The Projects and Privatisation Landscape in Oman

Richard Baxter - Senior Associate - Corporate / Mergers and Acquisitions / Commercial / Capital Markets / Projects
- Muscat

Oil Revenues, Privatisation and the 'New Normal'

The dramatic fall in oil prices between June 2014 and January 2016 saw the oil price crash from USD114 per barrel (p.b.) to a 30-year low of USD26 p.b. Inevitably, the oil price crash significantly restricted the ability of Gulf Co-operation Countries' (GCC) governments to fund new infrastructure projects. Despite some more optimistic views from specific commentators, most expect oil to remain in the USD50-60 p.b. range for the medium term.

In response to the fiscal squeeze on public finances, finance ministries across the Middle East and North Africa (MENA) region have increasingly sought to engage the private sector in designing, building, financing and operating public sector infrastructure and services.

Since the mid-1990s countries in the MENA region have used private financing models. Prior to 2014, however, the majority of projects were limited to the utilities sector, mostly Independent Power Plants (IPPs) and Independent Water and Power Plants (IWPPs). IPPs and IWPPs have historically benefitted from special agreements to incentivise the provision of low cost energy.

The public private partnership model (PPP) in the GCC and wider MENA region is relatively young compared with the record of its use in the rest of the world. This article examines some of the challenges and opportunities arising in the projects and privatisation field in Oman in 2018 and beyond.

Oman's response to the New Normal

Oman has not been immune from the oil price fluctuation having had a 2017 fiscal break-even position of USD79 p.b. With current nominal GDP of USD51.7bn, oil output of c. 952,000 barrels per day and inflation running at 0.3%, Oman started running a budget deficit of about 1% of GDP in 2014. The budget deficit rose to 21% of GDP by late 2016 before being brought down to around 13% in late 2017 due to fiscal consolidation and cost-cutting. Growth had slowed to 0.4% by late 2017 but is expected to recover to a forecasted 3.8% in 2018. Fiscal consolidation has seen the value of contracts awarded by the government roughly halve.

Less rich in natural resource reserves than its GCC neighbours, Oman has had a long-standing commitment to economic diversification. The government also has an excellent record with IPPs and IWPPs, launching the GCC's first IPP in 1994. Oman is, however, yet to deliver any major PPP scheme in any other sector.

According to Oman's 2018 national budget, oil prices, estimated at $50 p.b, will produce 70 per cent of the expected OMR12.5bn in revenues. Meanwhile it is envisaged the deficit will be kept at the same level as 2017 by increasing expenditure on important projects.

Fabio Scacciavillani, chief economist at the Oman Investment Fund has been quoted in Oman's national press as saying:
"The most important aspect of budget is that revenues and current expenditures are in line with each other or nearly the same. So borrowing is done only to implement infrastructure projects that will produce a return. This is applying the golden rule, that is, to pay for current expenditures from revenues, and pay

for return yielding projects by financing it."
Mr Scacciavillani added that Oman's budget is not just prudent, but should reassure lenders that "you are not lending money, but financing growth, from which returns are evident."

Specific opportunities

In January 2018 the Ministry of Finance of the Sultanate of Oman stated, in its detailed analysis of the budget, that six state-owned enterprises (SOEs) will be privatised this year. The relevant SOEs are currently carrying out projects worth OMR3bn (USD7.8bn). Those projects are in addition to the OMR2.7bn the government has set aside for the implementation of projects in the oil and gas, and infrastructure sectors.

Around 11 public-private partnership projects valued at USD2bn are in different stages of planning and execution in Oman, according to recent research from the business intelligence firm MEED.

Further, the government's Tanfeedh programme, seeks to ensure 80 per cent of funding from the private sector for 91 initiatives underway. Tanfeedh is Oman's 9th Development Plan covering the period 2016 to 2020, focussing on five key strategic areas of: manufacturing; transport and logistics; tourism; fisheries; and mining. Tanfeedh has 121 projects and initiatives which are expected to generate USD40bn in investment opportunities, mainly from the private sector. While the details of which projects will be delivered by way of PPP are awaited, the Tanfeedh 2017 Handbook identifies three pilot projects: a mass housing project; public schools; and a hospital.

MEED forecasts that in the period 2018 to 2021 project awards in Oman will rise from US13.3bn to US16.4bn (worst case scenario estimate USD9.6bn to US12.7bn, best case USD17.0bn to USD20.1bn).

The Oman projects pipeline breaks down approximately: 25% construction; 15% each of oil, chemical and water; 10% power; and in the region of 6% for each of industrial, gas and other.

Structural challenges and the Oman opportunity

Informed commentators will be aware that the GCC and MENA region can present legislative, capacity and political challenges which will need to be overcome if the region is to deliver its PPP plans.

MEED Editorial Director Richard Thompson has commented that: "The rise in public-private partnerships 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."

"But it is not easy," he added. "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. It requires new skills and technical capacity. And it requires not just a change in business models but also in the political mindset."

In our view, Oman's government remains a leader in the region in terms of commitment to continuous reforms to improve its business environment and attract ever more private sector investment. Oman is ranked fourth in the Arab world, at 71st globally, according to the World Bank's Ease of Doing Business Index. The government continues to work towards enacting a new Foreign Investment Law, A Public-Private Partnership Law and a Bankruptcy Law, all keenly anticipated by the domestic and wider business community.

His Majesty Sultan Qaboos has himself recently stated: "The private sector must play a greater role in supporting and diversifying the national economy. This should be done in concert and harmony with the efforts exerted by the government to stimulate domestic and foreign investment. It is to be done by establishing a new infrastructure; continuing to maintain the existing foundations upon which we have built; providing a wide range of services; improving the atmosphere of general investments; and instituting a programme of privatisation. This programme will help the continuation of economic growth, increase the efficiency of productivity and avoid monopolisation.”

2018 Outlook

With growth forecast to return to the Oman economy in 2018 and oil prices stable, or possibly rising, projects and privatisation activity can be expected to rise and flourish in Oman in the short to medium term.

While legislation can take time to come in to force in the Sultanate, the final results usually pay testament to the due consideration and attention that is paid to key legislative reform and development. Prime movers probably still have an opportunity to influence the new legislative framework in terms of ensuring it can accommodate all the optimal models of PPP suitable for the territory.

With its longstanding vision and discipline in terms of securing sustainable and responsible economic growth, pursuant to economic liberalisation in accordance with the national interest, and its commitment to fiscal control and privatisation, Oman may well be ‘one to watch in 2018’ for significant projects and privatisation investors.

Al Tamimi & Company’s Oman Office team regularly advises on projects and privatisation matters in Oman. For further information please contact Richard Baxter (R.Baxter@tamimi.com) or Ahmed Al Barwani (A.AlBarwani@tamimi.com).