKY-HIGH: SalamAir launched its maiden flight in early 2017 after the Public Authority for Civil Aviation (PACA), the country's aviation regulator, began testing market interest in a low-cost carrier in May 2015. The airline currently links Oman with nine destinations, including airports in Saudi Arabia, Qatar, Pakistan and the UAE, with plans to add four new routes in 2018, including flights to and from Bangladesh.

The airline, which has three, 174-seat Airbus A320s, is aiming to break even within the next three to five years. During its first six months of operations, the airline carried over 220,000 passengers, putting it on its way to reaching its intended target of 500,000 passengers for the first full year and 22 airplanes by 2022. In July 2017 the airline announced plans to launch flights between Salalah and Ta'if in Saudi Arabia. "Since its launch, SalamAir has been committed to delivering on three key promises: to offer travellers in Oman and across the region a safe and reliable budget alternative, to represent Oman and promote its tremendous tourism potential and alternatively contribute to the economic growth of the sultanate," Mohamed Ahmed, CEO of SalamAir, told local press in late 2017.

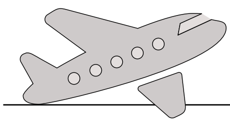
INCOMING ARRIVALS: While the launch of SalamAir was an important step, the arrival of other low-cost airlines is also likely to have a big impact on the number of people visiting Oman and the destinations available to them. In May 2016 the low-cost German airline Eurowings announced that it would begin operating two chartered flights per week between Germany and Salalah International Airport (SIA), Oman's second-largest airport, with the first flight successfully arriving in October 2016.

The European airline is not alone in expanding its footprint: both Qatar Airways and Dubai Aviation Corporation, better known as flydubai, have added more flights to SIA during the *khareef* (monsoon) season, when visitor numbers to Salalah, the capital city of the Dhofar Governorate, increase three-fold.

In July 2017 Sharjah-based low-cost airline Air Arabia announced that it would operate three flights per week between Sharjah and Sohar, a port city on the northern coast, with one-way fares starting from OR20 ($60). Sohar International Airport, which opened in 2014, is set to become the third hub for international airlines in Oman, with Air Arabia and Qatar Airways also reportedly planning to begin direct flights, according to the PACA. SalamAir already has flights into and out of the airport, with regular services linking the city with Salalah and Muscat. Meanwhile, in November 2017 Indian budget airline SpiceJet opened a new office in central Muscat. The airline offers non-stop flights connecting Muscat with Ahmedabad in western India five days a week, with passengers then able to transit on to cities like Delhi, Mumbai, Hyderabad and Chennai.

OPENING UP: The arrival of SalamAir and the recent increase in the number of low-cost carriers operating in the sultanate is part of concerted efforts to connect Oman with other destinations.

"Having affordable airlines, plus more three- and four-star accommodation, will help Oman push into the mid-scale tourism market," Srinith De Silva, CEO of Aitken Spence Resorts (Middle East), told OBG. The overarching goal is to open up the country to different segments of the market by increasing overall opportunities, boosting trade and investment in other regions, and attracting both leisure and business travellers.



Oman's first low-cost carrier aims to service

500,000

passengers in its first full year of operations

Oman is a seven-hour flight from around half of the world's population

Meeting expectations

Promoting the sultanate as a destination for conferences and exhibitions

In its first year, Oman's newest convention centre hosted over

750,000

visitors

In recent years Oman's tourism officials have focused their attention on the strong growth potential and revenue stream that comes with turning the country into a leading regional destination for meetings, incentives, conferences and exhibitions (MICE).

Relatively speaking, the sultanate is a new player in the sector, but with the opening of the Oman Convention and Exhibition Centre (OCEC) in October 2016, those in the industry are hoping this is set to change. In its first eight months, the OCEC hosted 55 conferences; by its first anniversary that number had risen to 101, accounting for over 750,000 visitors. The OCEC won bids for 11 major regional and international conferences in its first year alone, aided by the Oman Convention Bureau, Oman Air, and Oman Airports Management Company, among other domestic agencies and organisations. Despite recent efforts, the country has some catching up to do to compete with the likes of already established players in the MICE industry.

PUSHING MICE: In April 2015 Bloomberg estimated the value of the GCC MICE market at $1.3bn, with Dubai holding around 27% of the entire market at that time.

Although, the state-run Oman Tourism Development Company (Omran) began plans to build the OCEC in 2007, until recently, event organisers had relied almost exclusively on the 15,000-sq-metre Oman International Exhibition Centre, a government-owned exhibition centre, that began operations in 1985. While existing hotels like the Muscat InterContinental have successfully hosted events, due to their size they have been limited to smaller regional or local events, mostly those with less than 1000 delegates or guests.

"There are a great number of events that attract between 800 and 1500 people, but until the opening of the OCEC, we weren't able to accommodate them due to the lack of a suitable venue," Trevor McCartney, general manager of the OCEC, told OBG.

To help grow the sector, in March 2016 the Ministry of Tourism (MoT) established the Oman Convention Bureau. Headed by Khalid Al Zidjali, the former events director at the MoT, the bureau is tasked with managing services and products related to the MICE industry, as well as supporting local and international companies in organising events and promoting the sultanate as a regional MICE destination.

In addition, in November 2017 global consulting and event management company MCI Middle East announced a strategic partnership with Zahara Tours to launch MCI Oman, with the stated aim of supporting the market and aiding in the development of the industry to attract regional and global events.

"Oman is one of the newest and most exciting markets in our region, and it has all the hallmarks of being a great business meetings destination," Ajay Bhojwani, managing director at MCI Middle East, told local media. "Currently, 8% percent of our events are held in Oman. Given the opportunity and platform, this joint venture will help us consolidate our presence in the Middle East and also grow our influence in the market," he added.

THE CENTRE: Located just 4 km from Muscat International Airport, the centre features 22,000 sq metres of column-free exhibition space that can be divided into five separate areas, as well as an auditorium with seating for up to 3200 people. The auditorium contains advanced projection and riggings, an orchestra pit, and acoustic systems able to cater to musical performances and high-end conferences. Individual exhibition spaces also offer offices for organisers and event managers.

In addition, the OCEC has two ballrooms that can be altered to accommodate different event requirements and needs. The Grand Ballroom offers a number of configurations, capable of seating 2688 people in a theatre-style layout, 1680 in a classroom-style layout and 1200 people for banquets. It can also be divided into three or six individual meeting rooms. The Junior Ballroom can accommodate 1026 people when configured as a theatre, 672 as a classroom and 540 for a banquet. There are 19 separate meeting rooms on the premises, each with a capacity of between 70 and 360 delegates. The OCEC also has a food court, VIP pavilion and a 4000-vehicle multi-storey car park.

PROMOTION: Since 2011 the OCEC's business development team has been actively promoting the centre – and Oman in general – as a MICE destination for both regional and international events, with a strong focus on European markets, such as the UK, Germany, France and Switzerland, as well as nearby markets like India. In October 2017 the OCEC appointed Debra Simkiss as director of operations and Ekta Gandhi as the new marketing and communications manager, bringing a combined 30 years of experience to the organisation.

This push has had some notable success. In December 2017 the OCEC hosted its first international events: the Airport Council International (ACI) Airport Exchange Conference and Exhibition 2017, which brought the world's airport community to the Gulf for the largest event on the ACI's calendar, and the second UNWTO/UNESCO World Conference on Tourism and Culture.

HOTELS: The new convention centre is expected to act as a catalyst not only for MICE events, but also for those businesses that will spring up to accommodate additional visitors to the area. The OCEC complex will feature 1000 rooms spread across three-, four- and five-star hotels, as well as serviced apartments. A business park, retail shopping area and nature reserve form part of the overall district, which is itself a key component of Madinat Al Irfan, an urban lifestyle project being constructed by Omran, a developer of major tourism, heritage, urban and mixed-use projects.

According to a study conducted by global consulting firm Strategy&, the OCEC is expected to generate around $764m in local spending, create between 15,000 and 18,000 permanent jobs and contribute up to $621m to the economy by 2030.

In November 2017 the four-star Crowne Plaza Muscat OCEC – the first of four hotels planned for within the OCEC precinct – opened its doors to business and leisure travellers. A five-star JW Marriott Hotel is set to open in 2018, with Omran signing a OR38m ($98.7m) deal with Qatar National Bank Oman in April 2017 for the completion of the 304-room hotel.

However, not all convention space will revolve around the OCEC, the 296-room Crowne Plaza Muscat opened its doors in December 2017 and provides extensive meeting and event facilities that are strategically located in the core of the country's business region. It is expected that the majority of guests to use this hotel will utilise the exhibitions and conference centres.

GREAT EXPECTATIONS: Those involved in the sector feel that Oman is well placed geographically to expand its MICE footprint, lying as it does within a seven-hour flight to around 50% of the world's population. India, for example, is three hours away by plane and served by a dozen flights a day to Muscat. Officials are working on bids for major international events as far ahead as 2024 in recognition of the potential in the MICE industry.

The Oman Convention and Exhibition Centre is expected to generate around $764m in local spending, create between 15,000 and 18,000 permanent jobs, and contribute up to $621m to the economy by 2030.

In Muscat 26% of the hotels are internationally branded five-star resorts

New luxury

Building on the country's reputation as an upmarket destination, new offerings look to attract additional high-end clientele

Business people and luxury travellers account for around

80%

of Oman's tourists

Oman has a strong reputation within the larger gulf region as being a high-end tourist destination offering attractive options for foreign visitors, mixed with stunning natural geography, cultural attractions and a growing number of sporting activities.

Although efforts are now under way to diversify the sector, luxury tourism continues to play a dominant role in the landscape. " Around 80% of the tourists who come to Oman are businessmen or luxury travellers looking for beaches and resorts, while also seeking cultural and adventurous activities," Firas Matraji, CEO of Barr Al Jissah resort development, told OBG. Prices for accommodation are therefore correspondingly high. According to the Hotel Price Index compiled by Hotels.com, when it comes to average hotel rates, Muscat was the fifth-most expensive destination in the world during the first half of 2015, with an average nightly rate of $262, versus $229 in Doha and $174 in Abu Dhabi.

SWEET STAY: The importance of more affluent visitors is visible in the overall number of four- and five-star hotels, with 26% of hotels in Muscat being in the internationally branded five-star category, according to a February 2017 report by commercial real estate company Colliers International, and another 17% being international four-star establishments.

In May 2015 the Ministry of Tourism announced multiple projects that would ultimately add to the number of high-end hotel rooms in the country, with the top 10 projects involving a total investment of more than $3.3bn and including top-tier internationally branded hotels, such as Westin Hotels & Resorts, Kempinski, St. Regis Hotels & Resorts, W Hotels, The Ritz-Carlton, Louis Vuitton Moët Hennessy Hotel Management and Fairmont Hotels. In fact, the majority of major signature developments or real estate projects under way contain strong elements linked to the luxury market. There are currently 11 tourism-related mega-projects either ongoing or that had received approvals for construction, and many of these include features targeting more affluent visitors. The larger complex being built around the new Oman Convention and Exhibition Centre, which opened in 2016 to stimulate the meetings, incentives, conventions and events market, is set to feature a five-star JW Marriott hotel, scheduled to open in 2018, as well as two four-star hotels. Meanwhile, the ongoing OR500m ($1.3bn) project to redevelop Muscat's traditional port and harbour area will feature a boat marina and five-star hotel, among other facilities. Also being pushed forward are plans to encourage Oman's reputation as a provider of conscientious luxury, with efforts to further promote responsible tourism through the development of green, eco-friendly lodges and heritage homes in some of the more pristine, natural areas of the country.

Recent efforts seek to promote conscientious luxury tourism by developing eco-friendly accommodation in some of the more pristine, natural areas of the country.

TRENDS: Oman's current emphasis on quality, as well as authentic experiences, is in line with the perceived trends in upscale markets. Euromonitor International's "Global Luxury Travel Trends Report" for 2017 suggested that "conspicuous consumption is giving way to conscientious consumption and more meaningful and authentic luxury travel experiences".

In April 2017 Condé Nast International held its third annual International Luxury Conference at the Al Bandar & Al Husn Hotels at the Shangri-La Barr Al Jissah Resort & Spa Muscat, further highlighting the global reputation of the sultanate when it comes to upmarket travel. The two-day conference followed previous events in Florence, Italy in 2015 and Seoul, South Korea in 2016, and focused on a theme of "Mindful Luxury: Navigating the New Silk Routes".

Commenting on the recent attention Oman has received from luxury events planners, Paul Jessup, vice-president of sales and marketing at Muscat Bay, an upmarket ITC located at the foot of the Al Hajar mountains and a short drive from downtown Muscat, remarked on the added potential that could come by integrating high-profile gatherings with real-world development planning. "Real added value will come from integrated events like these, that also incorporate deals signed with small and medium-sized enterprises. Such occurrences in the target sector could create a longer-term, sustainable economic impact and enhance the destination both from a perception point-of-view and experiential one," he told OBG. "However, events like these can also serve simply as media transactions in a world that quickly moves to the next event," he added.

BUILDING A REPUTATION: In 2010 the sultanate launched its first global branding campaign as part of efforts to raise awareness of Oman at a time when concerns about travelling in the region were heightened. Adding to this, efforts to develop additional tourist attractions and open up more areas of the country to affluent visitors had a significant impact. Events like the Louis Vuitton America's Cup World Series, which Oman hosted in 2016, have helped to cement the sultanate as a global sailing destination, while golf lovers are increasingly drawn to the country's courses, and culture lovers to the new Royal Opera House Muscat, which was completed in 2011.

While there were concerns that the government's attempts to attract a broader set of travellers to the sultanate might diminish its view as a luxury tourism destination, it seems this has not had much of an impact. Part of the plan was to increase the number of days – and cost – of a short-stay visa to encourage travellers to remain in the country for longer periods. "The government's decision to raise the price of short-stay visas to OR20 ($52) had very little impact on Oman's attractiveness as a luxury destination," Morton Johnston, general manager of The Chedi Muscat, a five-star beach resort, told OBG. "Luxury travellers are not sensitive to this degree of price changes," Johnston added.

CHANGING LANDSCAPE: The growing number of integrated tourism complexes (ITCs) – specially designated areas where non-Omani can buy real estate – is changing the higher-end tourism landscape along the coast and in the mountainous regions. In January 2018 foundation was laid on a OR385m ($1bn) ITC located 80km south-east of Muscat. Developed by Quriyat Development Company, the project is set to feature a golf course, a waterpark, and three-, four- and five-star accommodation, among other facilities.

"Luxury tourism has grown steadily over the past decades with a variety of travel brands entering the market. There are a number of projects in the pipeline today, and more hotel openings are planned for the coming years. This simply highlights the contribution of our segment and the attractiveness of the destination. There is a consistent demand for luxury tourism in Oman," Katrin Herz, general manager of Al Bustan Palace Hotel, the five-star Ritz-Carlton-branded establishment in Muscat, told OBG.

"Oman is known as a luxury tourism destination and is on the bucket list for many well-travelled guests that are keen to explore the country and its welcoming people," Herz added.

ADDED POTENTIAL: Despite the global attention Oman is receiving, more can be done to offer visitors a seamless luxury experience. This includes ensuring that high-end treatment is offered across the board – from arrival to departure – as well as delivering upmarket accommodation and activities throughout the country. "Muscat is well provided with luxury hotels and residences, while other cities are catching up" Barr Al Jissah's Matraji told OBG. "The same disparity applies to tourism infrastructure where you can see that there are taxi-hailing applications, tour operators, etc., which are becoming increasingly competitive. There is still some work to be done and we are on the right track." Efforts needed to fill the gaps are likely to be forthcoming in the near future, and despite additional investment needed for the overall landscape, Oman is set to continue to attract high-end visitors as more and more offerings open, helping to grow the sultanate's reputation as a bucket-list destination for the more affluent traveller.

Officials are looking to provide seamless, high-end experiences – from arrival to departure – to help Oman consolidate its position as a luxury destination.

Education & Training

National Education Strategy 2040 set to reshape sector

Qualifications framework to streamline employment

Overhaul of higher education accreditation regulations

Initiatives to decrease unemployment among graduates

The budget for education in 2018 is $4.1bn: 13% of total expenditure

A strong foundation

Increased private sector participation and government-led initiatives to fuel development and diversification

The number of schools rose from three in 1970 to

1725

in 2016

Oman's education sector has expanded rapidly since the 1970s, with the total number of schools in the sultanate rising from three in 1970 to 1725 in 2016. The sector is overseen by the Education Council, which was founded in 2012 to streamline all matters pertaining to education development in the country, and which is composed of the country's key education bodies, including the Ministry of Education (MoE) and the Ministry of Higher Education (MoHE).

Private sector participation first began in the mid-1990s, in response to both the need for a more thoroughly balanced education offering, as well as increased consumer demand from a growing population. Today, private institutions, both at the school and university level, form an important and growing component of the education landscape.

The Education Council is currently in the process of formulating the National Education Strategy 2040, which is expected to have a significant impact on the way education is delivered across the sultanate. Elsewhere, the work being carried out by the Oman Academic Accreditation Authority (OAAA) is primed to provide not only the public, but also key education stakeholders, with reliable information on the quality of higher education in Oman and to guide the sector towards international standards.

HISTORICAL BACKGROUND: Upon ascending the throne in 1970, Sultan Qaboos bin Said Al Said set about transforming and reinvigorating the nascent education sector. The young sultan's commitment to improving the "human individual" found outlet in numerous education investments, which, in his words, aimed to "produce young Omanis who are aware of the world around them; who believe in their religion and their country; and who are able to use their creative potential, talents, and scientific and intellectual abilities to serve their country, improve their community, and preserve the sultanate of Oman's distinctive character and ancient heritage".

In 1970 there were three schools for the sultanates' 300 students. Within one year an additional 13 schools were established for a total of 7000 students, and by the following year this had expanded to 45 schools serving 15,000 students. Investment in the sector was a significant driver for this growth as allocated funds jumped from OR1m ($2.6m) in 1973 to OR9.4m ($24.4m) in 1974. By 1975 there were 176 schools serving a student body of over 50,000, and in 1980, a decade after Sultan Qaboos assumed power, more than 100,000 Omani children were receiving a basic education.

Although it quickly became apparent that Oman would require foreign expertise to form the basis of the country's emerging workforce, the government was similarly quick to launch training programmes to equip young Omanis with the skills required by the market. The first cohort of vocational trainees was recruited in 1972, with 70 Omani men selected to undergo vocational training, many taking place in neighbouring Arab countries. In 1992 Sultan Qaboos underlined the importance of vocational training, declaring that it was "a national duty... to create thousands of working opportunities that did not require advanced degrees".

COLLEGES & INSTITUTIONS: The sultanate's higher education institutions (HEIs) emerged in the 1980s. The first of these was the Oman Institute of Banking, today's College of Banking and Financial Studies, which was established in 1983. The following year saw the opening of both the Teacher's College (known today as the College of Applied Sciences) and the Technical Industrial College (currently called the Higher College of Technology). This was followed two years later by the establishment of Sultan Qaboos University – the sultanate's first and only public university – which opened its doors and started accepting students in 1986. By 2016 the number of public HEIs in the sultanate had reached a total of 35.

The private sector has played an increasingly prominent role in education since 1996, when Royal Decree No. 41 allowed for the establishment of private colleges and institutes in the country for the first time. The nation's private HEIs, which numbered 28 in 2016, offer a wide variety of programmes across the different academic stages, and also provide programmes in the vocational, technical and management fields, in addition to the wide array of language programmes on offer.

BUDGET: The budget allocation for education in 2018 is OR1.59bn ($4.1bn), constituting 13% of total expenditure. This figure remains unchanged from last year, but is a slight reduction compared to the OR1.65bn ($4.3bn) allocated in 2016, when education spending accounted for 14% of total spending. The reduction came as the government continued efforts to rationalise public expenditure, initiated in response to the fall in oil prices that started in mid-2014, and which led to a 14% contraction in GDP in 2015. Prior to 2015 government spending on education had been growing strongly, at a compound annual growth rate (CAGR) of 17% between 2010 and 2014, and although spending has since eased somewhat, the government remains committed to the sector, with spending on education as a proportion of total spending on a par with OECD countries such as the UK (11%) and the US (15.5%).

INDICATORS: The investment the government has made in the education sector in recent decades resulted in the sultanate ticking steadily upward on various global education indicators. According to the World Bank, the net enrolment rate at the secondary level for both sexes grew from 68.6% in 2000 to 94.3% in 2015. This in turn has led to a corresponding rise in adult literacy, which grew from 81.4% in 2003 to 93% in 2015, a figure which puts the sultanate on par with regional neighbours such as Bahrain and Saudi Arabia, and well ahead of the global mean of 86%. The average number of students per teacher at both the primary and secondary level has also improved steadily, with 11 students per teacher in 2017, compared to 13 in 2008.

Meanwhile, in 2017 Oman was ranked second in the Arab world and ninth globally by the British Council in terms of openness of higher education systems and student mobility. The sultanate also occupied the second position among other Arab countries with regard to sustainable development policies, and ranked 12th internationally in terms of national policy and regulatory structure to support international student mobility.

EDUCATION COUNCIL: Oman's Education Council was established by Royal Decree No. 48 in 2012 as the government's supreme education body, responsible for formulating policies and legislation for all levels of education, both private and public, throughout the sultanate. The council is currently helping formulate Oman's National Education Strategy 2040, which is being developed in response to directives issued by Sultan Qaboos in 2011 and 2012 calling for a comprehensive evaluation of the education process in Oman, and with a stated objective of equipping young Omanis with the skills required to compete and succeed in an increasingly knowledge-based world. The strategy, which is composed of five substrategies, including education management and education funding, represents a major marker in the sector's trajectory in Oman, and is expected to have a significant impact on the delivery of teaching throughout the sultanate.

The Education Council includes, among others, the MoE and the MoHE, while the OAAA, which has financial and administrative independence, reports to the Education Council.

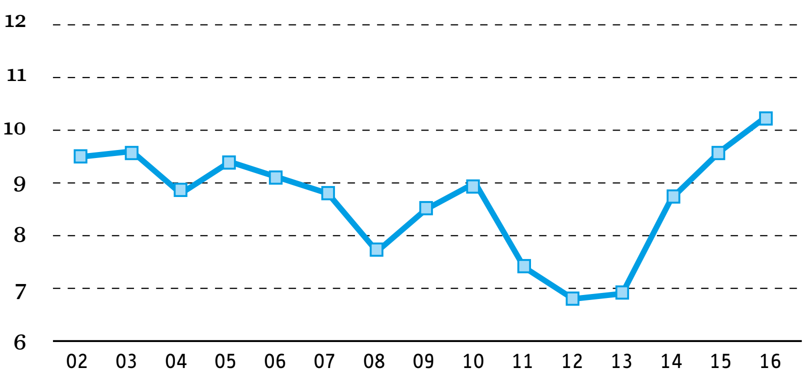
The MoE is the supervisory and regulatory body responsible for the delivering of all preschool education in the sultanate. The MoE is also responsible for licensing all private schools in the sultanate and for approving all private schools' syllabi.

The MoHE is responsible for regulating higher education across the sultanate's private universities

In 2017 there were 11 students per teacher, compared to 13 in 2008

In 2017 Oman was ranked second in the Arab world and ninth globally by the British Council in terms of openness of higher education systems and student mobility.

Education spending, 2002-16 (% of total gov't expenditure)



Source: NCSI

There were 748,308 students enrolled in schools across the sultanate during the 2016/17 academic year

The Muscat Governorate was home to the largest proportion of schools in 2016/17, with approximately

23.1%

of the total

and colleges. Additionally, the MoHE is responsible for issuing scholarships to Omani students undertaking studies both at home and abroad. Government-funded scholarships are an integral part of the higher education system, with many students and private HEIs relying on them.

The Ministry of Manpower (MoM), meanwhile, regulates all technical and vocational training in the sultanate through two directorate generals – one for vocational training and the other for technical training – and the Technological, Vocational Education and Training (TVET) system.

The OAAA is an independent authority responsible for reporting on the quality of higher education institutions and programmes in Oman. Originally established as the Oman Accreditation Council (OAC) in 2001, it became the OAAA in 2010.

Another important body is the Research Council, which was established in 2005 by Royal Decree No. 54, and which is the main policymaking body and funding agency for scientific research.

REGULATORY FRAMEWORK: As outlined above, the MoE is responsible for establishing all public schools across the elementary, primary and secondary levels, and is also responsible for granting approvals to all private schools wishing to set up in the sultanate. In addition to MoE approval, private schools – which are subject to foreign investment rules – cannot be established without the issuance of a trade licence from the Ministry of Commerce and Industry. Private schools moreover cannot be wholly owned by a foreign investor (except in the case of GCC nationals) and therefore require a local Omani partner in order to operate.

Though government schools dominate the education landscape, the number of private schools has grown significantly in recent years, outstripping growth levels witnessed in the public sector.

The majority of private schools in Oman take the form of limited liability companies run by managers. This is in contrast to private universities, which are run through a board appointed by a council of trustees. Private universities in the sultanate are overseen by the MoHE, which is responsible for approving the articles of association put forward by the founders of a prospective private institution.

On a more general level, the Education Council determines the number of private universities that can be established in the country. Each private university is required to have a board of trustees whose responsibilities include appointing the head of the university and their deputies, as well as the members of the university board, which is responsible for determining the conditions for admission into the higher education institution, and for the appointment of the deans and the board of colleges, research and scientific centres.

BY THE NUMBERS: According to the National Centre for Statistics and Information there were 748,308 students enrolled across the sultanate's 1725 schools during the 2016/17 academic year. These figures are up on the previous year, when 724,395 students were enrolled in 1647 schools. The Muscat Governorate was home to the largest proportion of schools in 2016/17, with approximately 23.1% of the total. This was followed by Al Batinah North with 16.2% and Al Dakhiliyah with 12.2%.

Government schools unsurprisingly dominate the schooling landscape, with the majority of students (564,356) enrolled at one of the country's 1100 government schools in 2016/17. However the number of private schools has grown significantly in recent years, outstripping growth levels witnessed in the public sector; the number of private schools jumped from 444 to 578 between 2012/13 and 2016/17, while the number of government schools went from 1043 to 1100 during the same period. The dominance of private school growth is also reflected in enrolment figures; enrolment at elementary through secondary (K-12) schools grew at a CAGR of 22.8% in the private sector compared to 0.5% in the public sector between 2009/10 and 2014/15. The total number of students enrolled in private schools in the sultanate stood at 103,358 during the 2016/17 academic year, compared to 101,860 the previous year and 79,382 in 2012/13.

In addition to the above, there were three special education schools in Oman in 2016/17, as well as 44 international schools. A total of 61,930 students were enrolled at international schools in 2016/17, representing 8.3% of the total student body. This is up from 49,948 in 2012/13, with growth being driven by an expatriate population which grew at a CAGR of 9% between 2012 and 2015.

HIGHER EDUCATION: Oman's higher education system comprised 63 institutions in 2016, of which 35 are public institutions and 28 are private. These vary in status between universities, university colleges and specialised institutions.

The public institutions include Sultan Qaboos University and six applied science colleges that fall under the supervision of the MoHE. Some institutions are supervised by other government ministries, including seven public colleges of technology, which are supervised by the MoM, 13 health institutes, which are supervised by the Ministry of Health, and the sultanate's sole faculty for Islamic studies, which is supervised by the Ministry of Endowments and Religious Affairs. Meanwhile, the College of Banking and Financial Studies falls under the supervision of the Central Bank of Oman.

Of those who graduated from secondary school in 2014/15, 89.6% were accepted into HEIs for the following academic year. This equates to approximately 34,000 students, a drop of roughly 2% on the previous year, according to the National Centre for Statistics and Information. Of the students enrolled in courses at HEIs in the 2015/16 academic year, 54.3% were female and 45.7% were male. Looking ahead, total enrolment at Oman's universities and colleges is expected to grow at a CAGR of 5.2% between 2015 and 2020, which, according to a Gulf Financial House report, will be driven by population growth.

A major feature of Oman's higher education segment are general foundation programmes. Given that all secondary teaching – apart from international schools – is delivered in Arabic, whereas the majority of higher education is delivered in English, the vast majority (over 90%) of Omanis entering higher education have to first attend a foundation course in English in order to prepare for their studies. General foundation programmes are offered by all HEIs in the sultanate and include courses in English as well as other subjects such as mathematics and IT, which are taught in English.

PRIVATE HIGHER EDUCATION: Private higher education was introduced in the mid-1990s in response to both the rising demand of a growing population, and as a means of reducing the sector's reliance on government funding. In 2016 there were a total of 28 private HEIs in the sultanate: eight universities and 20 university colleges". While enrolment at these institutions has been growing more strongly than at public institutions over the past decade, the period 2015 to 2016 witnessed a slowdown for the private segment. Enrolment at private HEIs grew at a CAGR of 11.9% between 2009/10 and 2014/15, compared to a 2.1% CAGR for public HEIs during the same period. However, the total number of students enrolled at private HEIs dipped by 6.1% in the 2015/16 academic year, falling to approximately 16,100 students. This drop was echoed further afield, too, with the number of Omanis enrolled at foreign HEIs in 2015/16 falling by 7.8% to 1391. The dip came on the back of the sudden fall in oil prices that occurred in mid-2014, with the number of those choosing to invest in private education abroad dropping as a result.

Muscat University is looking to capitalise on the rising number of Omani students choosing to stay at home rather than pursue studies abroad, and in October 2017 welcomed its first intake of 100 degree students. "The straightened economic environment of the past couple of years has made Omanis

In 2016 there was a total of 28 private higher education institutions

A major feature of the higher education segment are general foundation programmes, which are offered by all higher education institutions in the sultanate, and include courses in English as well as subjects like maths and IT.

There were 35,493 students enrolled at technical colleges in 2015/16

Government-led diversification and Omanisation drives in recent years, as well as cutbacks in state positions and salaries, have led many young nationals to take up technical and vocational training in sectors earmarked for investment.

more cautious about spending on higher education abroad," Yusra Mouzughi, interim vice-chancellor and deputy vice-chancellor of academic affairs at Muscat University, told OBG.

In its bid to address the demand for education on a par with international standards, Muscat University has entered into partnerships with various UK institutions, including Cranfield and Aston Universities, and 90% of the university's faculty comes from the UK. Students will be awarded dual degrees from both Muscat University and the partner UK university depending on the programme.

In addition, the university has various local partnerships, including with Oman Data Park for scholarships, and KPMG and Petroleum Development Oman for business and engineering student internships, respectively. "The concept of a new private university in Muscat was approved by Oman's Education Council within the context of the government's efforts to develop human resources in Oman in cooperation with leading figures in both the public and private sectors," Mouzughi told OBG.

TECHNICAL & VOCATIONAL TRAINING: Publicly funded technical education is one of the oldest academic systems in Oman and began with the establishment of the Oman Technical Industrial College in 1984. Four vocational training centres were subsequently set up across the sultanate, and in 2001 these five centres were renamed and upgraded into colleges of technology, of which the Higher College of Technology in Muscat is one. Since then, the Shinas College of Technology (2005) and the Ibri College of Technology (2007) have also been set up, and the seven colleges overseen by the MoM accounted for 38% of students enrolled under government coverage in Oman in 2015/16.

With the sultanate's economic diversification plan Tanfeedh – the National Programme for Enhancing Economic Diversification, which was launched in 2016 – underlining the need to reduce its reliance on oil, and as the state's belt-tightening measures continue, technical and vocational training is coming into greater focus as a tertiary option for many locals. Omanis, like their GCC neighbours, have historically shunned the option of technical or vocational education in favour of academic degrees that lead to public sector employment.

But that sentiment is shifting, as is the scepticism surrounding private education. "Despite the scepticism that persists among prospective students about the quality of private education, it is often the private sector that fills the gap when it comes to technical education," Lawrence Alva, CEO of the National Training Institute (NTI), told OBG.

Government-led diversification and Omanisation drives of recent years, as well as cutbacks in state positions and salaries, have led many young nationals to train or retrain for sectors earmarked for investment in the years ahead. The number of students enrolled at the sultanate's technical colleges increased from 24,379 in 2010/11 to 35,493 in 2015/16, and according to the Gulf Financial House report, this trend will continue, with a projected annual growth of 20% in the years ahead. "Many people want to come back to ensure their current positions or to enhance their future careers," Aleksandar Djordjevic, director at the Centre for Continuing Education & Professional Studies, told OBG. "The awareness of what is available is on the rise thanks to the campaigns that we and other colleges are running alongside the MoM, and as a result, the overall level of interest that the public has shown in vocational training has grown substantially. For instance, we saw intake of our Business and Technology Education Council Programme, which is a vocational programme by nature, double in September 2017 compared to 2016."

ACCREDITATION PROCESS: The OAAA, which was initially established as the OAC in 2001 before being renamed in 2010, is in the process of a major overhaul of the sultanate's higher education accreditation framework. When complete, it will put the sultanate on a par with international benchmarks.

The OAAA, which is made up of an independent board and reports to the Education Council, engages in two main activities in the sultanate: institutional accreditation and programme accreditation. Institutional accreditation is a two-step process, the first of which involves a quality audit of each institution. The quality audit cycle, which began in 2008, is now approaching completion, with more than 60, or 95%, of the sultanate's HEIs having undergone quality audits as of October 2017. The audit reports are then published online with the feedback structured according to nine broad areas of activity, and presented as formal commendations, affirmations and recommendations, or as informal suggestions. The second stage of institutional accreditation is known as standard assessment. This commenced in February 2016, and as of October 2017 the OAAA was approximately 15% of the way through the process. The results of the accreditation process are published online, with a web tool enabling clear comparison of the results across single activities as well as across institutions.

The programme accreditation side of the OAAA's activity has seen less measurable progress. Before institutions can submit programmes for accreditation, the institutions themselves need to be fully accredited. Given that the OAAA has not yet fully accredited any institutions, programme accreditation has been postponed for the time being, but its commencement is planned for the future.

What has taken place, however, is a quality audit of the general foundation programmes that every HEI runs, and which are attended by the vast majority of Omani students entering higher education. "At any given time, around 40% of the student population in higher education will be on a foundation programme, so this is a significant portion of the higher education profile," Tess Goodliffe, deputy CEO of technical

In 2010 the Omanisation target of 35% was introduced to diversify growth and assist job-seeking graduates

affairs at the OAAA, told OBG. "Given this, in 2008 the OAAA, which was then the OAC, developed standards for the foundation programmes run across the sultanate and is now carrying out audits which will result in a report that will give an idea of the overall quality of the programmes. Once we have completed the cycle of foundation programme quality audits, we will be able to review the standards and look into implementing a universal accreditation process for all general foundation programmes in the sultanate."

QUALIFICATIONS FRAMEWORK: Additionally, the OAAA is in the process of developing a comprehensive qualifications framework, which is being worked on in partnership with the Scottish Qualifications Authority (SQA). The framework, which is currently in the consultation stage, will have 10 levels allowing employers to see where a prospective employee's qualifications sit, whether they are academic, professional, technical or vocational. This means that all types of qualification will be recognised as there will be a mechanism in place via which qualifications can be identified and compared.

In Oman today there is a strong orientation towards academic qualifications; for instance, getting a job in the civil service requires a university degree. However, having a comprehensive qualifications framework in place could help promote equality of esteem."A bachelor degree, for example, is a level-seven qualification," said Goodliffe.

"The new qualifications framework will support transferability, as eventually we'll live in a world where instead of employers saying they are looking for somebody with an bachelor degree, they can say they are looking for someone with a level-seven or level-eight qualification. Having a qualification framework means that you can develop a highly skilled workforce because the qualifications will be recognised across the board, and as a result people will invest in raising the skill level of their workforce."

Higher education institutions and programmes are subject to quality audits, the results of which are published online along with formal and informal feedback.

Currently in development, a comprehensive qualifications framework, which features a 10-level scale, will allow employers to identify and compare different types of qualifications, whether they be academic, professional, technical or vocational.

Continued efforts are under way to enhance preparedness, with courses tailored to fit labour market needs

The qualifications framework draft was completed in partnership with the SQA and put out for consultation at a symposium attended by various education sector stakeholders in May 2017. Another symposium, this time in Arabic, was held in October 2017. The consultation process is extremely important, according to Goodliffe. "The consultation process ensures that there is a quality assurance mechanism, and so if somebody is approached with a qualification that's listed on the framework, then they know they can trust the qualification," she told OBG.

SCHOLARSHIPS: Oman's commitment to education under Sultan Qaboos was signalled from the outset of his rule with the spate of investment into education that took place in the 1970s. One major feature of these early efforts which continues to this day is the government's generous scholarships scheme, with thousands of the nation's youth benefitting from some form of state-sponsored support every year. The Directorate General of Scholarships was established in the 1970s, and one of its main bodies was the External Scholarships Department, which was tasked with sending promising young Omanis to further their studies abroad in neighbouring or allied countries, with these Omanis later assuming senior positions within the infrastructure of the state. The MoHE later developed out of the External Scholarships Department in 1994.

In August 2017 the MoHE announced that it would be awarding 1643 external scholarships and 9638 scholarships for the 2017/18 academic year. In total, approximately 35,000 pupils are studying in various disciplines under the government's scholarship grant in 28 universities and colleges across the sultanate. Given the number of students on public support, many colleges are almost entirely reliant on fees from scholarship recipients. Oman-based Al Ahlam Training and Higher Education Services, for example, receives 80% of its income from scholarship students. However, fears that government cutbacks would affect these revenue streams appear to have been unfounded; the number of scholarships awarded for 2017/18 are broadly in line with 2012/13 figures, when the oil price was above $100 per barrel, and when the MoHE awarded 9738 internal scholarships and 1395 external scholarships.

Approximately
35,000
pupils are studying under the government's scholarship grant

"Most of our students are on government-funded scholarships and those numbers are still intact," Djordjevic told OBG. "The fear that we would experience a downward sloping trend in this regard because of the budget cuts has yet to materialise, and indeed we are still looking very good in terms of our yearly intake of students."

OMANISATION: With a growing population, 30.5% of whom are aged between 15 and 29, Oman is looking to the private sector to deliver the twin goals of diversified economic growth on the one hand, and meaningful employment for the rising number of Omani graduates on the other. To kick-start this, in 2010 the government introduced a minimum Omanisation target of 35% for private companies operating throughout the sultanate.

Despite this, the private sector continues to be dominated by expatriates, an issue the minister of commerce and industry, Ali bin Masoud Al Sunaidi, addressed in 2017 when he announced that companies that failed to meet the 35% Omanisation target may start to lose out on government benefits. According to government figures, just over 10% of those working in the private sector are Omani, or approximately 223,000, compared to roughly 1.85m expatriates currently in private employment. Government efforts are also being targeted toward addressing this. Labour market reform one of the five key focus areas of Tanfeedh as a core tenet of Oman's ninth five-year plan (see analysis).

LABOUR PREPAREDNESS: Alongside these targets, efforts are also under way to enhance the labour preparedness of those emerging from training colleges and institutions, with courses tailored to fit the needs of the labour market. "It's important for universities and colleges to ensure that what they teach is meeting the demands of the labour market," Tahseen A Rafik, dean of the Global College of Engineering and Technology, told OBG. "They can achieve this by establishing committees with employer representatives, workshops and internships, and even leveraging the prior work experience of current students." At the NTI, for example, administrators and employers coordinate on the type of training needed, with employers engaged from the start of a programme's development to ensure what is offered dovetails with their needs.

"We never encourage off-the-shelf courses to employers, but rather provide a range of module choices," Vincent Paul, manager of technical training at the NTI, told OBG. "There are several meetings, and then the curriculum goes back and forth between the employer and us to ensure it is fully agreed upon and approved before we deliver the programme."

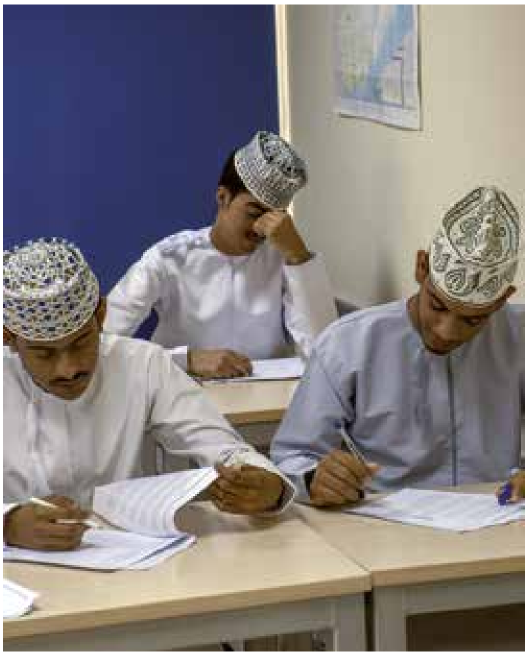
OPPORTUNITY KNOCKS: Education sectors across the GCC have been attracting intense international interest over the past decade. This is being fuelled by the region's strong fundamentals, chief among which is a population that is set to reach 65m people by 2030, a third of whom will be under 25.

In addition to this international interest, disposable income levels have been on the rise, with consumers increasingly willing to spend high amounts on quality education. "Investing in the health and education sectors is a smart decision given that Omanis tend to seek the best quality for these services and are loath to compromise on these things," Redha Juma Al Saleh, vice-chairman of administration and finance affairs and chairman of the Financial, Banking and Insurance Committee at the Oman Chamber of Commerce and Industry, told OBG.

Another major driver has come in the form of government initiatives that actively seek and encourage private sector participation, a trend that has intensified in the wake of the drop in oil prices as governments across the region look to private partners to cater to growing demand. In Oman, the availability of government incentives to set up private HEIs, including land grants, tax exemptions and a matching grant of 50% of capital contribution up to OR3m ($7.8m), is expected to continue driving investor interest in the years ahead.

Many industry players see that the greatest opportunities lie in the training field, and indeed a handful of training institutions in the sultanate, including the Oman Tourism College and the International Maritime College Oman, are already examples of partnerships between the government and private sector interests and how they can succeed.

"I see a lot of room for more professional and vocational training in Oman," Djordjevic told OBG. "We've seen the numbers rise in recent years, and I think there is still big potential there, particularly for bridge programmes between high school and university-level courses, and also for language skills."



Almost a third of the growing population is aged between 15 and 29

OUTLOOK: Although the Omani government has continued its rationalisation initiatives started in 2014, the education sector has remained largely insulated from major cutbacks. The reductions that have occurred are expected to open the way for greater private sector participation, with international interest fuelled by both Oman's sizeable youth population, as well as the government's continued focus and determination on achieving a knowledge-based and diversified economy.

The rollout of the National Education Strategy 2040 is expected to bring yet more improvements to a sector that has for decades been prominent in national budgets and development strategies, an approach in line with Sultan Qaboos' early governing priorities. The work being carried out by the OAAA to implement a comprehensive and internationally benchmarked system is set to bring greater clarity to the sultanate's educators and employers alike.

Government initiatives are actively seeking and encouraging private sector participation, with many convinced that the training field offers the greatest opportunities for investment.


Omani employees account for just 10% of the private sector workforce

Work in progress

Increased awareness of vocational opportunities and government initiatives to cap high number of jobless graduates

Unemployment stood at **17.5%** in 2016

One of Oman's most pressing challenges is youth unemployment, with new graduates making up a significant portion of the country's unemployed citizenry. According to the National Centre for Statistics and Information, 47% of Omani graduates are currently employed, and it takes roughly two and four years for male and female Omani graduates, respectively, to find a job. While unemployment rates fell steadily prior to 2014, the sudden drop in oil prices, and the subsequent cut in spending across both the public and private sphere reversed this trend, with unemployment going from 16.9% in 2014 to 17.3% in 2015, before rising again to 17.5% in 2016.

Another contributing factor has been the failure of many companies to properly adhere to the government's Omanisation quotas, which, since 2010, require companies operating in the sultanate to hire at least 35% Omanis. This prompted the minister of commerce and industry, Ali bin Masoud Al Sunaidi, in February 2017 to warn that companies failing to comply with the target would risk losing out on government benefits, which presently include free commercial lands, soft loans and low corporate taxes and duties.

MISMATCH: While 86% of government employees are Omanis, they make up just 10% of those working in the private sector, according to statistics from the Ministry of Manpower (MoM). As of February 2017 approximately 1.85m expatriates are currently employed in the sultanate's private sector, compared to 223,000 Omanis. The construction, engineering and financial sectors are the largest employers, and despite the significant proportion of Omanis that study engineering, many do not secure jobs in the sector. According to government figures, 50,083 Omanis work in engineering, compared to nearly 845,000 expatriates, while an estimated 4500 Omani engineers are unemployed.

The reason for this mismatch is two-fold. If private companies, particularly international ones, tend to hire expats, this is in part fuelled by a general preference among locals for public sector employment, which has traditionally been perceived as more prestigious and where salaries tended to be higher. This phenomenon is by no means unique to the sultanate: across the GCC citizens have sought work in public sectors where generously salaried positions have long been accepted as part of the social contract that ensures oil wealth trickles down to its citizens. As a result, private sector companies, particularly international ones, found it easier – and cheaper – to recruit internationally, especially for more specialised roles.

CHANGING MINDS: The solution likely lies in efforts under way to change the perception of occupations that fall outside of traditional spheres. Many state-sponsored campaigns, for example, work in partnership with local institutions to encourage young Omanis to undertake vocational training. "People have definitely become more aware of what is available in terms of vocational opportunities," Vincent Paul, manager of technical training at the National Training Institute, told OBG. "We have a number of walk-in trainees who come and register themselves for various courses. Then, when there is a labour requirement in the market, we call those who have registered to come in and meet potential employers, who then choose their preferred candidates for training."

Another major tool in this regard is the work being carried out as part of Tanfeedh, the government's National Programme for Enhancing Economic Diversification, which was launched in 2016 as a core tenet of Oman's ninth five-year development plan. Employment and the labour market form one of the five focus areas being addressed by Tanfeedh. The programme is being implemented in eight steps, the second of which involved a series of intensive discussion labs in autumn 2016 designed to identify the challenges facing various focus areas before developing appropriate initiatives. The fifth step is the implementation of these initiatives, which is set to begin in 2018.

Health

Many key measures on a par with developed countries

Cost efficiency and specialised care at the forefront

Three contracts for new hospitals awarded in late 2017

Focus remains on combatting lifestyle-related diseases

In 2016 the medical workforce totalled approximately 55,000 people

Effective care

Authorities move ahead on embracing digitisation, developing local resources and promoting the private sector

In the 2018 budget health spending rose by 7% to

$1.7bn

In the four decades after Sultan Qaboos bin Said Al Said assumed leadership in 1970, Oman made such strides in health care provision that the UN, in its "Human Development Report 2010", declared it the most-improved nation out of 135 countries. The sultanate is now looking to breathe fresh momentum into the coming decades under its current long-term development plan, Health Vision 2050.

Published in May 2014, just one month before the price of oil began to fall, the document laid out a roadmap for modernisation on a never-before-seen scale in the country, from building new specialised hospitals to digitising information systems. Perhaps most striking was its call for a major increase in the role of the private sector, which by then made up one-tenth of total health care provision.

FINANCIAL BACKDROP: From mid-2014 the price of oil halved in just 18 months, which took its toll on an economy whose oil rents comprised 35% or more of GDP since 2010, according to the World Bank. The steepest budget cuts came in 2016, as authorities decreased overall spending to help reign in a deficit that had reached 21% of GDP. Yet through 2017 Oman's health sector continued to make steady advances, as it was largely spared from cuts to uphold the social compact enshrined in Oman's Basic Law, which commits to investing in health care as a means of ensuring citizens' well being.

Total government expenditure turned positive again in the 2018 budget, with health spending rising by 7% to OR654m ($1.7bn), compared to 3% for defence and security, and 3% for oil activities.

ACTIVITY SNAPSHOT: A raft of contracts were announced in November 2017 to build new hospitals in Salalah, Sohar, Khasab and Suwaiq, and expand others in Muscat, Sohar and Nizwa. Furthermore, an e-Health initiative has now linked nearly every government health facility to a centralised portal, allowing more efficient management of data, operational processes and patient records. Authorities have also pressed forward with research and public awareness campaigns with the help of the World Health Organisation (WHO) to tackle the rise of lifestyle-related diseases (see analysis).

An e-Health initiative has now linked nearly every government health facility to a centralised portal, allowing more efficient management of data, operational processes and patient records.

To drive operational and financial effectiveness, the government plans to privatise a host of state-owned enterprises and health services. Efforts in this regard are increasingly data-driven, with countless cost analyses and state-commissioned studies to guide decision making – suggesting considerable opportunities for investors who keep an eye on the authorities' moves in 2018. "The implementation plan for Health Vision 2050 is dynamic," Ahmet Al Qasmi, director of planning and studies at the Ministry of Health (MoH), told OBG. "This means we have left flexibility to adjust areas of financing as conditions change and results come in from the evaluations we are continuously conducting."

HISTORY: In 1970, the year Oman's modernisation drive began, the sultanate had just two hospitals and 13 physicians – or one for every 50,000 people. At that time, 20% of children died before the age of five, and there were no regulatory systems in place to define institutions' roles or development. Today the sector has 74 modern hospitals, and 1371 health centres and private clinics spread across all governorates. Under-five mortality is extremely rare, and communicable diseases are all but eradicated. The strong state of current statistics has been made possible by four decades of investment and planning.

Founded in 1971, the MoH has since issued consistent five-year development plans to carry out its mandates for social and economic development as stipulated in royal decrees, as well as the Vision 2020 and Vision 2040 strategy documents. The sector's history can be divided broadly into three phases, each covering three five-year plans. The first period, 1976-90, focused on building up health infrastructure, mostly from scratch. The second, spanning 1991-2005, emphasised qualitative development and geographical expansion – a period that saw a planning agency established, preventive programmes formulated and health services decentralised under 10 health regions administered at the *wilaya* (province) level. By 2005 there was a public hospital in every governorate providing specialised secondary as well as some tertiary care. The third phase, covering 2006-20, has seen an ongoing rise in service quality, with a new emphasis on primary care, early prevention of diseases and the promotion of health education. Plans during this period have been developed at a national level under an evidence-based management model that pursues targeted expansions via governorate-level sub-plans, backed by monitoring and evaluation of key performance indicators and a fixed timetable.

As a result, life expectancy in Oman has risen from just 49.3 years in 1970 to 76.6 years as of 2015, on a par with developed countries and well above averages for the region (68.8 years) and the world (71.4 years), according to the latest WHO data.

REGULATION & OVERSIGHT: Oman's health care sector is overseen by the MoH, led by the minister of health, Dr Ahmed Mohammed Obaid Al Saidi, who directs policy planning through a Health Council, assisted by several advisors and consultants. Working beneath him are three undersecretaries focused on provision, planning and administration; hence the resulting organisational chart has three main branches. The Directorate General of Health Affairs recruits health professionals and oversees a host of directorates charged with implementing policy in coordination with the governorates, including for family and community health, disease surveillance and control, environmental health, health education, school health, public health research, blood bank services, hospital affairs, primary health care, nutrition and pharmaceutical affairs.

The Directorate General of Planning Affairs oversees directorates for health information and statistics; research and studies; planning, monitoring and evaluation; education and training; and IT systems. In addition, the Directorate General for Financial Affairs is in charge of directorates for contracts and purchases, revenue and spending, budget and accounts, personnel services, medical supply and engineering. All bodies are guided by Health Vision 2050, which lays out the sector's long-term goals.

PROVISION & PERFORMANCE: Oman offers health services to all nationals free of charge at public hospitals and health centres spread among its 11 governorates. If Omanis elect to visit private hospitals – in order to avoid wait times, for example – the state usually reimburses hospitals.

Additionally, the state reimburses patients that seek medical treatment abroad when it is not available domestically. "The majority of nationals and people from other GCC countries prefer to fly out of the country to seek specialised medical care,

Health services are free of charge to nationals at public facilities

especially for high-end surgeries and complicated ailments. The preferred destination for treatment is India, but many people also go to Thailand, the US or Europe," K O Devassy, chief marketing officer at Badr Al Samaa hospital group, told OBG.

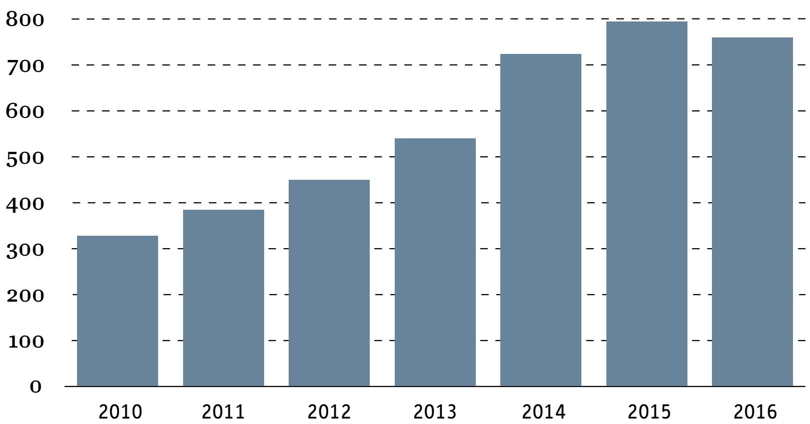
Life expectancy was 76.6 years as of 2015, on a par with developed countries and well above averages for the region and the world, at 68.8 years and 71.4 years, respectively.

Expatriates, who comprise around 45% of Oman's total population of 4.6m, take treatment from private medical establishments and can also receive care at public facilities on referrals. Most of their medical treatment is typically paid for by third-party insurers through their employer.

In a country with per capita GDP of around $15,000 as of 2016, according to the World Bank – and likely much higher among nationals whose average incomes are typically well above many low-skilled expatriates – many Omanis also pay out of pocket for additional, elective care.

DEMOGRAPHICS: Oman's population is relatively young: roughly one in seven persons is under five years of age, one in three is under 15 and over half

Recurrent public health spending, 2010-16 (OR m)



Source: MoH

As of the end of 2016 the sultanate had 74 hospitals with a total of 6589 beds – or 14.9 per 10,000 people

Between 2010 and 2016 the crude birth rate rose from 29.2 to 33.7 per 1000 people, yielding a fertility rate of four children per woman aged 15-49. The average family size in Oman is 7.8 persons.

are under 30. Conversely, just one in 17 persons is over the age of 60, according to the National Centre for Statistics and Information. This profile suggests a large demographic dividend is on the horizon for the sector, with profound implications for the future of the sultanate's health system.

The population is split nearly evenly between male and female residents, save for a male tilt among expatriates in their 20s, 30s and 40s, who largely come from the Indian subcontinent to work in the sultanate and remit part of their salary back to their home country. The majority of residents are concentrated along coastal areas in the governorates of Muscat (33%), Al Batinah North and South (26%), and Dhofar (10%). Between 2010 and 2016 the crude birth rate rose from 29.2 to 33.7 per 1000 people, yielding a fertility rate of four children per woman aged 15-49. This is up from 3.3 in 2010, although down from six in 1995, according to the MoH. The average family size in Oman is 7.8 persons.

KEY INDICATORS: On most measures, Oman's health indicators resemble those of developed countries. Infant and maternal mortality ratios were 5.2 and 17 per 100,000 live births, respectively, as of 2015. Some 99% of births were attended to by skilled health personnel and vaccination rates were high, at 99% for both diptheria-tetanus-pertussis and Hepatitis B, according to the WHO report titled "World Health Statistics 2017: Monitoring Health for the Sustainable Development Goals". Under-five mortality, meanwhile, dropped from 21.7 to 11.6 per 1000 live births between 2000 and 2015, partly because an immunisation programme that began in 1981 has helped eliminate several serious childhood diseases, including poliomyelitis, diphtheria and tetanus, and helped bring others under control, such as measles, rubella, mumps and pertussis.

Communicable diseases are nearly non-existent in Oman: in 2015 there were zero new cases of malaria, neglected tropical diseases or HIV infection among adults aged 15-49.

Communicable diseases are nearly non-existent in Oman: in 2015 there were zero new cases of malaria, neglected tropical diseases (a WHO designation) or HIV infection among adults aged 15-49, and just 8.4 cases of tuberculosis and 99 of Hepatitis B per 100,000 people. Deaths from poor sanitation or unsafe water were negligible, at 0.4 per 100,000 people in 2012. In 2016 the WHO ranked Oman fifth-highest in the Eastern Mediterranean region for implementation of international health regulations based on 13 core capacities, with an average score of 95 out of 100.

HEALTH RISKS: As in much of the developed world, lifestyle changes in Oman have led to a rise in the incidence of non-communicable diseases (NCDs). Illnesses in this category led to the deaths of 6000 people in 2015 and currently cause 68% of all deaths in the country, according to the WHO. Contributing to this, and a possible portent of future health issues, a UN interagency task force concluded in April 2016 that a large majority of Omani adults do not eat enough fruits and vegetables, 40% do not exercise and 14% smoke. As a result, 40% of Omanis have hypertension and 12% have diabetes.

The probability at birth of dying prematurely from one of the four main lifestyle diseases – diabetes, cancer, cardiovascular disease and chronic respiratory disease – between the ages of 30 and 70 was 17.8% in Oman in 2015. This was the eighth-lowest of 21 countries in the Eastern Mediterranean, but is still above the figures for developed countries like the UK (11%) and Canada (9.8%). The sultanate is taking calculated measures to combat these diseases and the habits that cause them.

On the one hand, tobacco use among those over 15 years of age is around 15%, according to a 2015 study by the WHO, which also projected this would rise markedly in the coming years, to 19% in 2020 and 23% in 2025. Alcoholism, on the other hand, is not a priority concern: per capita consumption of pure alcohol was just half a litre in 2016, most likely a reflection of religious practices in the region.

Irresponsible driving, however, is cause for concern: road traffic injuries were among the region's highest, causing 25.4 deaths per 100,000 people as of the latest WHO data, from 2013; only four countries in the Eastern Mediterranean reported a larger ratio on this measure. Furthermore, deaths from pollution totalled 14.5 per 100,000 population, according to 2012 data.

FACILITIES: As of the end of 2016 the MoH reported that the sultanate had 74 hospitals with a total of 6589 beds – or 14.9 per 10,000 people – as well as 266 governmental health centres, clinics and dispensaries, and 1105 private clinics. The public system accounted for 49 hospitals and 4659 beds, while the private sector provided 15 with 637 beds. The rest were operated by the Royal Armed Forces, the Royal Oman Police and Sultan Qaboos University.

WORKFORCE: In 2015 the country had 48.9 health workers per 10,000 people, ranking 7th out of the 21 countries in the Eastern Mediterranean, according to the WHO. More recent and inclusive data from the

MoH show the number of doctors in the country in 2016 totalled 8622, or 19.5 per 10,000 people, while nurses numbered 19,760, or 44.8 per every 10,000 residents. In addition, there were 1234 dentists and 2420 pharmacists, equating to 2.8 and 5.5 per 100,000 people, respectively.

Other personnel included 2351 lab technicians (5.3 per 10,000), 2193 assistant pharmacists (5 per 10,000), 1087 radiographers (2.5 per 10,000) and 524 physiotherapists (1.2 per 10,000). Add in para-medical, technical, orderlies and other support staff, and the entire medical workforce in 2016 totalled some 55,200 people, split between 71% employed at MoH facilities, 21% in the private sector and 8% at non-MoH government facilities. The proportion of Omanis employed in the sector overall was 55%, although this masked a large disparity between the three systems: nationals accounted for 69%, 7% and 59% of the workforce in the MoH, private and non-MoH segments, respectively.

SPENDING TRENDS: Total health spending was estimated to be $2.6bn in 2016, split between $1.6bn for outpatient and $1bn for inpatient care, according to research by the US Department of Commerce in mid-2017. According to the MoH's 2016 annual report, the latest available at the time of press, the government accounted for nearly 77% of this sum, with total recurrent spending of OR758m ($2bn) for the year, down from OR793m ($2.1bn) in 2015. This represented the first decrease in years: sector spending grew by 240% between 2010 and 2015. Outlay for development activities in 2016 was reduced to OR35m ($91m) from OR99m ($257m) the previous year, but expenditure in the category of supplies, equipment and medicines dropped by just 5.1% to OR114m ($295.8m). While a review of MoH spending for 2017 was not available in early 2018, public health expenditure was cut again to OR613m ($1.6) in the 2017 budget. However, the 2018 budget shows a 6.6% increase to OR654m ($1.7bn).

Oman spent approximately 2.6% of GDP on health care in 2013, according to a 2016 report by regional investment bank Alpen Capital titled "GCC Health-care Industry". This was below the averages for the GCC (3.1%) and the world (10%), and equalled roughly $680 per capita – the lowest in the Gulf countries that year. However, the World Bank shows the figure jumped to 3.6% of GDP in 2014, in part due to oil prices falling in the second half of the year. Meanwhile, the government's share of health spending in 2014 grew to 90%, up from around 80% during the previous two decades, World Bank data shows – partly because state budget commitments remained unchanged while private out-of-pocket spending pulled back. As a proportion of public expenditure, Oman devoted 6.8% of its budget to health services (including education and social protection) in 2014, according to the latest WHO data available. This was

Sector spending grew by

240%

between 2010 and 2015

Officials are increasingly looking to the private sector to meet demand

In November 2017 the Ministry of Health announced it had signed contracts to build three new hospitals in Salalah, Khasab and Suwaiq, worth a combined $701.1m.

less than Saudi Arabia (8.2%) and the UAE (8.7%), but more than Iraq (6.5%) and Morocco (6%).

STRATEGY: A strategy shift at the MoH in 1990 following a comprehensive review of the sector led to the formulation of five main goals that the ministry continues to pursue today: decentralise decision making to the governorates regarding technical and administrative matters; expand and emphasise sector-wide planning; develop education and training programmes; conduct constant research and monitoring of health systems; and improve coordination between the governorates, state agencies and foreign bodies.

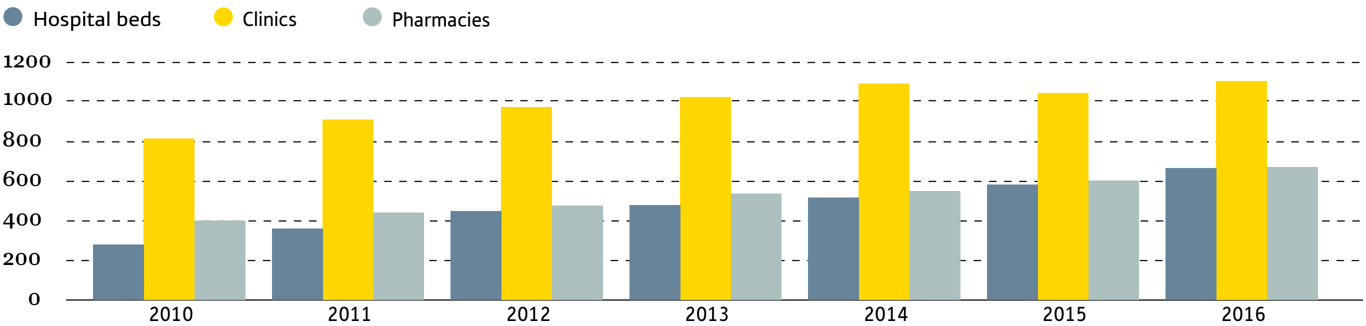
In May 2014 the MoH published the over-arching Health Vision 2050 development document that projects the sector's needs over the next 35 years – based on 2012 data – and outlines plans accordingly. The main findings were that Oman's population would nearly double to 7m by 2050, while the share of residents over the age of 60 would rise from 6.1% in 2012 to 13.1%. This would occur alongside a shift in the nation's epidemiological profile towards NCDs – phenomena necessitating large investments and careful planning over the coming decades. To address this, among other things, the plan calls for the expansion of specialist services; measures to reduce costs and incentivise quality, results-based project funding; further decentralisation of management; a patient-centred approach to provision; and more transparency and collaboration among providers. "Since oil prices fell, the main idea under the plan is to rationalise services," the MoH's Al Qasmi told OBG. "As we continue to make investments and finance development, our guiding principle is how to make optimal use of resources with a reasonable amount of funding, while not sacrificing quality."

NEW FACILITIES: To meet projected demand for services, the authorities are carrying out major expansions of public health infrastructure. In November 2017 the MoH announced it had signed contracts to build three new hospitals in Salalah, Khasab and Suwaiq, worth a combined OR270m ($701.1m). The first of these is a new Sultan Qaboos Hospital with 620 beds to be built on a 200,000-sq-metre plot in the southern Dhofar Governorate. That same month, the MoH awarded the OR121.6m ($315.8m) design-and-build contract to Carilion Alawi, a joint venture between the UK-based contractor Carillion and Zawawi Group, a local conglomerate. Its seven storeys will include 16 wards for inpatient care, as well as outpatient clinics and units for emergencies, renal medicine, burns, radiology, intensive care, rehabilitation, operations, maternity and chemotherapy. Local press reported that phase one, related to design and mobilisation, would begin immediately, while construction under phase 2 would begin in 2018 after funding was finalised.

The second project is a 150-bed hospital to be built on a 100,000-sq-metre plot in Khasab, with three storeys providing both specialised care and outpatient services. Three days after the Salalah hospital award was announced, local media reported that Carillion had signed a contract to build the Khasab facility "on similar terms" with Zawawi Group, at a value of OR60.8m ($157.9m).

The third project, the 260-bed Al Suwaiq Hospital, will be a three-storey facility on a 200,000-sq-metre plot to include outpatient clinics and units for nephrology, day care, intensive care, cardiology, burns, surgery, rehabilitation, internal medicine,

Private health care capacity, 2010-16



Source: MoH

and paediatrics. In November 2017 the project was awarded to International Hospitals Group, although as of late 2017 the value of the contract and other details had not yet been announced.

In the private sector, Badr Al Samaa group broke ground in June 2017 on a new 100-bed hospital in Sohar. In addition to core services, the facility will host specialised units ranging from cardiac care and neurosurgery to nephrology and comprehensive internal medicine. Delivery is expected by June 2019.

While new hospitals are being planned, existing ones are expanding. In November 2017 the MoH announced OR40m ($103.9m) worth of upgrade projects to add a combined 553 beds at three referral hospitals. Of these, 56 will be added to The Royal Hospital in Muscat, spread among the paediatric ward, neonatal intensive care unit (ICU), radiology and operations; 268 at Sohar Hospital on the north coast for the coronary and post-coronary care units, ICU, day care, haemodialysis and cardiac surgery; and 229 at Nizwa Hospital – 140 km inland from Muscat – for the ICU, and the paediatrics, obstetric surgery and emergency care units.

PRIVATE SECTOR ROLE: In light of budget constraints, government officials are increasingly looking to the private sector to fill gaps in demand. "We need more specialised hospitals to cater to growing needs," Al Qasmi told OBG. "For this we are encouraging the private sector to invest in priority services, especially those where people commonly go abroad for treatment, including rehabilitation, children's health, gynaecology, obstetrics and oncology."

Another means of cutting state cost is to privatise certain facilities and services where it makes commercial sense. "The government is studying the costs and benefits closely, and finding that there are many services they can hand over to the private sector," Haitham Abu Hashim, director at Muscat Private Hospital, told OBG. "One model is where private firms build, equip and operate new greenfield facilities, but another is simply to reallocate the services the government already pays for to places where it is done more efficiently, compensating facilities on a per-patient basis."

INSURANCE: In terms of paying for treatment, Omanis have had little need for health insurance in recent decades, since services are free of charge, while expatriates typically have health coverage through employers. Some 4-5% of Omanis, 15% of expatriates and around 500,000 people overall are medically insured, Badr Al Samaa's Devassy told OBG.

In late 2017 Al Qasmi confirmed to OBG that the MoH was considering introducing mandatory health insurance for private sector workers. Phase one would require all expatriates to be covered starting in January 2018, while phase two would require this of all Omanis working in the private sector, following a review of the outcomes of phase one. "Private sector investment is slower than it might otherwise be, partly because there is insufficient demand for services to justify it. In turn, demand for services

The state runs educational health institutes to build capacity in the disciplines of nursing and allied science

is lower than it might otherwise be, partly because insurance is not required," Al Qasmi said. "The new mandate is meant to help solve this."

EDUCATION & TRAINING: To help meet future demand for health care services and increase the proportion of nationals employed in the industry, the MoH supports human resource development for Omani nationals, all the way from pre-baccalaureate training to undergraduate and post-graduate studies, fully funded both at home and abroad. As a precursor to advanced degrees, it runs educational health institutes (EHIs) that offer pre-baccalaureate training to build capacity in the disciplines of nursing and allied science, including a general nursing programme offered in every governorate. In the 2016/17 academic year, the number of students studying at EHIs reached 579; those enrolled in bachelor of science nursing programmes, 258; and those in post-graduate diploma programmes, 37.

A second MoH-supported initiative provides scholarships for ministry faculty to earn medical degrees at overseas universities. This scheme counted 114 undergraduate students in 2016, while 152 were in engaged in post-graduate studies. Beyond the tertiary level, the MoH also sponsored 154 doctors through a local residency programme under the Oman Medical Specialty Board, and another 154 abroad who were engaged in specialist studies. Of those, 49 returned to Oman to practice.

ADMINISTRATIVE REFORMS: Furthermore, the MoH is enacting a host of changes to improve its administration of medical training. Officials are currently working to refine education bylaws to merge all EHIs into a single entity to promote better integration of the public health workforce training system. All EHIs have recently installed the MoH's Health Academic Management System, a data storage and retrieval programme that was being tested in 2017, with the potential to enhance decision

Omanis have little need for health insurance as they receive services free of charge, while expatriates typically have health coverage through their employer. Some 4-5% of Omanis and 15% of expatriates hold health insurance.

Medical supply expenditure rose from $17.8m in 2005 to $90.9m in 2016

making on a ministry-wide level. Meanwhile, the MoH's training arm, the Centre for Continuing Professional Development (CCPD), directly conducted 14 workshops and seminars with 113 participants in 2016, including 12 courses on life support given to 72 trainees. The CCPD, whose remit includes collecting data on training across the public system, calculated that MoH institutions provided training to nearly 21,000 participants over the course of the year through 2645 activities, ranging from workshops and conferences to seminars and short training programmes – all of which were accredited by the Oman Council for Medical Specialties.

In May 2015 the ministry also launched an e-library system – billed as the largest such collection in the Middle East – granting its employees access to a trove of health care information through a web portal maintained by the ministry, including medical texts, point-of-care databases and electronic books.

TECHNOLOGY: Changes are also afoot in soft infrastructure capable of enhancing efficiency and cutting costs in the sector. As part of broader e-government efforts to digitise administration activity across state institutions, in January 2017 the MoH began implementing a cashless transaction system at its facilities, allowing digital payments at its hospitals and health care centres. In November 2017 it announced that cash would no longer be accepted at government hospitals as of January 1, 2018. All payments must now be made with a debit or credit card, which should streamline payments and cut processing times.

Also in 2017 the MoH's IT directorate launched an e-Health initiative aimed at digitising all medical paperwork and processes. Known as Al Shifa, a new health care information system links digital patient records to other electronic modules to make referrals and receive notifications, and connects them to a central laboratory and research units. Besides streamlining administration – a MoH presentation from 2015 says the initiative could save medical personnel 60% of time – the aim is to give health care workers a more comprehensive view of a patient's history to assist in decision making and improve the quality of care. It will also create resources to help authorities understand the system's strengths and weaknesses as they plan additional development phases under Health Vision 2050.

Known as Al Shifa, a new health care information system links digital patient records to other electronic modules to make referrals and receive notifications, and connects them to a central laboratory and research units.

MEDICINES & SUPPLIES: The expense of disposable items has been steadily rising for over a decade. For drugs alone, the MoH spent some OR67.1m ($174.2m) – or 8.8% of its recurrent spending – in 2016, up from OR44.8m ($116.3m), or 6.2%, two years earlier, and just OR15m ($39m) in 2005. Spending on medical supplies rose at a similar pace, nearly quadrupling from OR5.3m ($17.8m) in 2005 to OR20.9m ($54.3m) in 2014 and reaching OR35m ($90.9m) in 2016, according to ministry reports.

To help curb these expenses, officials are turning to the private sector to produce such items domestically, especially pharmaceuticals – 93% of which are currently imported, according to the MoH. "Developing local pharmaceutical production capacity is essential to meeting the sultanate's long-term goals for the health sector and broader diversification," M V Suresh, CEO of National Pharmaceutical Industries, told OBG. "Replacing imports of pharmaceutical products with locally produced generics will help make it more feasible to increase spending on health care."

Such investments could pay themselves off handily, according to Hashim of Muscat Private Hospital. "Making drugs in Oman is eminently commercially viable," he told OBG. "For outpatient visits, they contribute 18-20% of the cost for clinics and 25% for hospitals; nearly all are expensive, branded imports. If we made the same medicines locally, such costs would decrease by 5-7% at a minimum."

MEGA-PROJECTS: Large-scale infrastructure projects are another area of focus, although they may take some time to get off the ground. The biggest of these is Sultan Qaboos Medical City, a hospital complex being planned in Barka at a cost of $1.5bn as part of the sultanate's ninth five-year plan for 2016-20. To sit on a plot of 5m sq metres, the complex will supply 1250 beds, split among a specialty hospital and a paediatric hospital, with separate centres for trauma, rehabilitation, neurology, diagnostic radiology, medical laboratories, a centre for research and training, and a college for health sciences. In addition, certain plots will be allocated for private sector investment in hospitals, clinics, shopping centres, hotels, residential compounds and recreation centres. In February 2016 a memorandum of understanding to develop the medical city was signed by the MoH and the Supreme Council for Planning, although the project has been in the works since 2013. However, the city was on hold in late 2017 as officials adjust blueprints and the timeframe alongside recent cost constraints.

Another planned mega-project is the $1bn International Medical City, an 866,000-sq-metre complex in Salalah that aims to make Oman a centre for medical tourism. Being developed by Apex Medical Group, a subsidiary of Saudi Arabia's Al Joaib Holding, in coordination with the ministries of health and tourism, and in partnership with US-based firms GE and Methodist International, the project will comprise three clusters: a provision centre, a health resort and a centre for medical education. The first phase is to be a 250-bed tertiary care hospital, while the second and third phases would bring the capacity to 530 beds, and construct a host of hotels, serviced apartments, wellness centres and a convention space. The project's engineering design was completed in 2014, but delays in the start of construction have pushed back the original building timeframe of 2013-16. As of late 2017, the project was on hold pending bid evaluations and a budget review.

MID-SIZED PROJECTS: A third longer term project is a new Royal Oman Police Hospital to be built in Muscat at an estimated cost of $826m. Built according to the "hospitals within a hospital" model that stacks smaller specialised units on top of each other, the five-storey facility – designated exclusively for members of the royal police and their families – will have 400 beds split among the cancer, trauma, paediatrics, maternity, cardiology and surgery units. The project management contract was awarded to Kuwaiti firm Option One in 2012, although further progress had not been announced as of late 2017.

A fourth project in the works is the Al Madina International Hospital in Muscat. Announced in 2015 at a cost of OR72m ($187m), the health care complex is to be built by local developer Al Madina Real Estate in the capital city's western Al Hail district. It will comprise a full-service, 225-bed tertiary care hospital; a 300-unit apartment block; a three-star hotel with 120 serviced apartments; a fitness centre; and retail space. Its initial completion date was scheduled for late 2018 or early 2019, with construction to begin in mid-2016, however, no updates have been announced as of late 2017.

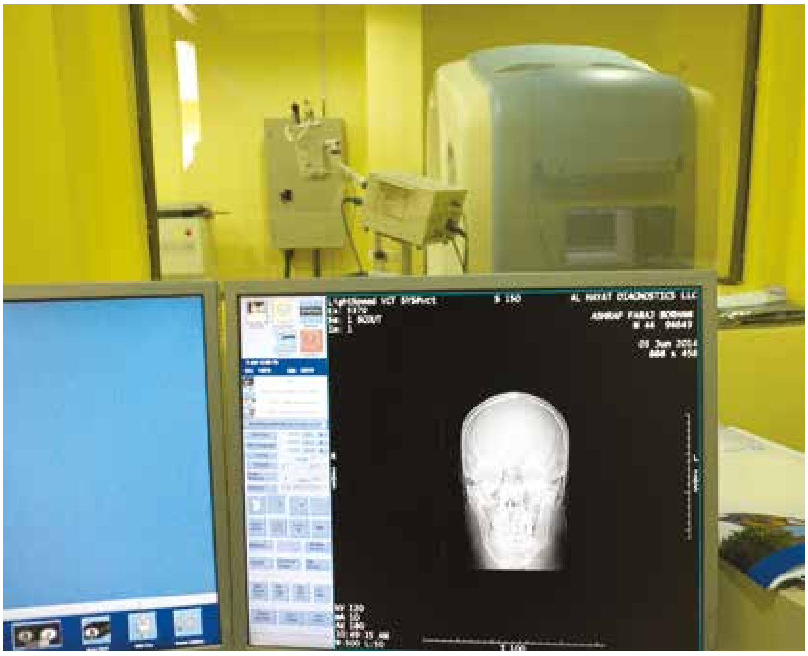
SERVICE DISTRIBUTION: A look at geographical statistics from the MoH may serve as a useful indicator of where facility and service expansion are most required in the country. Using the ratio of population-to-hospital beds as a proxy for the capacity of health care provision, the region with the least need is Musandam Governorate – the part of the country that sits non-contiguously to the rest on a peninsula jutting into the Strait of Hormuz. Here, there was one hospital bed for every 278 people in 2016. The next-best ratio was found in Al Wusta, the middle of the country which is mostly desert, at one bed per 562 people. On the opposite end of the spectrum, however, were the two governorates of Al Batinah North and Al Batinah South. These areas were in the most need of additional facilities, with one bed per every 1602 and 1328 residents, respectively.

Musandam Governorate has the highest concentration of health facilities, at one bed per every 278 people

93%

of pharmaceuticals are currently imported, representing a significant opportunity to expand local production capacity

Large-scale projects in the sector include the $1.5bn Sultan Qaboos Medical City in Barka and the $1bn International Medical City in Salalah, which aims to make Oman a centre for medical tourism.



Resources see a high level of utilisation: the residents of Oman received outpatient care 21m times in 2016

In 2016 public facilities saw utilisation come in measurably stronger than the previous year, recording 71,200 deliveries, 111,000 surgeries, 26.4m lab procedures, 1.6m radiology procedures and 204,000 renal dialysis sessions.

The data suggests there may be scope for new investment in Al Batinah North and South: a fertile region stretching along the coast west of Muscat that hosts the bulk of Oman's agricultural land. Many of the sultanate's most sought-after tourism sites are also in this area, such as Rustaq Castle and Jabal Shams, and its fifth-largest city, Sohar. While the probable implication is that many of Al Batinah's 773,000 residents (as of 2010) drive to Muscat for treatment, to do so many of them face a one- to three-hour drive. This likely either acts as a deterrent to those seeking care, or further strains the resources in Muscat, which had the third-worst ratio of the 11 governorates, at one bed per 853 people.

UTILISATION: Where sufficient resources do exist, they see high levels of utilisation. In 2016 health facilities run by the MoH saw a total of 15.6m outpatient visits, equivalent to 3.5 visits per person that year. This figure does not account for provision at private and non-MoH government facilities, however, which had outpatient visits of 4m and 1.4m in 2016, respectively. All told, residents of Oman received outpatient care some 21m times in 2016, equal to 4.75 visits per person – above the average for the US (4) though still below that of OECD countries (6.9). It is worth noting that underlying the aggregate MoH data, the figure for Omani patients was much higher than that of expatriates, at 6.1 visits versus 0.4. In line with the health system's emphasis on primary care as a first point of contact when treatment is sought, hospitals took just over one-quarter of MoH outpatient visits in 2016, with the rest handled by health centres and smaller "extended" health centres throughout the country.

Inpatient provision in the public system was similarly robust. While aggregate data of the private system for this category was unavailable, the total discharges tallied 343,000 at MoH facilities and 48,000 at non-MoH ones in 2016. In every service category, the public system saw utilisation come in measurably stronger than the previous year, recording around 71,200 deliveries, 111,000 surgeries, 26.4m lab procedures, 1.6m radiology procedures and 204,000 renal dialysis sessions. The only exception was dental visits, which fell by 1% to 283,000. Illustrating this, the total bed occupancy rate in 2016 rose to 63.3, up from 61.4 the previous year and 59 as recently as 2012. The average hospital stay was roughly even with the past five years, at 3.3 days.

OUTLOOK: Alpen Capital's report projects that, as its population ages and NCDs become more prevalent, Oman's health industry will achieve a compound annual growth rate (CAGR) of 12.9% over 2015-20, to reach $4.3bn. This, the firm said, implies demand for hospital beds will increase by a CAGR of 3.1% in that period, to around 7600, meaning investment will need to stay at least at recent levels to keep pace with market growth in the next two to three years.

However, since 2016 the public sector has been facing pressures to cut costs, an endeavour that competes with its mandate to provide health care to all, as well as its aspiration to raise quality and build up many specialised services at home that are currently sought abroad. To reconcile these goals, cost-optimisation efforts are expected to continue, driven by state-funded research and data culled from the e-Health initiative. Private sector investment will be critical over the coming years as the state looks to fund the next phase of expansion – an endeavour that could be sped up if authorities enact a detailed legal framework for public-private partnerships. While externally the biggest economic factors are regional stability and crude prices, to make the next 30 years a success will much depend on the authorities' will to execute Health Vision 2050. "The mandate, roadmap and directives are all in place to bring about this transformation," Al Qasmi told OBG. "Now we just have to go out and do it."

The health sector is forecast to growth by a CAGR of 12.9% in 2015-20

Non-communicable diseases currently account for 70% of deaths

Fit and proper

National groups expand efforts to tackle lifestyle-related illness

Oman's health authorities are devoting substantial resources to solve what is perhaps their steepest immediate challenge: curbing the spread of unhealthy habits that have led to a rise in lifestyle diseases like cancer and diabetes among a relatively sedentary populace.

ASSESSMENT: Such ailments, formally known as non-communicable diseases (NCDs), now account for 70% of deaths in Oman, according to the World Health Organisation (WHO) – and their prevalence is rising. In the 20 years to 2016, the share of NCD-related morbidity cases at state-run facilities increased from 42.5% to 44% among outpatients, and from 36.1% to 40.3% for inpatients, according to the Ministry of Health (MoH). A child born in Oman today has an 18% chance of dying prematurely from one of them.

ACTION ITEMS: One prominent organisation in turnaround efforts is the Nizwa Healthy Lifestyle Project (NHLP), which coordinates preventive activity across public and private institutions. In early 2017 it launched a programme to ensure smoke-free zones in outdoor venues like the historical *souq* (market) in Muscat, following its nationwide indoor smoking ban passed in 2010. The public response was positive: a 2016 survey showed near-unanimous support among both locals and foreigners for enacting the ban.

A second NHLP effort is the Healthy Restaurants initiative, whereby a handful of dining outfits have volunteered to develop a healthier section on their menu with items that are low in sugar, salt and fat. The pilot programme clears a path for voluntary cooperation on a larger scale, part of a broader low-salt MoH programme that has seen the country's top bakeries cut sodium content in bread by 10% since 2015. The target was raised to 20% in 2016 and expanded to cheeses.

AWARENESS: As part of its ongoing work in public education, in early 2017 the MoH launched a one-year social marketing and mass media campaign aimed at encouraging Omanis to exercise. The programme is utilising multiple channels to send messages about the benefits of physical activity under the slogan "Health begins with one step", accompanied by public events hosted at schools, malls, hospitals and parks. With help from the WHO, an MoH taskforce also drew up a national strategy for promoting physical activity, with a goal to reduce the share of the under-exercised population by 10%. To improve monitoring, in March 2017 the ministry launched a National Nutritional Survey to gauge diets, completing fieldwork by November, as well as a National Health Survey on NCDs in February, with fieldwork finished in May 2017. Conclusions from both will inform the MoH's next moves in 2018 and beyond.

DIRECTIVES: Other approaches involve more direct intervention. The MoH is currently conducting studies to gauge the likely effects of a junk food tax that would drive up prices of unhealthy foods by 125-500%, according to Dr Amira Al Raidan, the ministry's director of health education and awareness. Her division is also stepping up the monitoring of nutrition levels in school meals, and producing short video clips distributed via social media to educate the public on obesity, fitness, diabetes and children's health.

As next steps in this vein, a joint mission run by the WHO in 2016 recommended Oman convert import taxes on tobacco to excise taxes, then raise them significantly; shift food subsidies from unhealthy products to healthy ones; and enforce proper product labelling to indicate a food's level of sodium, sugar and fat.

SCORECARD: Of 10 key prevention measures tracked in the WHO's annual "NCD Progress Monitor" report – which gauges progress on countries' time-bound commitments to the UN's Sustainable Development Goals – Oman had already accomplished five by 2017: providing drug therapy and counselling to prevent heart attacks and strokes; forming guidelines on the management of cancer, diabetes and other diseases; conducting awareness campaigns on the importance of diet and exercise; taking steps to reduce over-consumption of alcohol; and setting national NCD targets.

In the 20 years to 2016 the share of morbidity cases at state-run facilities that were related to non-communicable diseases increased from 42.5% to 44% among outpatients, and from 36.1% to 40.3% for inpatients.

By 2017 Oman had achieved five of the 10 key prevention measures that are tracked by the World Health Organisation in its annual "Non-Communicable Diseases Progress Monitor" report.

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Tax

Various models of business open to foreign investors

Changes introduced in 2017 to improve administration

New rules set out for Islamic financial transactions

Tax cards issued to all taxpayers for identification

Profits or gains from the disposal of securities are tax exempt

A round-up of the rules

General tax information for both companies and individuals

If planning to establish business operations in Oman, foreign firms and individual investors may do so in one of the following forms:

LIMITED LIABILITY COMPANY (LLC): Foreign companies and individuals are generally required to have an Omani partner who holds a minimum of 30% of shares in order to form an LLC. Minimum share capital of OR150,000 ($389,500) is required to register an LLC with foreign participation.

GCC companies that are 100% owned by GCC nationals – or GCC nationals themselves, as individual investors – may establish an LLC without a local partner for approved activities. An LLC is required to have at least two shareholders.

Pursuant to a free trade agreement (FTA) between the US and Oman, US companies may form a subsidiary in Oman without a local partner, provided that all ultimate shareholders of the US entity are also US persons. The minimum share capital for LLCs with local or GCC ownership, or for those qualifying under the US FTA, is OR20,000 ($51,900).

JOINT STOCK COMPANY: Joint stock companies that do not offer their shares for public subscription are known as limited joint stock companies (also called SAOCs). The minimum share capital required for an SAOC is OR500,000 ($1.3m).

Alternatively, joint stock companies that offer their shares to the public are called general joint stock companies (also known as SAOGs). The minimum share capital required for an SAOG is OR2m ($5.2m). Both forms of joint stock companies are required to have at least three shareholders.

The 30% local Omani shareholding requirement must also be observed in the establishment of a joint stock company. Ownership of stock in SAOGs is through trading on the Muscat Securities Market, and regulated by the Capital Market Authority. Foreign investment in banks and other financial institutions is regulated by the Central Bank of Oman.

BRANCH: A foreign company may register a branch in Oman only with the purpose of executing a contract with the government or a quasi-government body. The branch registration is limited to the duration of the underlying contract.

Special dispensation may be given to allow a foreign company to register a branch office without a government or semi-government contract if the activity is deemed to be of national importance by the Council of Ministers.

COMMERCIAL AGENCY: Foreign companies without commercial registration in Oman may do business in the country through commercial agents. Agency agreements are formally registered with the Ministry of Commerce and Industry (MoCI) under the Commercial Agency Law.

COMMERCIAL REPRESENTATIVE OFFICE: A foreign firm may also open a commercial representative office. A representative office is not allowed to sell products or services, or engage in other forms of commercial activity. However, such an office may sponsor and hire employees.

This concludes the options available to foreign companies and individual investors seeking to launch business operations in Oman.

INCOME TAX LAW: The income tax law was promulgated by Royal Decree No. 28 of 2009 and came into effect on January 1, 2010. It replaces earlier income tax laws promulgated by Royal Decrees No. 47 of 1981 and No. 77 of 1989.

In January 2012 the executive regulations accompanying the law were issued by the Ministry of Finance (MoF). These regulations apply to tax years commencing on or after January 1, 2012.

On February 26, 2017 broad changes were introduced to the income tax law via Royal Decree No. 9 of 2017. The new regulations aim to increase tax revenue for the government, improve tax administration and stimulate small business activities.

TAX RATES: The rate of tax is uniform across all types of business entities operating in the country, regardless of how they are configured and whether they are owned by Omani nationals, other GCC nationals or non-GCC nationals.

The income tax law seeks to tax the worldwide income of entities that are formed in Oman, as well as the Oman-source income of branches and other forms of permanent establishments.

The standard tax rate has been set at 15%, effective for tax years beginning on or after January 1, 2017. This represents an increase from the previous rate of 12%. Furthermore, the OR30,000 ($77,900) exemption threshold has been removed.

However, a 3% tax rate applies to Omani proprietorships (establishments) and LLCs that meet the following requirements:

- Registered capital does not exceed OR50,000 ($129,800) at the beginning of the tax year;
- Gross income is not in excess of OR100,000 ($259,700);
- The average number of employees during the tax year is not more than 15; and
- Taxpayer activities do not include air or sea transport, the extraction of natural resources, banking, insurance or financial services, public utility concessions or other activities to be decided by the MoF after approval by the Council of Ministers.

The 3% tax rate is effective for years beginning on or after January 1, 2017 and is coupled with a requirement for small taxpayers to file income tax returns. These enterprises are not obligated to submit a provisional return of income, but the final return of income should be submitted electronically according to the prescribed form.

PETROLEUM INCOME TAX RATE: The tax rate for taxpayers engaged in petroleum exploration is 55% of the taxable income derived from the sale of petroleum. This rate is applied to income determined under the Exploration and Production Sharing Agreement concluded between the exploration company and the government.

Under these agreements, the government effectively pays the exploration company's tax through amounts withheld from the government's share of production value earned by the operations.

TAXPAYERS: The law defines the term "taxpayer" as an establishment, an Omani company or a permanent establishment. An "establishment" is a proprietorship registered with the MoCI that independently carries out commercial, industrial or professional activities in Oman.

The term "company" includes all commercial, civil and legal companies, regardless of the nationality of the owners, the purpose of incorporation or the nature of the business activities.

The term "permanent establishment" refers to a fixed place of business through which business is wholly or partly carried out in Oman by a foreign person, either directly or through a dependent agent. A permanent establishment especially includes:

The tax rate for petroleum exploration is 55% of the taxable income derived from the sale of the petroleum

- A place of sale, place of management, branch, office, factory or workshop;
- A mine, quarry or other location of the extraction of natural resources; or
- A building site, construction place or an assembly project where the activity carries on for more than 90 days.

Additionally, a foreign person who provides "consultancy or other services" for a period or multiple periods totalling 90 days or more in any 12-month period will be considered as having a permanent establishment, whether or not the services are rendered through a fixed place of business.

The law, however, excludes a fixed place of business from becoming a permanent establishment if it is used solely for the purposes of:

- Storage, display or delivery of goods or merchandise belonging to the foreign person;
- Maintenance of a stock of goods belonging to the foreign person for the purpose of storage, display or delivery, or processing by another person;
- Purchase of goods, merchandise or collection of information for the business; or
- A combination of any of the activities mentioned above, provided that the overall activity of the fixed place of business resulting from the combination is of a preparatory or auxiliary character.

TAXABLE INCOME: Taxable income is any type of income, whether in cash or in-kind, particularly:

- Profit from any business;
- Consideration for carrying out research and development activities;
- Consideration for the use of or right to use computer software;
- Rent for the use of real estate, machinery or other moveable or immoveable property;
- Profit resulting from granting any person a usufruct or right to real estate, machinery or any other moveable or immoveable property;

Amounts paid to fulfil the dues of employees in accordance with the labour law are deductible expenses

- Dividends, interest or discounts received; and
- Royalties or management fees.

This means that an Omani company is liable for tax on its worldwide income, although it is entitled to claim appropriate credit for taxes paid to foreign jurisdictions on income that is also taxed in Oman.

The law defines taxable income as income accrued after deducting any expenses and allowing for any deductions, offsets or exemptions. In determining taxable income for a given tax year, actual expenses incurred wholly and exclusively for generating gross income are allowed for tax purposes.

DEDUCTIBLE EXPENSES: Expenses are treated as deductible only if they are actually incurred, relate to the business of the taxpayer, are necessary for the production of gross income and are supported by documentary evidence. The following expenses are specifically allowed by the law:

- Expenditures incurred before the commencement of business or registration (subject to limitation);
- Amounts paid to fulfil the dues of employees in accordance with the labour law;
- Social insurance contributions paid to the Public Authority for Social Insurance;
- Approved pension fund contributions;
- Bad debts written off;
- Incidental costs incurred in the acquisition or disposal of tangible or intangible assets;
- Depreciation of capital assets;
- Audit fees;
- Sponsorship fees (for branches and other permanent establishments only): the maximum deduction allowed is 5% of taxable income, calculated before deducting the sponsorship fees and after deducting carried-forward losses; and
- Donations paid to approved organisations (limited to 5% of gross income).

Additional deductions are allowed for the banking and insurance sectors. Banks can deduct provisions for loan losses on the basis of recommendations by the Central Bank of Oman.

The executive regulations specify rules for deduction of the following expenses:

- Remuneration paid to the chairman and board of directors of a joint stock company;
- Salaries and similar remuneration paid to a proprietor or a shareholder of an Omani company;
- Rent paid to a proprietor for the use of real property owned by him or her;
- Head office charges of a permanent establishment;
- Bad debts written off; and
- Sponsorship fees paid by a branch of a foreign company.

The following expenses are not deductible:

- Any capital expenditure unless specifically allowed by the income tax law;
- Any expense incurred if considered not commensurate to services rendered or consideration given;
- Income tax paid or payable in Oman or elsewhere;
- Any loss where the cost was recovered or compensated (e.g., under an insurance policy);
- Loss from the disposal of securities listed on the Muscat Securities Market; and
- Expenses incurred in earning tax-exempt income.

TAX EXEMPTIONS: The following sources of income are exempted from tax:

- Dividends received by a taxpayer from shares, allotments or shareholdings in the capital of any Omani company; and
- Profits or gains from the disposal of securities listed on the Muscat Securities Market.

Additionally, a number of income-generating activities may be exempted from tax:

- Income accruing to any establishment owned by an Omani individual or Omani company from conducting activity in the field of shipping;
- Income from air transport or shipping by non-Omani carriers, provided there is a reciprocal treatment in the foreign person's home country for the same activity;
- Income accruing to investment funds set up in Oman under the Capital Market Law, or funds set up outside Oman to deal in Omani securities listed on the Muscat Securities Market; and
- Income that accrues to an establishment or Omani company from conducting its main activity in the fields of industry in accordance with the Law for Unified Industrial Organisation of GCC Countries, with the exception that project execution contracts shall be exempted from tax.

Exemption from tax shall be granted for a non-renewable period of five years beginning from the date of commencement of production as outlined in the terms, conditions and procedures determined by a decision issued from the responsible minister, and upon approval from the Council of Financial Affairs and Energy Resources.

All establishments and Omani companies exempted from tax have to submit the return of income for the tax year immediately following the last year of the exemption period.

CARRY OVER OF TAX LOSSES: Tax losses may be carried forward by a taxpayer for a maximum of five years to offset future taxable income, but losses may not be carried back.

Net aggregate losses incurred during a tax-exempt period may be carried forward indefinitely for set off against future profits.

Losses incurred by a permanent establishment of a foreign company may be carried forward, but must be aggregated against income from any other permanent establishments operating in Oman that is owned by the same foreign company.

TAX DEPRECIATION: The method of depreciation for capital expenditures is divided into two main categories based on the type of long-term asset. Items are either assessed on a regular basis using the straight-line method or the written-down value method as outlined below.

Depreciation for buildings, ships, aircraft and intangible assets is calculated under the straight-line method at the following rates:

- Buildings constructed with specific material: 4%;
- Quays, jetties, pipelines, roads and railways: 10%;
- Temporary or prefabricated buildings: 15%;
- Ships or aircraft used for business purposes: 15%; and
- Buildings used as hospitals or educational institutions (the taxpayer can choose to depreciate any other buildings like above): 100%.

The above rates applied to buildings may be doubled if the structure is used for industrial purposes, excluding buildings used for storage, offices, accommodation for workers or commercial purposes. Depreciation of intangible assets acquired and used in the business shall be calculated by dividing capital expenditure by the useful life of the asset as estimated by the Secretary General of Tax.

Social security contributions of 17.5% are applicable for Omani workers

Tax losses may be carried forward for a maximum of five years to offset future taxable income

Depreciation of the below-listed asset classes is determined on a declining balance or written-down value method. A pooling concept also applies, whereby assets subject to the same rate of depreciation are considered together in calculating depreciation expense:

- Tractors, cranes and other heavy equipment, computers, vehicles, fixtures, fittings and furniture: 33.33%;
- Drilling rigs: 10%; and
- Other plant and machinery not included in the first two categories: 15%.

WITHHOLDING TAX: A 10% withholding tax at source applies to the following categories of income paid to foreign persons, provided the income is not attributed to a permanent establishment of the foreign person in Oman:

- Royalties;
- Fees for management services or any other services;
- Consideration for research and development;
- Consideration for the use of or right to use computer software;
- Dividends from joint stock companies; and
- Interest.

Companies and establishments that make such payments are required to deduct 10% of the invoice amount and remit it to the tax authorities within 14 days from the end of the month following the month in which the payment is made or credited to the account of the foreign person.

Any ministry, body, public establishment or other public legal person or unit of the administrative apparatus units of the other state that makes such payments should deduct the tax from the total amount paid and submit the same to the Secretariat General of Tax.

The term “royalty” for these purposes includes consideration for the use of intellectual property,

Customs duty of 5% of cost, insurance and freight value applies to most non-GCC-sourced goods

including computer software, cinematographic films, tapes, discs or other media, patents, trademarks, drawings and the like. The term also includes consideration for the use of industrial, commercial or scientific equipment; consideration for information concerning industrial, commercial or scientific experience; and consideration for granting rights to exploit mining or other natural resources.

ISLAMIC FINANCIAL TRANSACTIONS: Royal Decree No. 9 of 2017 has introduced provisions to ensure that Islamic financial transactions are taxed in accordance with their fundamental substance in the same way as conventional financial transactions.

Islamic financial transactions include agreements or deals involving financial rights where the parties include a person licensed to practice Islamic financial business – whether banking or other – provided that such a deal or agreement complies in its conditions, effects and other elements with the provisions of sharia law, and does not involve carrying out any other financial transactions.

The following shall be taken into account when determining the taxable income:

- Any amounts received by the person in lieu of interest shall be treated as income;
- Any amounts spent by the person in lieu of interest shall be treated as an expense;
- Any donations that a person is committed to pay can be deducted, provided they meet certain conditions; and
- Provisions for credit losses created by the bank shall be dealt with according to the treatment prescribed for provisions of loan losses, i.e., provisions for loan losses will be treated in the same way as those for regular banks.

TAX YEAR: The tax year is the calendar year, unless permission is granted to use another year. However, a taxpayer's initial year may be less than or more than 12 months, up to a maximum of 18 months.

TAX CARDS: A tax card system has been introduced where all taxpayers will be issued tax cards and new taxpayers must apply for a tax card at the time of commercial registration. The tax card number must appear on all contracts, invoices and tax authority correspondence. Failure to comply with tax card provisions will lead to a minimum fine of OR200 ($519) and a maximum fine of OR5000 ($13,000).

TAX RETURNS: A provisional return of income should be submitted in the prescribed form within three months of the end of the tax year. Any tax that is estimated to be due should be remitted with this return. An annual return of income must be submitted in the prescribed form within six months of the end of the tax year. The final return should be accompanied by a statement of income as per the form prepared by the Secretariat General.

Any unpaid balance of tax should be paid with the annual return. Failure to pay taxes by the due date attracts interest at the rate of 1% per month until the tax is actually paid. Taxpayers are subject to accuracy penalties ranging from 1% to 25% of the tax on any understated income.

Establishments and Omani companies for which decisions of exemption from submitting the return of income were issued before the publication of Royal Decree No. 9 of 2017 must submit the return of income for the tax year immediately following the year during which the validity of exemption expires.

Tax return forms require detailed information to be provided by the taxpayer at the time of filing, as applicable. The final return of income should be accompanied by original audited financial statements that are signed by an auditor licensed to practice in Oman.

The law requires accounts to be drawn up in accordance with international accounting standards. It specifically provides for accrual accounting unless prior permission of the Secretary General

Accounts must be maintained with international accounting standards of Tax has been obtained. The accounts must be submitted in local currency unless prior approval of the Secretary General has been granted to submit them in another currency.

Failure to file provisional or final returns within the respective time period may attract a minimum fine of OR100 ($260) up to a maximum fine of OR2000 ($5200). Failure to file the provisional or final returns of income may result in an estimated profit assessment by the Secretary General.

Failure to submit audited financial statements as required under the law is deemed to result in an incomplete final return of income and may attract an estimated profit assessment.

ASSESSMENTS: Investigation of the final returns by the Secretary General shall be conducted via a sample. The Secretariat General of Tax shall furnish the assessment by estimation on any taxpayer for any tax year where:

- The final return submitted does not satisfy the conditions specified for filing returns or is submitted without attaching the accounts of the taxpayer;
- The final returns are not submitted within the time limit; or
- Investigation of the final return reveals non-inclusion of the actual taxable income.

The Secretary General is also responsible for completing assessments in cases where a taxpayer submits an application for assessment.

The statutory deadline for assessment of a particular tax year is three years from the end of the tax year during which the final return for that tax year is submitted. In cases of fraud or deception, the time limit for assessment is extended to five years.

If no return is submitted, the time limit for conducting the assessment is five years from the end of the year for which the return is due.

OBJECTIONS & APPEALS: A taxpayer may object to any assessment that is issued by the Secretary General. The objection document must be prepared in writing and filed with the office of the Secretary General of Tax within 45 calendar days from the date of receipt of the assessment.

The Secretary General is required to decide the objection within five months (extendable by a further three months at the Secretary General's discretion) from the date of receiving the objection.

Filing an objection shall not result in excusing payment of the disputed tax, which remains payable unless a decision to postpone its payment has been made by the Secretary General.

The taxpayer has the right to file a petition against the judgment of the Secretary General of Tax with the Tax Committee of the MoF within 45 days of the date of judgment. The petition should be drawn up and submitted in Arabic.

However, before filing the petition, the taxpayer must pay the tax demanded or include with the petition a request to be granted dispensation from paying the additional tax demanded in the judgment.

Oman has in force or awaits ratification of double taxation agreements with approximately 35 countries

The Tax Committee may, when the taxpayer furnishes a bank guarantee, grant such dispensation. In practice, the Tax Committee takes one to two years to issue its judgment.

The taxpayer has the right to appeal against the judgment given by the Tax Committee within 45 days of the date of the judgment. The appeal is to be filed with the Court of First Instance. The appeal should again be in Arabic, and the taxpayer must be represented by an authorised lawyer. However, before filing the appeal, the taxpayer must pay a fee to the Secretariat of the Court.

The final judicial authority is the Supreme Court, and a petition can be filed with this court upon receiving a decision from the Court of First Instance. All proceedings in the above courts are in Arabic.

MAINTENANCE OF RECORDS: The law normally requires accounting records and supporting documentation to be maintained for 10 years from the end of the accounting period for which the income is subject to tax.

RELATED PARTIES & TRANSFER PRICING: The law does not provide detailed transfer pricing regulations or guidance on acceptable methods for determining an arm's length price.

The law provides that where related persons enter into transactions that result in a lower taxable income or higher taxable loss than would have been the case had the transactions occurred between unrelated persons, the terms of such transactions shall be ignored in computing the taxable income and the tax authority may adjust the terms.

THIN CAPITALISATION: If the debt-to-equity ratio of a business exceeds 2:1 in the case of related-party debt, interest on the excess debt cannot be deducted for tax purposes. This rule does not apply to banks and insurance companies, permanent establishments of foreign companies or proprietary (Omani-owned) establishments operating in Oman.

A taxpayer seeking to apply a double taxation agreement must approach the authorities for permission

DOUBLE TAXATION AGREEMENTS: Oman currently has in force or awaits ratification of double taxation agreements with approximately 35 countries, including Canada, France, India, Singapore, the UK, South Africa, China and Italy.

There is no clearly defined procedure for applying double taxation agreements. In practice, a taxpayer seeking to apply such an agreement must approach the Omani authorities for advanced permission. The authorities may then request a residency certificate from the foreign person, copies of underlying agreements and other necessary documentation before deciding on the request.

US-OMAN FTA: The US-Oman FTA came into force on January 1, 2009. Under the agreement, US investors and their investments in non-restricted sectors are granted "national treatment", as well as "most-favoured-nation treatment" (MFNT) in Oman.

National treatment means that, in similar circumstances, US investors and their investments are afforded no less favourable treatment than that afforded to Omani nationals. MFNT means that, in similar circumstances, US investors and their investments are afforded no less favourable treatment than that afforded to nationals of any other country in Oman. In the case of companies incorporated in Oman, the application of national treatment under the FTA increases the allowed US shareholding to 100% and reduces the minimum capital requirement of the business to OR20,000 ($51,900).

GCC-SINGAPORE FTA: Singapore and the GCC have entered into an FTA that became active as of September 1, 2013. Under the FTA, goods originating from Singapore enjoy comprehensive Customs duty relief when entering GCC countries. Reciprocal treatment is also granted to goods originating from the GCC that enter into Singapore.

The FTA also gives preferential treatment to Singapore citizens, permanent residents and companies, or foreign companies based in Singapore conducting professional service activities such as legal, accounting and engineering services, as well as business services such as construction, distribution and hospital services.

Preferential treatment includes the allowance of 100% foreign ownership in businesses involved in the provision of designated services.

OTHER TAXES: Oman does not currently have value-added tax or sales tax. Other taxes applicable are Customs duties and the following:

- Municipal tax of 5% on hotel and restaurant bills;
- Tourism tax of 4% on hotel and restaurant bills;
- Municipal tax of 5% on property rental payable by the landlord; and
- Labour tax of OR301 ($782) per foreign employee per annum, payable bi-annually by the employer.

CUSTOM DUTIES: Customs duty of 5% of cost, insurance and freight value applies to most non-GCC-sourced goods. Exemptions apply for certain food items and medical supplies, and higher rates apply to certain goods such as wine and spirits.

STAMP DUTY: Stamp duty applies to transfers of land and real property at 5% of the transaction value.

SOCIAL SECURITY CONTRIBUTIONS: A social security contribution of 17.5% is applicable to employees who are Omani nationals, but not to foreign employees. The employee pays a contribution of 7% of his or her salary, and the employer pays the balance of 10.5%. The employer is also required to contribute to insurance for work-related injuries in the amount of 1% of the salary of the employee. This brings the total monthly social security and insurance contributions to be made by the employer to 11.5%.

KNOWLEDGE OASIS MUSCAT (KOM) & SPECIAL ECONOMIC ZONES (SEZS): KOM is a business zone dedicated to and reserved for technology and knowledge-based businesses.

Businesses that may be registered to operate in KOM include design, development and application of telecommunications, IT, web, new media, e-learning, e-security, animation, environment, IT training, engineering, high-level technical support or consultancy, and call centre firms.

Enterprises that register with KOM may enjoy certain benefits, including 100% foreign ownership, minimum initial capital required to establish an entity (OR20,000, $51,900), a minimum Omanisation requirement for its workforce (25%) and highly competitive telecommunications rates.

Currently, Oman has three free zones in Sohar, Salalah and Al Mazunah, as well as an SEZ in Duqm.

CURRENCY EXCHANGE CONTROL: Oman's currency, the rial, is freely traded and has been pegged to the dollar at a rate of OR1:$2.60 since 1986.

The government of Oman does not impose exchange controls, and investors are permitted to freely move rials in and out of the country.

OBG would like to thank *PwC* for its contribution to THE REPORT Oman 2018

Omar Al Sharif, Country Senior Partner Oman, PwC

Level playing field

Omar Al Sharif, Country Senior Partner Oman, PwC, on recent reforms and their likely effects on taxpayers

Are companies ready to comply with tax reforms? How much more costly may compliance become?

AL SHARIF: Most companies were unprepared for the tax reforms introduced in February 2017, especially the extension of withholding tax to dividends, interest and services. There is much greater awareness now, but many businesses still lack a basic understanding of withholding tax, and the in-house expertise and processes needed to manage it.

We see a similar pattern emerging with the value-added tax (VAT). Many larger companies have begun preliminary impact assessment and systems development, but others continue to delay. It is crucial for companies to begin preparations now. The implementation of VAT will require changes to IT systems and processes, training of financial departments and education of business units.

For many taxpayers, costs increased as a result of the February 2017 reforms. This will continue with the introduction of VAT, especially during the implementation period. There will be a need for more resources to prepare returns, systems to gather and manage information, and more tax expertise, either in-house or in the form of external advisors. It's difficult to quantify the incremental cost, but for some taxpayers it will be substantial.

How would you assess Oman's ease of paying taxes when compared to the MENA region?

AL SHARIF: According to "Paying Taxes 2018", a joint publication of PwC and the World Bank, Oman ranks 11th of 190 global economies in ease of paying taxes. The other GCC states – except Saudi Arabia – rank in the top 10 globally. The North African states are well down the list, with Libya, Algeria, and Tunisia at 128th, 157th and 140th, respectively.

In determining the rankings, the publication looks at four key measures: total tax and contribution rate, time required to comply with tax filing obligations, number of payments required and efficiency of certain post-filing processes. The sultanate scores well or very well in all four of these areas.

As indicated in "Paying Taxes 2018", in many ways the country is already working towards making compliance less complicated. The government should be commended for making the tax system relatively simple, but this can sometimes raise concerns around ambiguity. As such, publishing regulations and information circulars could remove such uncertainty for both the tax authorities and taxpayers.

What kinds of behaviour does the current tax framework aim to influence? What kinds of market distortions should be avoided?

AL SHARIF: The corporate tax framework aims to encourage the development of local small and medium-sized enterprises; attract investment into key sectors such as tourism, manufacturing and education; and provide a fair and equitable environment for long-term foreign investors. It also imposes a cost on foreign persons deriving certain kinds of income from Oman without having a long-term presence.

The current law is more welcoming to foreign investors than the pre-2010 law, which taxed permanent establishments of foreign companies at a higher maximum rate than Omani companies. The recent increase in the corporate income tax rate from 12% to 15% does not change this, nor will the introduction of VAT. The tax framework will continue to provide a level playing field for foreign investors seeking to establish long-term operations in Oman.

Almost any tax policy produces some form of market distortion. In our view, the kinds of distortions that should be avoided are those resulting from tax evasion, granting tax incentives without adhering to clearly defined criteria or favouring foreign taxpayers over local ones. The current tax framework does not encourage any of these problematic distortions.

Legal Framework

Working to improve the commercial registration process

Investors in free zones benefit from several incentives

Standard contract for construction projects under review

Outline of regulations governing key economic sectors


The sultanate has two types of legislation: primary and secondary

Legal matters

A detailed look at legislation governing companies and foreign investment

Before 1971 the Sharia Courts had jurisdiction over all civil and criminal matters, as well as personal status matters in the sultanate of Oman. However, after the succession of Sultan Qaboos bin Said Al Said, the judicial system was reformed, and Sharia Courts now govern only those matters relating to family disputes and inheritance law.

The 1996 Basic Statute of the State (promulgated by Royal Decree No. 101 of 1996) and known as the Basic Law reshaped and codified the legal system by creating separate structures for the executive bodies and the judiciary, and outlining the rights and obligations of individuals. The principles of the Basic Law entail that Oman is a free market based on the cooperation between public and private activity. The Basic Law provides that the religion of the state is Islam and that sharia law is the basis of legislation.

LEGISLATION: Oman has two types of legislation: primary and secondary. Primary legislation, also referred to as a royal decree or sultani decree, is promulgated by the Sultan. Secondary legislation, also referred to as ministerial decisions or regulations, are promulgated by ministers and government bodies in accordance with the respective authority given to them by the royal decrees. The Basic Law states that if there is a contradiction between the provisions of a piece of legislation and the Basic Law, then the provisions of the latter shall prevail.

As a civil law jurisdiction, the Omani courts are given great discretion to interpret the legislation, on a case-by-case basis. In cases involving commercial disputes, the Commercial Court judge's discretion extends to allow him to interpret or amend an agreement in a way that, in his opinion, accurately represents the respective parties' intentions, when the terms of the relevant agreement are ambiguous or poorly drafted. Judges may use previous judgments recited by the legal representation in their statement of claims as persuasive precedent.

In the commercial and civil courts, Omani judges tend to rely heavily on the statement of claims presented to them, so it is important in such circumstances that the claimant's legal representation ensure that the statement of claims is comprehensive in arguing each point of its case. However, criminal and sharia courts require the legal representation to play a more interactive role, as they are more likely to require cross-examination of witnesses.

BUSINESS REGISTRATION: Until recently, the process of commercial registration was relatively time-consuming and cumbersome to complete. This was largely due to the number of documents and information that needed to be legalised and registered with different government bodies prior to registration. There have been recent improvements in the commercial registration process whereby law firms can now upload documents online to the Ministry of Commerce and Industry's (MoCI) e-portal (www.business.gov.om). The remaining documents, licences and capital requirements may be formalised after the online registration.

Whilst streamlining has taken place, the process can still be rather daunting to the uninitiated, which is why we would typically recommend that investors approach a reputable law firm to guide them through the process.

Set up costs for companies with foreign participation (i.e., with non-Omani/non-GCC or non-US shareholders) are relatively high, and the post-registration requirements may take some time to finalise. Typically, straightforward commercial registrations take approximately one to three weeks to incorporate, once all the documentation has been submitted in the correct format.

Additionally, investors must also comply with the Omanisation laws that have been introduced by the Ministry of Manpower (MoM), which require all companies to hire a certain percentage of Omani nationals, depending on the sector or the business the company is involved in.

Meeting the Omanisation rate enables the foreign company to employ non-Omanis. Failing to meet quotas could result in a requirement for a company to file an Omanisation Plan with the MoM, which involves providing details of how the company intends to meet the quotas.

Further persistent failures can result in the company being fined and blocked from being able to obtain visa clearances for its expatriate labour force.

FOREIGN INVESTMENT: Foreign investors and companies in Oman must comply with the Foreign Capital Investment Law (as promulgated by Royal Decree No. 102 of 1994), and the Commercial Companies Law (as promulgated by Royal Decree No. 73 of 1996). They may establish their business in the sultanate through any of the following structures:

1. Limited liability company (LLC);
2. Joint stock company (SAOC and SAOG);
3. Partnership;
4. Commercial agency;
5. Branch office;
6. Commercial representative office; and
7. Merger and acquisition.

1. LIMITED LIABILITY COMPANIES: LLCs are the most commonly used structure to incorporate a business in Oman. Companies that wish to be incorporated in the form of an LLC must have a minimum of two shareholders and a maximum of 40. The liability of the shareholders is limited to the nominal value they have contributed to the LLC's share capital.

If a non-Omani investor wishes to become a shareholder in an Omani LLC, then at least 30% of the share capital must be owned by either an Omani national or a fully Omani owned corporate entity. Some industry sectors, such as restaurants, and food and beverage outlets, require a higher Omani-shareholding percentage; however, the general minimum is 30%.

If the non-Omani investor is a GCC state national, or a company that is fully owned by GCC state national(s), the non-Omani share capital of the Omani LLC may be 100% of the shareholding. This rule also applies if the foreign investor is a national of the US, or if the corporate shareholder is fully owned by a US national, due to the free trade agreement that exists between the US and Oman.

The minimum share capital required for registering a LLC that is subject to the Foreign Capital Investment Law with one or more non-Omani/non-GCC/non-US shareholders is OR150,000 ($390,000). If the LLC is a financing or a lending company, the share capital requirement is greater.

However, if the non-Omani shareholder is from the GCC or the US, then the share capital requirement is reduced to OR20,000 ($51,900). The MoCI scrutinises the nationalities of the ownership structure for companies wishing to incorporate in Oman to ensure that they are in compliance with the restrictions.

Omanisation laws require companies to hire a certain percentage of Omani nationals, depending on the sector

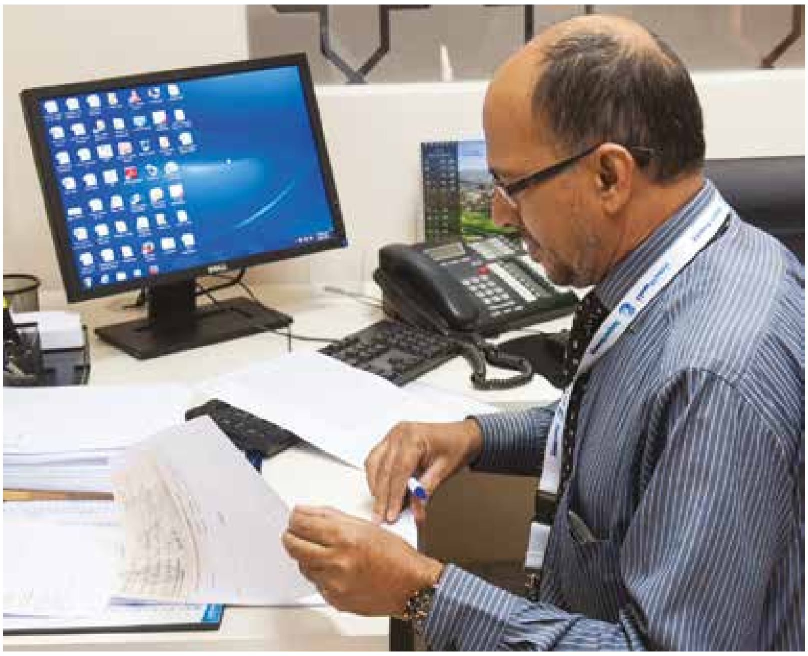
2. JOINT STOCK COMPANIES: Joint stock companies are based on the French *société anonyme*. They can be structured as either a société anonyme Omanaise close (SAOC) or as a société anonyme Omanaise générale (SAOG). Incorporating a company under this structure is more involved and a more time-consuming process compared to LLC incorporation. This is in part due to the additional information and approvals needed from MCI. Similar to LLCs, at least 30% share of joint stock companies must be owned by an Omani national.

SAOCS: SAOCs are private or closed joint stock companies. As such, they do not publicly offer their shares. At least three entities or individuals may form a SAOC and issue shares. The transfer of shares in an SAOC is subject to shareholders' pre-emptive rights. A minimum share capital of OR500,000 ($1.3m) is required to form an SAOC, although only a partial payment of the shares is required upon incorporation. It is also necessary to have a board of directors to manage the company, with at least three directors and no more than 12.

SAOGS: SAOGs are public or open joint stock companies and at least 40% of its shares issued must be issued to the public, freely. A minimum share capital of OR2m ($5.2m) is generally required.

Following a recent amendment to the Insurance Companies Law (as promulgated by Royal Decree No. 39 of 2014), any insurance company wishing to be established in Oman must be set up as an SAOG, and will require a minimum paid-up share capital of OR10m ($26m). Insurance companies that existed prior to these amendments were granted a grace period of three years within which to comply with the new requirements. This grace period expired in August 2017.

Over the past year several insurance companies have increased their share capital to at least OR10m ($26m) and converted into an SAOG through an



Straightforward commercial registrations take approximately one to three weeks to incorporate

initial public offering. Like other SAOGs, insurance companies must offer at least 40% of their shares to the public. Shares for SAOGs are purchased through the Muscat Securities Market, and are highly regulated by the Capital Market Authority. The Central Bank of Oman governs foreign investments in financial institutions.

It should also be noted that since July 2016 SAOGs are required to comply with the Code of Corporate Governance and the Executive Regulations of the Capital Market Law. The code is a detailed document containing provisions relating to topics such as:

- Board of directors' formation, roles and responsibilities;
- Board of directors' authority and competences;
- Chairperson;
- Company secretary;
- Executive management;
- Professional conduct of directors and executives;
- Independent directors;
- Rules for related party transactions;
- Audit committee and internal controls;
- Nomination and remuneration committee;
- External auditors;
- Corporate social responsibility;
- Annual reports;
- Minimum information that must be provided to the board;
- Standards of professional conduct; and
- Items to be covered in the report on corporate governance.

Similar to SAOCs, SAOGs must have a board of directors who are responsible for managing the company. However, the minimum number of directors required is five, and the maximum is 12 directors. A third of its directors must be independent. SAOGs also require the appointment of an auditor.

3. PARTNERSHIPS: Partnerships are companies that are formed between at least two individuals. Partnerships can take several forms including general partnerships and limited partnerships.

General Partnerships: A partner in a general partnership has unlimited joint and several liability. General partnerships require registration within one month of the execution of the partnership agreement. A partner requires the consent of its other partner(s) to transfer interest. A partnership may dissolve because of the death, incapacitation or bankruptcy of one of the partners, unless the other partner(s) unanimously agree to continue.

Limited Partnerships: Limited partnerships require at least one of the partners to have unlimited liability and at least one of the partners to have liability limited to the extent of the capital they contributed to the business.

Sole Proprietorships: Omani nationals and GCC nationals are also permitted by the laws of Oman to establish sole proprietorships. The minimum share capital for incorporating this form of business is relatively low at just OR3000 ($7790). In addition, sole proprietorships are permitted have just one shareholder. The sole proprietorship is named after the applicable individual. This sole proprietor is not protected by a corporate veil and, as such, he or she may become personally liable for the debts incurred by the sole proprietorship entity.

It is common practice for a sole proprietor to convert their business into an LLC in order to provide the founder with limited liability. The conversion process is relatively easy.

4. COMMERCIAL AGENCIES: If a non-Omani supplier wishes to sell its goods in Oman without incorporating a company, then one possible alternative is to create an agency arrangement by appointing one or more commercial agents for distribution and marketing of the goods. An agency agreement that is compatible with the Commercial Agency Law (Royal Decree No. 26 of 1977, as amended by Royal Decree No. 34 of 2014) should be drafted and registered with the Commercial Agencies and Agent Department at the MoCI. Failure to register the agency agreement at the MoCI can result in it being rendered unenforceable before the appropriate authorities and fines being imposed.

Prior to the amendment in 2014, agency agreements in Oman could not be terminated without cause. If the foreign principal attempted to terminate the agency agreement without justifiable cause, it would be required to pay substantial compensation to the agent (typically an average of the commissions or profits received by the agent over the last three to five years. This has since been repealed; however, it is important to obtain legal advice in reviewing and/or preparing the draft form agency agreement so as to ensure that your rights are adequately protected.

5. BRANCH OFFICES: For non-Omani entities, a branch office may only be established if the foreign entity has a contract with either a government body or a quasi-government body. A branch office may also be established by royal decree, or if it is considered necessary, by the Cabinet of Ministers, although this is rarely used.

The registration of the branch remains valid for the duration of the contract with the government body or quasi-government body, after which the registration will lapse. Although its scope is limited, a branch may be an attractive option for a foreign investor as it allows the foreign company to keep 100% of the business without diluting control of its operations or assets.

6. COMMERCIAL REPRESENTATIVE OFFICE: This type of business may only be used for the purposes of marketing and promotion of company products or services to retailers, not to trade directly with consumers. A commercial representative office may not sell products or services, or engage in other commercial activities. A representative office may, however, hire and/or sponsor employees.

7. JOINT VENTURES: In Oman a joint venture is generally regarded as an unincorporated contractual arrangement to do business that does not have separate legal personality. It is formed by way of contract between two or more investors with the intention of working together in a common business venture. Although it is not treated as a separate legal entity as it cannot independently form agreements, joint ventures must keep their own audited accounts and are taxed as a separate legal entity. Investors tend to prefer incorporating their business in other forms to this, as the shareholders of the joint venture may be subject to unlimited joint and several liability.

TAXATION: In February 2017 a new tax law was published pursuant to Royal Decree No. 9 of 2017 (the New Tax Law), to be effective for all tax years starting from January 2017. This law applies to companies and permanent establishments that are operating and registered in the sultanate. It

An open joint stock company is required to have $5.2m in share capital

Omani courts can interpret the legislation on a case-by-case basis

requires companies to pay an annual income tax of 15% on the net profits of the company or permanent establishment. The change in laws also means that entities are no longer exempt from paying income tax for the first OR30,000 ($77,900) earned in their net profit. In addition, sole proprietorships are now required to pay a 3% income tax if they meet the following requirements:

- Registered capital not exceeding OR50,000 ($130,000);
- Gross income of no more than OR100,000 ($260,000):
- An annual average number of employees not exceeding 15; and
- The trade activity of the proprietorship qualifies for this reduced tax rate according to the Ministry of Finance (MoF).

Different limitation periods apply for the Secretariat General for Taxation to bring claims for historical tax liabilities, depending on the relevant tax years in question.

Provisions for penalties have also been enhanced under the New Tax Law. The New Tax Law provides that a failure to file tax returns on their due date can now lead to a company or permanent establishment being fined a minimum of OR100 ($260) and up to a maximum of OR2000 ($5190).

Additionally, failure to submit information requested by the tax authority or to attend scheduled hearings could result in a fine of at least OR200 ($519), and no more than OR5000 ($13,000).

FREE ZONES & SPECIAL ECONOMIC ZONES: Although income tax has increased, companies incorporated in the sultanate's free zones and special economic zones (SEZs) still benefit from certain specific tax exemptions in addition to other commercial incentives such as allowing 100% foreign ownership. The sultanate currently has three functioning free zones: Salalah, Sohar and Al Mazunah

Free zones offer investors tax exemptions and commercial incentives such as allowing 100% foreign ownership

and two SEZs: Duqm and Knowledge Oasis Muscat. The intention of these zones is to attract different types of business into Oman. Each zone has its own set of specific incentives.

Salalah Free Zone: Salalah Free Zone is located in the south of Oman. It has been established for investors involved in industrial estate, logistics, tourism and other mixed-use developments. In addition to allowing full foreign ownership, this free zone allows for a relaxed Omanisation rate of 10%, a 30-year tax holiday and no Customs duties. Additionally, investors do not need to meet any capital requirements to be able to incorporate in the zone.

Sohar Port & Free Zone: This free zone is situated near the Port of Sohar and the Sohar Industrial Estate. Principally, it seeks to attract investors in steel and metal, logistics and food sectors. However, it also welcomes investors interested in incorporating companies with other trade activities and has recently launched a general trading licence.

Companies incorporated in the Sohar Free Zone enjoy full exemptions from Customs duties on imports and low minimum capital requirements. However, the share capital declared to the Sohar Free Zone in the investor's application must be deposited in the company's bank prior to incorporation. The Omanisation requirement is reduced to 15% for the first 10 years, and companies are given a 25-year tax holiday.

Al Mazunah Free Zone: This free zone is in the south of Oman, bordering Yemen. It is designed for investments in the warehousing, food processing and industrial sectors and principally relates to trade between Oman and Yemen.

Companies incorporated in this zone enjoy full exemptions from Customs duties on imports and no minimum capital requirements. Investors may also be granted a 30-year tax holiday and relaxed Omanisation rates of 10%. Yemeni nationals are able to work in this free zone without having to obtain a visa or work permit.

Duqm SEZ: Duqm is seen internationally as a key hub and a gateway for the Middle East, South Asia, and North and East Africa. This zone includes a port and dry dock as well as a fishing port, fisheries industries, industrial estates, logistics, tourism and other mixed-use developments. Incentives for investors include a relaxed Omanisation rate of 25%, as well as no minimum capital requirements, and an exemption from Customs duties and income tax for 30 years. Investors operating in this SEZ are also offered competitive land-lease rates.

Knowledge Oasis Muscat Economic Zone: This economic zone was established to attract investors wishing to incorporate IT service companies in Oman. These investors enjoy reduced Omanisation rates of 25%. This SEZ requires a minimum capital investment of OR20,000 ($51,900).

LABOUR LAW & OMANISATION: Foreign employees must obtain a labour clearance from the MoM before being able to start employment. The clearance must be applied for by the employer of the foreign employee. The cost of labour clearance has recently been increased from OR201 ($522) to OR301 ($782).

The majority of employees working in the private sector are non-Omani and they represent around 88% of all employees. In 1988 the government started an Omanisation programme to increase the number of nationals in the public and private sector. The government has focused more on Omanisation in the private sector since 2002. The MoM has classified certain jobs as reserved for Omani manpower and Omanisation percentages that must be met vary by sector.

Companies are rewarded for their compliance with the Omanisation percentage in several ways, including obtaining a "green card", which prioritises that company when dealing with ministerial approvals – processes which could otherwise be lengthy and bureaucratic. Meeting the Omanisation requirements also promotes the goodwill of the compliant company, as it becomes recognised for its high Omanisation rates through publications of the national press.

Critics of Omanisation argue it may have an adverse effect, because it diminishes the potential of non-Omani specialists from transferring skills onto the Omani workforce. In 2017 the MoM and the National Training Fund commenced the formation of

End-of-service gratuity for non-Omani staff

Years of Employment	Gratuity
1 to 3 years	15 days' worth of the basic salary
3 years or more	1 month's worth of the basic salary for each year of service

various training programmes to train and prepare Omani nationals prior to private sector employment. The cost of training is covered by the government. Such training will ensure that the employees hired in any given company participating in this programme will be properly prepared and skilled for the job.

The minimum monthly salary for Omani nationals working in the private sector is currently OR325 ($844). The salary comprises OR225 ($584) for the basic salary and OR100 ($260) as allowances. All Omani employees who have been working for at least six months with their current employer as of January 1st of each year shall be entitled to a salary increase of at least 3% as long as they do not receive a poor performance review.

All Omani employees must register with the Public Authority for Social Insurance (PASI). This scheme, akin to national insurance, provides a centralised fund so that employees are insured against the costs of old age, disability, death and/or occupational injury and disease. Under the Social Security Law, the employer must contribute 11.5 % of the employee's gross salary, which includes 1% for occupational injuries and disease, to PASI. The employee must contribute the remaining 7%.

Under the Labour Law (as promulgated by Royal Decree No. 35 of 2003, as amended), non-Omani employees are entitled to an end-of-service gratuity payment. Employees who have been working for less than one year do not qualify for this gratuity.

MERGERS & ACQUISITIONS: As an alternative to incorporating a new entity in Oman, some foreign companies may choose to acquire or invest in an existing Omani company. Acquisitions can be made through either share or asset purchases. As in many jurisdictions, acquisitions can be challenging for several reasons. Primarily, it can be difficult to gather sufficient information about the target company from a due diligence perspective, since the amount of information publicly available in Oman is relatively limited when compared to other jurisdictions. For example, at the time of writing, there is no centralised database of litigation cases, so ascertaining whether a company is the subject of ongoing litigation, can be problematic. Moreover, foreign companies in the sultanate require a minimum of 30% ownership by either an Omani individual or a fully Omani-owned company, so outright acquisition of 100% of the share capital is typically not possible.

Advice should be sought as to how best to structure commercial arrangements with Omani partners to ensure that business interests are adequately protected. In addition, it should also be noted that as part of an asset deal, if the assets are to remain in Oman and are to be used to trade, a company or other permanent establishment would need to be created so that the entity is not inadvertently deemed to be performing a commercial activity without a proper commercial registration.

REAL ESTATE: The law restricts foreign ownership of land in Oman. It is regulated by the Land Law

A new tax law published in 2017 requires companies to pay income tax of 15% on net profits annually

(Royal Decree No. 5 of 1980). While GCC nationals are given similar, but more limited, rights to land ownership as Omanis, non-GCC nationals and companies with non-GCC shareholders are limited to owning property only in designated areas called integrated tourism complexes (ITCs).

Omani law imposes further restrictions on corporate ownership of land. It is only permissible for companies that are incorporated as LLCs fully owned by Omanis and/or GCC nationals, and for joint stock companies with a minimum of 30% Omani shareholding to own real estate in Oman. Additionally, companies may only own property for the purposes of using it as a warehouse space, staff accommodation and office space, or for the purposes of meeting the company's trade objectives.

Real estate development companies are given fewer restrictions to their use of land, as they are also able to (re)construct and resell the property as residential and commercial units. However, this is also conditional upon the real estate development company stating in its commercial registration documents at the MoCI that one of its objectives is real estate development.

Although non-Omani GCC nationals and non-Omani GCC-owned companies are treated similarly to Omanis with respect to land ownership, they are also subject to some restrictions that Omanis and wholly Omani-owned companies do not face. The law requires GCC entities that own a vacant plot of land to develop the plot within four years from the date that they purchase the property. The law also limits their use of the land to investment purposes only.

Corporate entities that are unable to own land have the option of entering into a usufruct agreement for the use of the land they need to carry out a particular project. These are typically projects that the Omani government considers a contribution to the national economy and/or social development.

GCC entities owning a vacant plot are required to develop the plot within four years from the purchase date

USUFRUCT: The usufruct right allows the usufruct holder, or usufructuary, to use and exploit the plot for the purposes of the project. The usufructuary's rights extend to the ability to mortgage the land. A usufruct agreement essentially gives the usufructuary the capacity to act as the owner of the land, without having the freehold over it.

The usufruct agreement must have an expiry date, on which the holder is obliged to return the land to its original owner. The duration of the usufruct agreement must not exceed 50 years, but it may be renewed upon expiry.

FOREIGN OWNERSHIP: ITCs are governed by the ITC Laws (promulgated by Royal Decree No. 12 of 2006) and Ministerial Decision No. 191 of 2007, which outlines the principles relating to the rights and obligations of ITC developers and purchasers. The purpose of developing ITCs is to market and encourage tourism in Oman. This enables non-Omani companies to own real estate and/or develop units for investment or for residential purposes within the ITC areas. ITCs usually consist of commercial, residential and tourism components, and typically the granting of ITC status is dependent upon the developer meeting certain minimum build obligations in respect of each industry component.

Non-Omani individuals and foreign companies are permitted to purchase residential and non-residential property in ITCs. The purchasers of such properties must register their freehold interest with the Ministry of Housing.

The recent Ministerial Decision No. 45 of 2017 (issuing the regulation of real estate development in the SEZ at Duqm) allows non-Omani investors to obtain usufruct rights over land in Duqm's SEZ. This legislation has attracted numerous investors to develop various projects worth several billion rials.

CONSTRUCTION: Although it is not legally required to do so for private sector projects, most large-scale construction projects in Oman are based on the Omani standard documents for building and civil engineering works (the standard contract), issued by the MoF. This is based on the Fédération Internationale des Ingénieurs-Conseils (FIDIC) standard contract, an internationally renowned organisation that forms contract templates for construction and engineering projects.

At the time of writing the two forms of standard contract used are the English-language third edition (which was issued in July 1981) and the Fourth Edition (issued in 1999) in both the Arabic language and English.

The standard contract has been recently reviewed by the government, and it is anticipated that the new form will be based upon a more up-to-date version of the FIDIC standard forms. Before coming into effect for public sector projects, the form of the contract to be used must be approved by the MoF and the Ministry of Legal Affairs (MLA).

In addition, for public sector projects, any amendments or modifications to the general conditions of the standard contract must be approved by the MoF and the MLA prior to being executed.

Article 628 of the Civil Code (as promulgated by Royal Decree No. 29 of 2013), states that the following are essential components for the formation of a legally binding *muqawala* (a contract to build):

- The location where the work will be performed;
- The type of development that will be made;
- The method of performance;
- The time it will take for the performance to complete; and
- Consideration for the works being done.

The crucial component of the standard contract – and the item that causes the most difficulty – is the scope of work to be performed by the contractor. Most disputes occur because the scope of work is inadequately detailed, incorrect and/or requires

Non-GCC nationals may own property in integrated tourism complexes substantial variation or modification after it has been executed, or there is contention regarding the contractor's liabilities and scope. It is therefore essential for the contracting parties to ensure the scope of work is well drafted, so that it provides certainty for the contractor and meets the expectations of the employer.

Since it is not always possible to accurately and inclusively define the scope of work at the outset of a project, any variations should be carefully documented, requested and approved as the project proceeds. Variations are addressed under Article 640 of the Civil Code which requires a contractor to immediately notify the employer of any changes that are necessary to complete the project, and specify the additional costs of such variation. If the contractor fails to notify the employer, then the contractor shall bare the additional costs of those changes.

All too often, because of the time pressures placed upon the contractor to complete the project, the approval of variations is put on hold whilst the works continue to be executed. This typically results in substantial claims being filed at the end of the contract, which forms the basis for a greater litigation potential than had each change been sorted and approved during the currency of the contract.

Part of the difficulty with the current form of the standard contract is that the engineer, who is intended to be an impartial party or intermediator between the contractor and the employer, is appointed by, and paid for by, the employer. This often gives rise to allegations of bias or partiality. Any orders made by the engineer to the contractor, which may increase the contract price, will require the express consent of the employer (although typically the employer often argues that any such change was included in the original scope of work and should therefore be included as part of the agreed contractual price).

The standard contract gives the engineer the right to make the following variations:

- Increase or decrease the amount of any work included in the agreement.
- Omit any such work.
- Change the style or quality of any such work.
- Change the levels, line positions and dimensions of any part of the works.
- Carry out any necessary additional work for the completion of the project.

ENERGY SECTOR: Although Oman has made efforts to diversify its economy beyond oil and gas amidst the current oil crisis, it continues to be the country's main source of income, contributing approximately 78% of its economy annually. The oil and gas sector is governed by the laws administered through the Ministry of Oil and Gas (MOG) and the Ministry of Environmental and Climate Affairs, with the consent of the Sultan.

The main law that regulates oil and gas-related activities in the sultanate is the Oil and Gas Law (promulgated by Royal Decree No. 8 of 2011). To date, the MOG has not passed any regulations for the implementation of the Oil and Gas Law, and the host granting agreements have not yet been standardised, although the terms and conditions of each do tend to follow similar forms.

The main law that regulates oil and gas-related activities in the sultanate is the Oil and Gas Law

Oil and gas concession agreements are granted though exploration and production-sharing agreements (EPSA). The terms of each EPSA are bespoke and negotiated between the parties, namely the MOG and the respective concession holder.

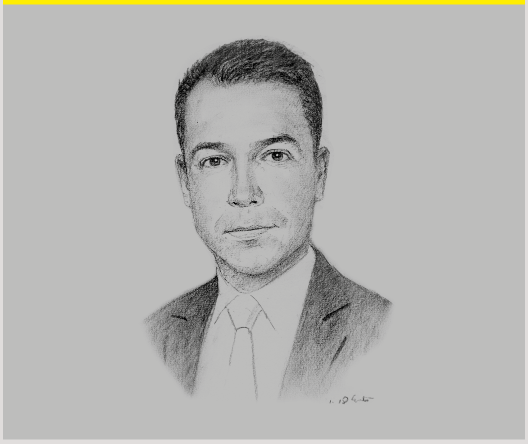
Following its execution, the EPSA requires ratification and endorsement by way of a royal decree in order to be enforceable. This royal decree does not disclose the actual terms of the agreement, however, it merely announces the execution of the EPSA in the Official Gazette.

Any amendments to the EPSA are subject to the written consent of both the concession holder and the MOG. The Oil and Gas Law prohibits the concession holder from waiving or transferring its rights and obligations under the EPSA without prior consent of the ministry.

EPSAs are governed by the laws of the sultanate and typically drafted in English. Although this is negotiable between the parties, most EPSAs have arbitration listed as their dispute resolution forum. This tends to be held in a third-party internationally renowned arbitration centre, so as to provide a neutral forum for the resolution of potential disputes.

Companies operating in the upstream oil and gas sector are subject to different tax regimes from other firms. The calculation of the taxable income is subject to the terms of an EPSA, and it may be deductible from the MOG's production share rather than the concession holder's oil-production share.

OBG would like to thank *CMS* for its contribution to
THE REPORT Oman 2018



Ben Ewing, Partner, CMS

Branching out

Ben Ewing, Partner, CMS, on diversifying the economy

The recent steep decline in international oil prices led to a considerable budget deficit in Oman, pressuring the country into hastening its economic diversification plans. In July 2016 the National Programme for Enhancing Economic Diversification received approval by royal decree.

The aim of this programme is to diversify the economy away from its heavy dependence on the oil and gas sector, and to encourage the development of a range of other sectors, such as renewable energy, manufacturing, mining, fisheries, tourism, logistics and transport, among others.

In this attempt to shift its economy away from relying on non-renewable resources, Oman has become an international leader in the field of unconventional oil and gas, and enhanced oil recovery (EOR). Oman is the first country in the region to develop a solar EOR project, with Al Miraah in 2014. It was established through a partnership between GlassPoint Solar and Petroleum Development Oman. It was financed by the State General Reserve Fund and the first phase of the project began in 2017, following its successful pilot phase.

The Oman Authority for Electricity Regulation (AER) is also currently developing the Sahim Project, involving the installation of solar photovoltaic panels on rooftops, which are connected to a grid for domestic and industrial use. However, while the AER has developed a regulatory framework for this particular project, there are still no royal decrees or statutes for the regulation of the burgeoning renewable energy sector in Oman.

The introduction of such laws could increase investment in the sector by creating guidelines for transactional, legal and policy-related issues concerning the development, implementation and commercialisation of renewables. With such legislation and policies in place, Oman could tap into a potentially significant market that could allow it to shift away – both economically and technically – from its reliance on the oil and gas sector.

Despite its relatively limited hydrocarbons resources, in addition to the substantial drop in oil prices in recent years, Oman continues to capitalise on this sector due to its strategic location bordering the southern end of the Strait of Hormuz, and its strong diplomatic and geopolitical relationships with neighbouring states.

The new oil refinery is central to the special economic zone in Duqm. It has been developed for the purposes of refining oil and gas, as well as for midstream oil and gas activities. Once the refinery is complete it is expected to have the capacity to process more than 230,000 barrels per day.

Oman's close geopolitical relationship with Iran and the rest of the world has made it the prime location for developing a co-financed gas pipeline between a GCC state and Iran, in order to connect Iran's gas reserves to Omani consumers and create liquefied natural gas plants for re-exporting internationally through Oman.

In terms of tourism and public transport, Oman has recently seen major developments in the logistics sector that allow for more practical, affordable and accessible public transportation. A new terminal is being built at Muscat International Airport, and numerous additional logistics and port development projects have been green-lighted.

The improved transportation sector is also considered to be part of the continued effort towards developing Oman's economy because it will generate more work opportunities, particularly among the country's unemployed nationals.

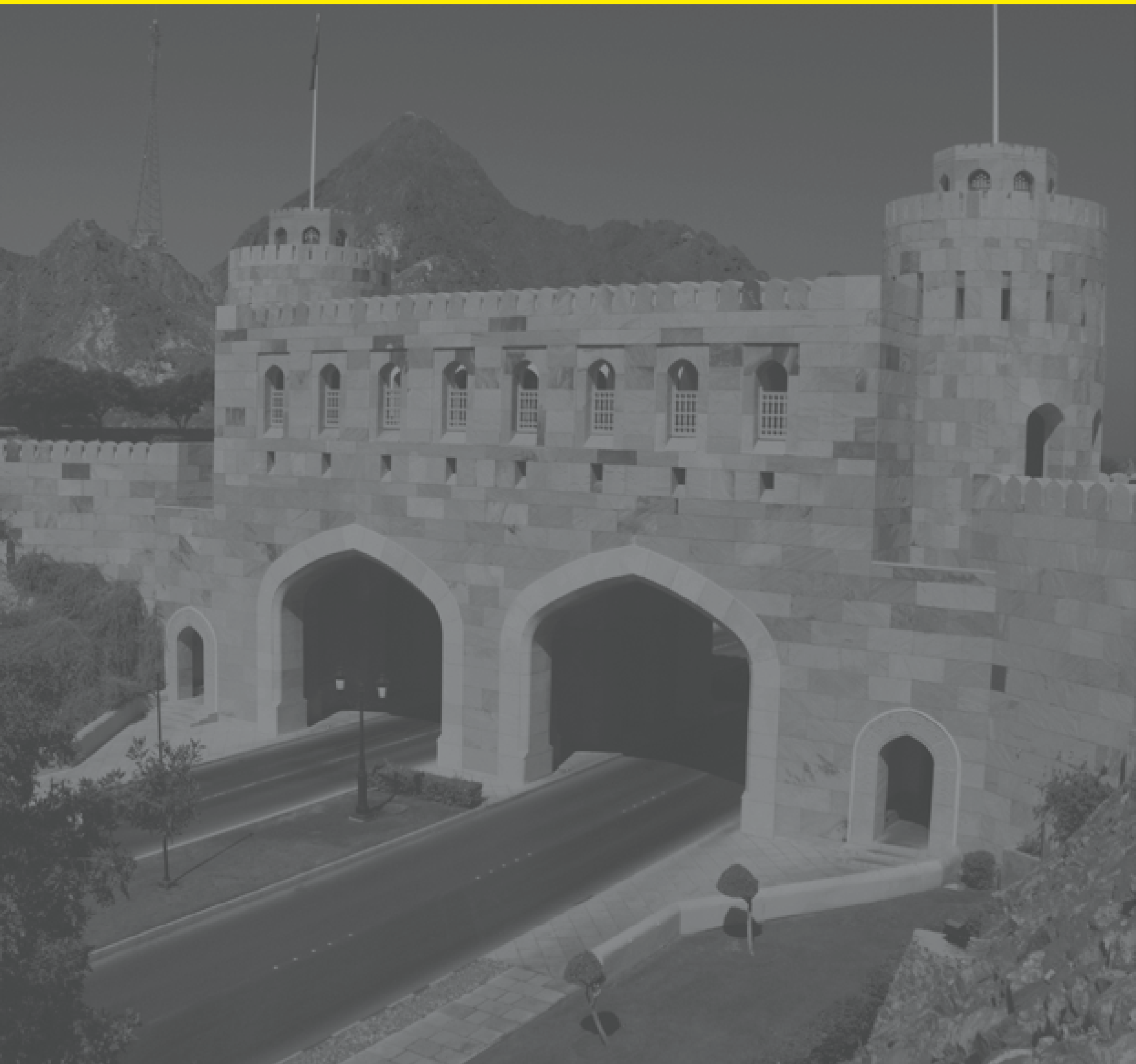
The efforts that have been made by the government to diversify the economy are promising, and with the proper legislation in place the government could help Oman accelerate its plans for Vision 2020 towards a more sustainable and diversified economy.

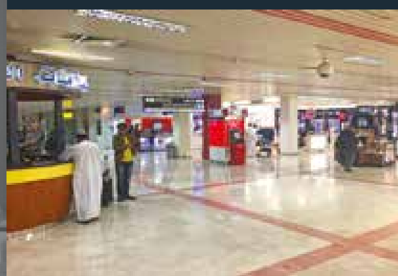
The Guide

Hotel listings for leisure and business visitors

Contact information for agencies and services

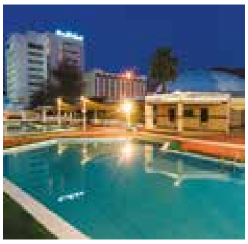
Local customs and etiquette for first-time visitors





Crystal Suites

A good night's rest



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Dining: Kohinoor restaurant (serving Indian, Mughlai, continental and Chinese cuisine) and Aasmaan (a sunlit and starlit atrium).

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Platinum Hotel

Rooms: 97 luxury rooms, air-conditioned and fully equipped with flat-screen TV, minibar, in-room safe, luxury toiletries and free high-speed Wi-Fi.
Business & Conference Facilities: Conference packages, special events coordination available. Audio and lighting systems, built-in and portable projectors, screens, wireless microphones, internet access and business centre.
Health & Leisure Facilities: Spacious indoor pool, fully equipped gym.
Guest Services: 24-hour front desk, 15 minutes away from Muscat International Airport.
Dining: Yasmeen restaurant (buffet and à la carte) and M Floor Café Marjan (private lounge). Rooftop Coffee Naseem with sunset views, serving fresh fruit cocktails, snacks and hot drinks.

AL FALAJ HOTEL
PO Box 1692
Al Hamriya
PC 131
T: +968 2470 2311
F: +968 2479 5853
reservation@alfalajhotel.com
www.alfalajhotel.com

Rooms: 152 standard rooms, including four suites.
Business & Conference Facilities: All essential services, business centre, meeting rooms, a ballroom with capacity for 800 persons and outdoor catering.
Health & Leisure Facilities: Outdoor swimming pool, children's pool, floodlit tennis court, badminton court, separate gymnasiums for men and women, saunas, steam rooms and jacuzzis, darts, pool and billiards tables, massage, hair and beauty salons.
Guest Services: 24-hour room service and front desk, concierge services, laundry and dry-cleaning, tour services, free Wi-Fi internet.
Dining: The Souq Café (multi-cuisine), Tokyo Taro (Japanese), Stassen Tea Lounge, Autobahn, The Pub and the Sports Café.

PLATINUM HOTEL
PO Box 3725
Al Khuwair
T: +968 2439 2500
F: +968 2439 2501
info@theplatinumoman.com
www.theplatinumoman.com

Rooms: 85 rooms, including three royal suites and two presidential suites.
Business & Conference Facilities: All essential services, banquet hall, two meeting rooms and a board room, secretarial services, multimedia projectors, LCD screens, high-speed Wi-Fi, audiovisual equipment, fax, scanners and all support services.
Health & Leisure Facilities: Separate gymnasium for men and women, swimming pool, steam bath and jacuzzi on the roof. Also includes massage parlour, separate for ladies and gents, with highly skilled and professional masseurs.
Guest Services: 24-hour front desk, newspapers, non-smoking rooms, facilities to accommodate guests with disabilities, express check-in and check-out, heating, luggage storage, airport shuttle, laundry, dry-cleaning, ironing service, gift shop, car hire available, currency exchange, concierge service and free parking.
Dining: Café Arabica coffee shop, Samah rooftop restaurant, 24-hour in-room dining service.

THE WAVES INTERNATIONAL HOTEL
Dohat Al Adab Street
Al Khuwair
T: +968 2448 6999
F: +968 2448 3838
reservation@wavesinternationalhotel.com
www.wavesinternationalhotel.com

Rooms: 120 rooms, including 36 standard king rooms, 36 standard twin rooms, 24 deluxe rooms and 24 Waves Suite rooms.
Business & Conference Facilities: Business centre with copying and printing, one conference room.
Health & Leisure Facilities: Gymnasium.
Guest Services: Room service, in-room safety deposit box, laundry service, currency exchange service, airport transfer service.
Dining: Waves Restaurant (Middle Eastern and intercontinental cuisine), Waves Café (coffee shop and shisha).

CENTARA MUSCAT HOTEL
PO Box 3564
Way No. 5003
Ghala Heights, Wilayat Bausher
PC 112
T: +968 2423 6600
F: +968 2422 2588
cmo@chr.co.th
www.centarahotelsresorts.com

Rooms: 152 rooms and suites, deluxe and premium club rooms of up to 33 sq metres, and a business club suite with a separate living room.
Business & Conference Facilities: rooftop terrace; three small to medium-sized function rooms, ranging between 34 and 64 sq metres; one versatile ballroom of 237 sq metres with a capacity for 280 guests for cocktail receptions or 220 seated guests.
Health & Leisure Facilities: Rooftop swimming pool, children's swimming pool, fully equipped fitness centre, SPA Cenvaree with a variety of therapies and treatments, premium lounge on the top floor.
Guest Services: Business centre, prayer room on the first floor, babysitting service available upon request, complimentary wireless internet access.
Dining: Tiptara (international cuisine), Akdeniz (traditional Turkish cuisine), The Roof (barbecue) and in-room dining.

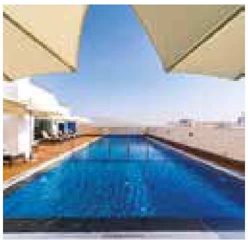
RAMADA MUSCAT HOTEL
PO Box 1011
Al Sarooj Street
Shatti Al Qurum
PC 112
T: +968 2495 6100
F: +968 2469 4500
www.ramadamuscat.com
info@ramadamuscat.com

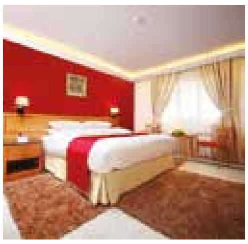
Rooms: 86 rooms, including executive rooms, one-bedroom junior suites and two-bedroom executive suites.
Business & Conference Facilities: Professionally designed, offering four meeting rooms with capacity for five to 100 persons in various meeting styles. Complimentary internet facilities and access to a fully equipped business centre.
Health & Leisure Facilities: Outdoor swimming pool, fitness centre and steam room, beauty salon, spa. Within two minutes' walk of Shatti Al Qurum beach.
Guest Services: 24-hour front desk and room service, smoking and non-smoking rooms, safety deposit boxes, laundry and dry-cleaning services, currency exchange and car rental.
Dining: Café Noir restaurant, serving continental cuisine.

BEST WESTERN PREMIER MUSCAT
Way 3341
Al Khuwair
T: +968 2203 3333
F: +968 2200 0888
gm@bwpmuscat.com
www.bwpmuscat.com

Rooms: 203 rooms, including standard, premium and city-view suites.
Business & Conference Facilities: Business centre and four conference halls, high-speed Wi-Fi internet available.
Health & Leisure Facilities: Fitness centre and swimming pool.
Guest Services: Free high-speed internet, 24-hour front desk, express check-in, express checkout, currency exchange, 24-hour room service, turndown service, laundry and dry-cleaning service, safe deposit box and satellite TV.
Dining: Atrium (multi-cuisine restaurant), Moza Wa Khamis and Connection Cafe.


The Waves International Hotel


Centara Muscat Hotel


Ramada Muscat Hotel

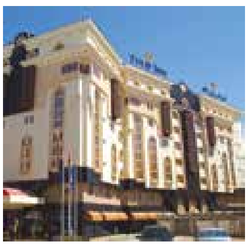

Desert Night Camp

RADISSON BLU HOTEL, MUSCAT
PO Box 939
PC 133
T: +968 2448 7777
F: +968 2448 7778
reservations.muscat@radissonblu.com
www.radissonblu.com/hotel-muscat

Rooms: 153 rooms, including standard and business-class rooms, studio and junior suites.
Business & Conference Facilities: All essential services, five meeting rooms for up to 120 guests, internet, fax, colour printer, 24-hour business lounge.
Health & Leisure Facilities: Fontana health club, gymnasium, massage, sauna, steam rooms, outdoor swimming pool.
Guest Services: Free high-speed wireless internet, rental car desk on site, three-hour express laundry, express checkout, tour package, gift shop.
Dining: Olivos Restaurant and Terrace, O Sole Mio Restaurant (Italian restaurant), the Lazy Lizard Bar and Garden, the Grind Floor (lobby cafe), O'Malley's (Irish pub), Casa di Bacco (lounge bar).

INTERCONTINENTAL MUSCAT
PO Box 398
Shatti Al Qurum
PC 113
T: +968 2468 0000
F: +968 2460 0012
rooms.icm@ihg.com
www.ichotelsgroup.com

Rooms: 258 rooms, including Club InterContinental rooms and a variety of suites, including a royal suite.
Business & Conference Facilities: All essential services, six meeting rooms, including a ballroom accommodating 450-500 persons seated and up to 700 standing, with modern equipment, secretarial services and complimentary internet.
Health & Leisure Facilities: Health and fitness centre, two swimming pools and a children's pool, aerobics studio, gym, sauna, jacuzzi, steam rooms, plunge pool and massage rooms, two outdoor tennis courts with floodlights, table tennis, direct beach access, live entertainment.
Guest Services: ATM, safety-deposit boxes, concierge, laundry and dry-cleaning, limousine service, currency exchange, car hire, beauty salon.
Dining: Musandam Cafe and Terrace Restaurant, Al Ghazal Pub, Majlis Al Shams Lobby Tea Lounge, Trader Vics (Polynesian) and Tomato (Italian).


Tulip Inn Muscat Hotel

DESERT NIGHT CAMP
PO Box 2031
Al Wasil
PC 112
T: +968 9281 8388 / 9947 7266
F: +968 2479 5853
reservations@desertnightscamp.com
www.desertnightscamp.com

Rooms: 44 Bedouin-style tented suites, including family tented suites and adjoining standard rooms.
Health & Leisure Facilities: Curio store, Bedouin band with oud player entertaining at dinner time, dune bashing, camel rides, sunset drives, sand boarding, quad bike riding, guided desert safaris and walks, visit to the natural pools at Wadi Bani Khalid.
Guest Services: Recreation room, kids play area. Wi-Fi available in the reception area.
Dining: Two Dunes Restaurant.

TULIP INN MUSCAT HOTEL
PO Box 179
Beside Zawawi Mosque
5 Al Khuwair
PC 102
T: +968 2447 1500
F: +968 2447 1600
info@tulipinnmuscat.com
www.tulipinnmuscat.com

Rooms: 153 spacious rooms and suites, with standard rooms, suites and two-bedroom apartments
Health & Leisure Facilities: Gymnasium, sauna and steam room.
Business & Conference Facilities: Three meeting rooms.
Guest Services: Access to the Flavour Executive Lounge, transport to and from Muscat International Airport, laundry and dry-cleaning service, Wi-Fi internet access, 24-hr room service and lobby cafe.
Dining: Al Luban Restaurant, with a selection of Arabic and international cuisine, local and international dishes, and a lobby lounge serving fresh fruit drinks, coffee and dessert.

GRAND HYATT MUSCAT
PO Box 951
Shatti Al Qurum
T: +968 2464 1234
F: +968 2460 5282
muscat.grand@hyatt.com
www.muscat.grand.hyatt.com

Rooms: 280 rooms, including 54 suites, six luxury crown suites and one Ubar royal suite.
Business & Conference Facilities: All essential services: courier services, copying, scanning, fax and binding. Afrah ballroom with capacity to seat 500 guests, four boardrooms and two meeting rooms.
Health & Leisure Facilities: Club Olympus fitness centre, gymnasium, floodlit tennis courts, jacuzzi, sauna and steam room, massage, outdoor swimming pool, beach, lazy river.
Guest Services: 24-hour room service, in-room safety-deposit box, laundry service and valet service, currency exchange service, ATM, bank, babysitting service available upon request, florist, jeweller, hair and beauty salon, souvenir shop, car hire available, tour and travel desk, airport limousine service, hotel shops.

Dining: Marjan (Indonesian and South-east Asian), Mokha Café (Middle Eastern and international), Tuscany (Italian), Club Safari (live entertainment) and Safari Rooftop Grill House, Habana Sports Bar, John Barry Bar (live entertainment), Sirj Tea Lounge.

SAVOY INN GRAND HOTEL APARTMENTS
Ghala Heights
Near Al Nahda Towers / Vacha's Hypermarket
T: +968 2422 0970/ 71, 9767 7211
F: +968 2422 0972
savoygrand9@gmail.com
www.savoyinnhotels.com

Rooms: One- and two-bedroom apartments with fully equipped kitchen, and studio apartments.
Business & Conference Facilities: Conference room and party hall available, business centre, fax, photocopying, free Wi-Fi.
Guest Services: LED television with satellite channels in all rooms, traditional kahwa and dates for all guests at the front office, free parking on site, facilities for guests with disabilities, non-smoking rooms and family rooms, laundry and housekeeping services, 24-hour front desk and 24-hour room service, transport and airport shuttle services provided at an additional cost.
Dining: The Mumbai-Chennai Express, a multi-cuisine restaurant serving Mughlai, South Indian-Chettinad, Tandoor, Chinese and continental dishes. Packed lunches can also be arranged.

THE CHEDI MUSCAT
18th November Street
PO Box 964
Muscat
PC 133
T: +968 2452 4400
F: +968 2449 3485
reservation@chedimuscat.com
chedimuscat@ghmhotels.com
www.GHMhotels.com

Rooms: 158 rooms, including 60 Serai rooms, 52 deluxe rooms, eight deluxe club rooms and 38 Chedi club suites.
Business & Conference Facilities: All essential services, banquet and meeting facilities, Wi-Fi access, business centre.
Health & Leisure Facilities: Fully equipped health club, 13 spa suites, three outdoor swimming pools, private beach and two floodlit tennis courts.
Guest Services: 24-hour reception, boutique, airport transfers, tour packages, car hire, satellite TV, laundry and dry-cleaning, doctor on call, safety-deposit boxes, free Wi-Fi.
Dining: The Restaurant, the Beach Restaurant (seafood), the Arabian Courtyard, the Shisha Lounge, the Lobby Lounge, the Chedi Pool Cabana, the Serai Pool Cabana, the Long Pool Cabana and two private dining rooms: the Khasab and the Mirbat Rooms.

SHANGRI-LA BARR AL JISSAH RESORT & SPA
PO Box 644
Muscat
PC 100
T: +968 2477 6666 / 6262 (reservations)
F: +968 2477 6677
slmu@shangri-la.com
http://www.shangri-la.com/muscat/barraljissahresort/

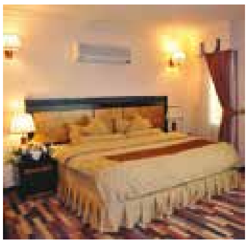
Rooms: 198 guest rooms (Al Bandar) and an additional 262 guest rooms (Al Waha).
Guest Facilities: Business centre, conference facilities, disabled-friendly facilities, hospitality lounge, library, non-smoking rooms, parking facilities, safety-deposit box, florist.
Health & Leisure Facilities: Adventure Zone, beach, spa, Cool Zone Kids' Club, GameZ, health club, lazy river, mini-golf, SplashPad, swimming pools, floodlit tennis courts, water sports.
Guest Services: Guest information centre, complimentary shoeshine, express check-in and checkout, laundry and valet, postal and courier services, airport transfers, car hire, city shuttle, complimentary shuttle bus to shopping areas, taxi and limousine available for additional cost.
Dining: Al Tanoor (Arabian cuisine), BAB Lounge, Bait Al Bahr (Omani cuisine), Capri Court (Italian cuisine), lobby lounges, piano lounge, pool bars, Samba (various cuisines), Surf Café, Tapas & Sablah (tapas and mezze), The Long Bar (cocktails), Zafran Café.

SHANGRI-LA AL HUSN RESORT & SPA
PO Box 644
PC 100
T: +968 2477 6388
F: +968 2477 6677
slmh@shangri-la.com
http://www.shangri-la.com/muscat/alhusnresortandspa/

Rooms: 180 guest rooms, with non-smoking options available.
Business & Conference Facilities: 24-hour business centre, hospitality lounge, internet access centre, library and parking facilities.
Health & Leisure Facilities: Fitness centre, gym, spa, dolphin watching, snorkelling boat trips, various types of water sports including paddle boarding, water-skiing, wakeboarding, doughnut rides, banana boating and kayaking.
Guest Services: Airport shuttle service, room service available in suites, complimentary shoeshine service, express check-in and checkout, clinic and house doctor on call, technical assistance, laundry, valet, parking, foreign exchange services, facilities to accommodate individuals with disabilities and Wi-Fi in public areas.
Dining: Mahhara Beach Bar, Al Muheet (poolside refreshments), Shahrazad (Arabian cuisine), Sultanah (international cuisine).


The Chedi Muscat


Shangri-La Barr Al Jissah Resort & Spa

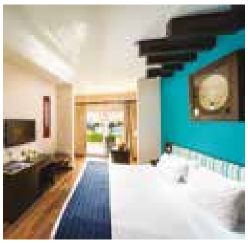

Dmas Hotel

DMAS HOTEL
PO Box 1612
Postal Code 130
Azaiba
T: +968 2461 4400
F: +968 2461 4411
info@dmashotel.com
www.dmashotel.com

Rooms: 60 rooms including standard rooms, executive rooms, junior suites, and Dmas suites
Business & Conference Facilities: Business centre
Guest Services: Tours and ticket assistance, dry-cleaning, laundry, concierge, free breakfast, restaurant, free Wi-Fi, premium TV channels, in-room safe, cribs and infant beds, coffee and tea maker, hair dryer, iron and board, extra beds available.

MUSSANAH

MILLENNIUM RESORT MUSSANAH
PO Box 82
Wudam Al Sahil
Mussanah
PC 300
T: +968 2687 1555
F: +968 2687 1556
www.millenniumhotels.com
sales.mrmo@millenniumhotels.com


Al Wadi Hotel

Rooms: 234 rooms and suites, 74 fully furnished studios, one- and two-bedroom apartments and duplexes with fully equipped kitchens.
Business & Conference Facilities: Five meeting rooms and a business centre. Each room is equipped with the latest audiovisual equipment, large televisions and LCD projectors, Wi-Fi, broadband internet and smart automated lighting. Mussanah ballroom and event plaza with capacity to seat 2000 people.
Health & Leisure Facilities: 54-berth marina, private beach and beach club with various types of water sports, spa, wellness centre, fitness club, fully supervised kids club with two climbing walls, shaded swimming pool for families, two infinity pools, one main leisure pool and kids splash pool, dive centre, 18-hole mini-golf course, football pitches, beach volleyball, two floodlit tennis courts, running track, 175-metre zip-line.
Dining: Al Bahar, Azure and Mydan Restaurants, and Compass Bar, Naseem Lounge, The Deck.

SOHAR


Atlas Hotel Apartments (Sohar)

AL WADI HOTEL
PO Box 459
Sohar
PC 311
T: +968 2684 0058
F: +968 2684 1997
reservationalwadi@omanhotels.com
www.omanhotels.com

Rooms: 78 rooms, including 25 deluxe rooms, which are located poolside, as well as 53 standard rooms.
Business & Conference Facilities: All essential services, business centre, conference hall that seats 40 people, audiovisual equipment and training aids.
Health & Leisure Facilities: Health club, sauna, swimming pool, billiards/pool.
Guest Services: Room service, 24-hour front desk reception services, laundry, car park, free Wi-Fi.
Dining: Al Sallan Restaurant (continental/ Indian/ Chinese), Oasis Restaurant (Arabic), Al Waqbah Bar (live music), Al Majaz Members Club and Soprano, English dining and dance club with billiards and darts.

CROWNE PLAZA SOHAR
Falaj Al Qabail
PC 322
T: +968 2685 0850
F: +968 2685 0800
cpsohar@ihg.com
www.crowneplaza.com/cpsohar

Rooms: 126 non-smoking rooms, with a total of 91 single rooms, 29 double rooms and six suites.
Business & Conference Facilities: All essential services, including secretarial services, high-speed internet access, Wi-Fi, seven meeting rooms with capacity for up to 600 persons.
Health & Leisure Facilities: 10 acres of landscaped gardens, health and fitness centre, sauna, steam room, spa, massage rooms, outdoor pool, four-lane bowling alley, two floodlit tennis courts, beach volleyball, snooker, billiards, table tennis.
Guest Services: Dry-cleaning and laundry, babysitting, travel desk, car hire, concierge, ATM, limousine, foreign currency exchange, shopping opportunities.
Dining: The Sports Club, Resident Bar and Lounge, restaurant, steakhouse, patisserie, pool deck.

ATLAS HOTEL APARTMENTS (SOHAR)
Al Tareef
Between Badr Al Samaa Hospital and Carrefour supermarket
T: +968 2685 3009/ 3010
M: +968 9767 7196
F: +968 2685 3011
atlashotel27@gmail.com
www.savoyinnhotels.com

Rooms: one- and two-bedroom fully furnished studio apartments, with hall, kitchen and living room. Non-smoking rooms and family rooms available.
Business & Conference Facilities: Business centre, fax, photocopying, free Wi-Fi.
Guest Services: LED TVs with satellite channels in all rooms, traditional kahwa and dates for all guests, free parking on site, facilities to accommodate individuals with disabilities, laundry and housekeeping, 24-hour front desk and room service, transport and airport shuttle provided at an additional cost.

Dining: Mumbai-Chennai Express, a multi-cuisine restaurant. Packed lunches can also be arranged.

SALALAH

MIRBAT MARRIOTT RESORT

PO Box 225
PC 220
Mirbat, Dhofar Region
T: +968 2327 5500
F: +968 2326 8271
www.mirbatmarriott.com
mhrs.sllms.dos@marriotthotels.com

Rooms: 237 rooms: 73 deluxe rooms, 65 superior rooms, 45 executive rooms and suites, three presidential suites, 51 chalets.
Business & Conference Facilities: Video conferencing, high-speed internet for a fee, audiovisual equipment, banquet and conference facilities, technical assistance available, three meeting rooms and private office space, boardrooms, business centre.
Health & Leisure Facilities: Outdoor swimming pools, frankincense spa and diving centre.
Guest Services: Mobile check-in, 24-hour room service, express checkout, concierge, currency exchange, laundry, dry-cleaning and pressing, shops, gallery, complimentary shuttle to and from airport.
Dining: Sumhuram restaurant (international), Al Dana (seafood), Mirbat Arabic Café (Middle Eastern), Dhofar Piano Lounge (continental), The Cove (international), The Wharf Pool Bar (continental).

HILTON SALALAH RESORT

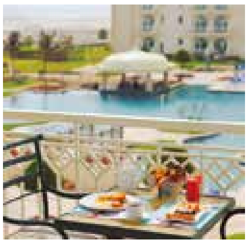
PO Box 699
Salalah
T: +968 2313 3333
F: +968 2323 3335
salalah@hilton.com
www.salalah.hilton.com

Rooms: 147 guest rooms and suites, with balconies or with terraces and French balconies.
Business & Conference Facilities: All essential services, three meeting rooms, one ballroom, internet, secretarial services and audiovisual equipment hire.
Health & Leisure Facilities: Fitness centre, outdoor swimming pool, sauna, indoor massage, beach, playground, scuba diving and tennis courts, kids club.
Guest Services: Shopping arcade, babysitting service upon request, car hire service, concierge desk, currency exchange, 24-hour room service.

CROWNE PLAZA RESORT SALALAH

PO Box 870
Salalah
PC 211
T: +968 2323 8000
F: +968 2323 5137
cpsalalah@cpsalalah.com
www.crowneplaza.com/salalah

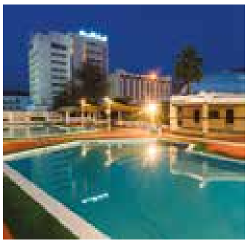
Rooms: 153 rooms: nine suites, 42 single rooms, 83 double rooms, 19 three-bedroom villas.
Business & Conference Facilities: Dhofar Ballroom accommodates 500-600 people. Smaller meeting rooms, Taqa, Mirbat and Seagull, for eight to 50 people, business centre.
Health & Leisure Facilities: Adult and children's swimming pool, two floodlit tennis courts, squash court, gym, sauna, steam room, jacuzzi and two massage rooms, children's water play area and dive centre, nine-hole golf course and driving range, Kids Club, 18-hole mini-golf course.
Guest Services: Gift shops, 24-hour room service, internet access, laundry and dry-cleaning service, car hire, currency exchange.
Dining: Darbat Restaurant, Dolphin Beach Restaurant, Al Luban Restaurant and night club, bar complex, Birds Lounge, Splash Pool Bar and snack bar, Al Khareef pub.


Hilton Salalah Resort

SUR

SUR PLAZA HOTEL

PO Box 908
Sur
PC 411
T: +968 2554 3777
F: +968 2554 2626
reservationsur@omanhotels.com
www.omanhotels.com

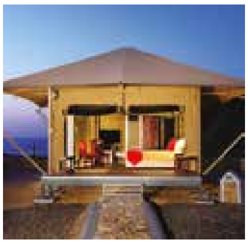

Sur Plaza Hotel

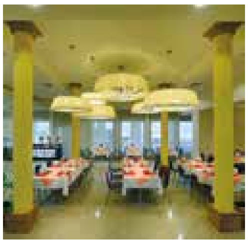
Rooms: 84 standard rooms, 15 deluxe rooms and three suites.
Business & Conference Facilities: Business centre, meeting room with audiovisual equipment and seating for 75, outdoor venue with 400-person capacity.
Health & Leisure Facilities: Outdoor swimming pool, pool/billiards table, gymnasium, sun loungers and umbrellas available upon request.
Guest Services: Room service, concierge services, laundry, tour services, free Wi-Fi internet.
Dining: Oysters Restaurant (multi-cuisine), Al Najoom poolside dining.

RAS AL JINZ TURTLE RESERVE

PO Box 296
Sur
T: +968 9655 0606 / 707
reservations@rasaljinz-turtlereserve.com
www.rasaljinz-turtlereserve.com

Rooms: 17 Carapace rooms with twin/double occupancy, two Carapace bunk bed rooms and 12 luxury eco-tents.
Guest Services: Guided turtle viewing excursions at night and early morning, turtle visitor centre (museum), meeting room, Wi-Fi, in-room tea- and coffee-making facilities, in-room safe, mosque, gift shop, library, parking, beach access 8.00am-2.00pm.
Dining: Sea Giants Restaurant (multi-cuisine, coffee shop-style à la carte lunch, themed dinner buffet).

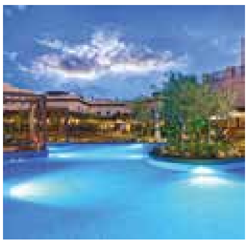

Ras Al Jinz Turtle Reserve



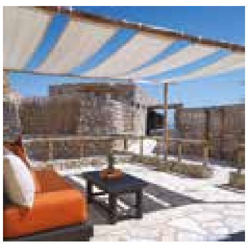
City Hotel Duqm

Masira Island Resort

Atana Khasab



Atana Musandam



Six Senses Zighy Bay

CROWNE PLAZA DUQM
PO Box 6
Duqm
PC 711
T: +968 2521 4444
F: +968 2521 4445
reservations.cpduqm@ihg.com
www.crowneplaza.com/duqm

Rooms: 213 sea view rooms and suites.
Business & Conference Facilities: Nine meeting rooms including two large ballrooms accommodating up to 400 people.
Health & Leisure Facilities: Fully equipped gym, two floodlit tennis courts, one beach volley court, outdoor heated swimming pool and a children's plunge pool.
Dining: The Frontier Restaurant and Sports Pub (snacks and drinks), Al Safi Restaurant, (seafood dinner), Souq Restaurant (international cuisine all day), Jowharh Lounge (coffee lounge).

CITY HOTEL DUQM
PO Box 85
Haima
PC 711
T: +968 2521 4900
F: +968 2521 4933
rsvn@cityhotelduqm.com
www.cityhotelduqm.com

Rooms: 118 rooms, including standard rooms on single and twin/double occupancy, executive and deluxe suites.
Business & Conference Facilities: 24-hour business centre, free Wi-Fi internet access, meeting room to accommodate 75 people.
Health & Leisure Facilities: Fitness room and recreation room.
Guest Services: 24-hour front desk, express check-in and checkout, currency exchange, safety-deposit box, room service, in-room tea- and coffee-making facilities, and laundry and ironing service.
Dining: The Areesh restaurant.

MASIRAH

MASIRA ISLAND RESORT
PO Box 135
Masirah Island
T: +968 2550 4274
F: +968 2550 4275
reservations@masiraislandresort.com
www.masiraislandresort.com

Rooms: 22 rooms, including deluxe standard rooms, premier rooms, executive suites, chalets.
Business & Conference Facilities: Meeting room and Wi-Fi available.
Health & Leisure Facilities: Swimming pool, children's play area, volleyball.
Guest Services: LCD satellite TV, safety-deposit box, in-room tea- and coffee-making facilities.
Dining: Dhow multi-cuisine restaurant, Oasis Bar.

MUSANDAM

ATANA KHASAB
PO Box 434
Khasab
PC 811
T: +968 2673 0777
stay@atanahotels.com
www.atanahotels.com

Rooms: 60 rooms, including suites.
Business & Conference Facilities: Essential services, internet access, meeting rooms for 10-100 guests.
Health & Leisure Facilities: Fitness centre, swimming pool, table tennis, children's pool and play area.
Guest Services: Tour desk, laundry, 24-hour room service, satellite TV and safety-deposit boxes.
Dining: Al Mawra Restaurant, Finyon Café, Darts bar and pool bar.

ATANA MUSANDAM
PO Box 169
Khasab
PC 811
T: +968 2673 0888
stay@atanahotels.com
www.atanahotels.com

Rooms: 105 rooms including duplex and suites.
Business & Conference Facilities: Essential services, internet access, meeting rooms for 10 to 15 guests.
Health & Leisure Facilities: Spa and fitness centre, children's pool, play area and swimming pool.
Guest Services: Tour desk, laundry, 24-hour room service, satellite TV and safety-deposit boxes.
Dining: Al Mawra Restaurant.

SIX SENSES ZIGHY BAY
PO Box 212
Dibba Musandam
PC 800
T: +968 2673 5555
F: +968 2673 5556
reservations-zighy@sixsenses.com
www.sixsenses.com/zighybay

Rooms: 82 private pool villas, including one unit of four bedrooms and two units of two bedrooms.
Health & Leisure Facilities: 1.6-km private sandy beach, two swimming pools (including the only saltwater pool in the GCC), spa with nine treatment rooms, two hammams, sauna, ice cave, gymnasium.
Guest Services: Laundry, valet, limousine, on-site nurse, beach service, personal experience maker.
Dining: Sense on the Edge (fine mountaintop dining), Spice Market (Arabic), Summer House (international), Zighy Bar, Beach Bar.

Nationals of 69 countries, including Australia, EU-member countries, the UK and the US, can easily obtain a one-month visa upon arrival in Oman. Rules for citizens of China, Russia, India and Iran have also been relaxed, and visas cost $52 for one month.

Omanis are renowned for being very friendly and accepting of Western culture, although it is of course recommended that the visitor be respectful of local customs, values and religion, and err on the conservative side when unsure of customary behaviour.

MINISTRIES & AGENCIES

Agriculture & Fisheries
2469 6300
Awqaf & Religious Affairs
2464 4999
Capital Market Authority
2482 3100
Central Bank of Oman
2477 7777
Civil Aviation
2435 4488
Civil Services
2468 9999
Commerce & Industry
2485 8444
Defence
2433 3361
Diwan of Royal Court
2474 2000
Education
2477 3000
Finance
2461 5833
Foreign Affairs
2469 9500
Health
2444 1999
Heritage & Culture
2464 1331
Higher Education
2434 0004
Housing, Electricity & Water
2469 3333
Information
2494 1544
Interior
2468 6000
Justice
2469 7699
Legal Affairs
2434 2357
Manpower
2434 4000
Muscat Securities Market
2482 3600
Oil & Gas
2464 0565
Radio & TV
2494 3393
Social Development
2464 5000
Tourism
2208 8000

CHAMBERS OF COMMERCE & INDUSTRY

Muscat
2476 3700
Rusayl
2444 9888
Salalah
2329 1661
Sohar
2684 0147
Sur
2554 0337
Nizwa
2543 1640
Ibri
2568 9674
Ibra
2557 0337
Buraimi
2564 1774
Khasab
2673 1940
Rustaq
2687 5118

FOREIGN EMBASSIES

Bahrain
2460 5074
China
2495 8000
France
2468 1800
Germany
2483 2482
India
2468 4500
Iran
2469 6944
Iraq
2469 5559
Jordan
2469 2760
Kuwait
2469 9626
Qatar
2470 1802
Russia
2460 2894
Saudi Arabia
2469 8780
Switzerland
2460 3267
UAE
2440 0000
UK
2460 9000
US
2464 3400
Yemen
2460 4172

PROFESSIONAL SERVICES

Abu Timam Grant Thornton
2457 1320
BDO Jawad Habib
2495 5100
Deloitte
2235 4300
Horwath Mak Ghazali
2481 3989
KPMG
2470 9181
PwC
2455 9110
CMS
2439 9905 / 8756
Dentons
2457 3000
Curtis
2456 4495

AIRLINES

British Airways
8007 7694
Emirates Airlines
2440 4444
Etihad Airways
8007 6423
FlyDubai
2476 5095
Gulf Air
2477 5000
Iran Air
2479 6680 / 6681 / 6682
Jet Airways
2478 7246
KLM – Royal Dutch Airways
2465 7575
Kuwait Airways
2470 0178
Oman Air
2453 1111
Qatar Airways
2416 2700
SalamAir
2427 2222
Saudi Arabian Airlines
2478 9485
Swiss International Airlines
2451 9983
Turkish Airlines
2476 5071

TRAVEL SERVICES

ABC Rent a Car
2458 2663
Budget
2468 3999
Elegant Rent-A-Car
2457 1951
Europcar
2412 1165
Global Car Rental
2469 7140
Hertz
2462 5200
OUA Travel & Rent A Car
2455 9902
National Travel & Tourism
2466 0300
Travel Point
2476 0800 / 8007 / 8777

USEFUL NUMBERS

Emergency Services
999
Flight Information
2451 9223
National Directory Info
198
Royal Oman Police, Muscat
2456 0099
Royal Oman Police, Salalah
2329 0099

Facts for visitors

Essential things to know before your trip to Oman

LANGUAGE: Similar to other GCC member states, Arabic is the official language of Oman, although English is widely spoken and understood. Using English to get around or conduct business in the capital, Muscat, or other hubs such as Sohar or Salalah, is relatively easy. Locals do appreciate the exchange of salutations in Arabic, but they are very accommodating to non-Arabic speakers. Having historic ties to Zanzibar and a large Asian subcontinent population means that Swahili, Hindu and Urdu are also widely spoken. English is often taught as a second language, and road signs will appear in both English and Arabic. However, it is recommended to send any official government correspondence in Arabic.

ETIQUETTE: Omanis are renowned for being friendly and accepting of Western culture, although it is of course recommended that the visitor be respectful of local customs, values and religion. Therefore, it is best to err on the conservative side when unsure of local customs. Handshakes are acceptable and widely used in business situations; however, businessmen should wait for the woman to extend her hand first. In social situations it is customary for the host to pay for the meal and allow the guest to eat first.

CURRENCY: Oman's currency is the Omani rial (OR) and is pegged to the dollar at OR1:$2.589. One rial comprises 1000 baisa, also written baiza. Banknotes are issued in denominations of 100 baisa, a half-rial (the equivalent of 500 baisa), one-, five-, 10-, 20-, and 50-rial notes. ATMs are widely available and credit cards are commonly accepted.

TRANSPORT: Taxis are available along the main highway and in popular tourist areas. Airport taxi prices are set and vary depending on the destination, but city taxis are not metered and a price should be agreed upon before departure. Buses are a recent addition to Muscat, and bus terminals are easy to spot around town. Car hire is also available at the airport or through car rental offices in Oman's cities.

COMMUNICATIONS: The international telephone country code for Oman is +968. There are two main mobile phone operators – Omantel and Ooredoo. These companies offer both fixed-line and mobile services. Mobile virtual network operator licences have been awarded to other resellers, including FRiENDi, Renna Mobile and TeO. All operators offer SIM cards that can be activated within minutes of purchase. Public Wi-Fi can be easily accessed in coffee shops. Mobile operating companies also offer prepaid mobile internet, which guarantees web access over 3G and 4G networks.

ELECTRICITY: Oman's electrical outlets are 220-220-240 V, 50 Hz. UK-style, three-pronged plugs are used in a number of facilities; however, most electrical equipment is of the European, two-pronged type.

VISA: Nationals of 69 countries, including Australia, Canada, the EU, the UK and the US, can easily obtain a one-month visa upon arrival. Rules for nationals from India, China, Russia and Iran have also been eased. Visa costs are fixed at OR20 ($52) for one month and can be extended for an additional month upon official approval. Visitors of selected nationalities arriving from Dubai or Qatar can receive a free, three-week visa that is extendible by one more week.

WORKING HOURS: Both the public and private sectors observe the Sunday-to-Thursday work-week. Banks and government offices are open 7:30am-2:30pm, while most private companies' official hours are 9:00am-5:00pm.

DRESS: A variety of dress styles can be found in Oman. Men wear a simple, ankle-length white robe called a *dishdasha*, with either a *kummah* (a woven cap, worn daily) or a *mussah* (a turban, used for special occasions). Women's dress depends on the region, but generally includes a long dress and head-scarf. Modesty is recommended for visitors in respect of local customs. Business suits or the equivalent are the norm for visiting Western businesspeople.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