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An Overview of the Capital Projects and Infrastructure Market in the Middle East and North Africa

ARQ Economic and Business Intelligence Limited

Contents

List of Figures

List of Tables

1.0 | Scope

This report provides an overview of the capital projects and infrastructure industry in three countries in the Middle Eastern and North African region: Oman in the Persian Gulf, and Egypt and Morocco in North Africa. Its scope is to assess the current climate within this industry in each of these markets as well as the political, economic and social conditions that are likely to shape it over the next few years.

The ultimate aim is to offer Malta-based operators in the construction and ancillary services sectors a snapshot of any opportunities that these three markets offer to companies interested in exporting their services to the region.

2.0 | Executive Summary

One aspect of Malta's major economic growth in the last few years has been the changes it has brought to our infrastructure industry. The drastic rise in demand for quality residential, commercial and industrial spaces has led to a virtual reinvention of our construction sector, which is scaling up to meet this demand.

Beyond scale, we also have the innovation and increased complexity associated with the new building forms and styles being introduced to the island. This is leading local firms and professionals to develop new and highly specialised skills and technical expertise in line with the very latest international practices. This is not limited to the operators immediately involved in the design and build phase of any construction project, but also to the range of service providers that extend across the whole construction supply chain, right up to the finishing, management and servicing of any structure.

Despite the undeniable local demand in this sector, some Malta-based firms at any point in this supply chain may be considering the possibility of internationalising their services, keen to discover the potential of extending their expertise and experience to other markets. Indeed, a number have already taken this step, and have secured a strong international reputation for the quality and professionalism of their work.

In this report we consider the Middle East and North Africa as a potential market for this expansion. It has undeniable advantages, particularly in terms of population growth and rapid urbanisation, that mark it out as the fastest-growing global construction market. For Maltese firms it offers the further advantage of proximity and some degree of familiarity, with efficient air and sea links facilitating access.

Considering options within the region, particularly in North Africa, also offers the further advantage of providing a new outlet to replace the Libyan construction market, where in the past Malta-based companies had a firm foothold, but which as a market is currently disrupted by the ongoing conflict in the country.

Malta-based firms at any point in this supply chain may be considering the possibility of internationalising their services.

This report highlights the importance of taking a step beyond the broader regional perspective to consider the characteristics and attributes of each individual country.

This is key when considering potential new markets since the social, political and economic situation varies greatly from one country to another.

These differences shape the national construction markets significantly, and factors such as political or social instability must be considered carefully in such a volatile region.

We find, however, that beyond the conflict and the tension there are politically stable developing markets with growing economies which are investing heavily in ground-breaking infrastructure projects. We conclude that these offer significant potential for Malta-based companies in this sector.

It also emerges that there is an interesting mix of projects in all three of the markets reviewed. This offers companies the possibility of tapping into new segments that may not yet be particularly present in the Maltese market, but which are set to grow. One example is renewable energy, with all three countries under review investing heavily in this sector, while another is transport construction, both in terms of land and maritime transport, which may be a more prominent feature on the local scene in the next few years.

The report concludes that each of the three markets that form its focus present viable opportunities for Malta-based companies. They are all relatively stable with growing economies, to different degrees they all have thriving construction markets with positive outlooks and they are all engaged in ambitious, cutting-edge infrastructure programmes which offer exciting prospects for firms wishing to expand their professional range.

Beyond these broad similarities, however, our assessment will bring out the key differences between the three markets that should be considered by any companies weighing their options.

3.0 | Introduction

This report focuses on capital infrastructural projects and therefore, by extension, on the construction and infrastructure sector that drives such projects. This includes the main ancillary services related to major construction projects of this type, from inception right through to finishing and design.

3.1 | Definition of a Capital Project

For the purposes of this report, a 'capital project' is defined as "a long-term, capital-intensive project with a purpose to build, add to, or improve a capital asset. They are defined by their large scale and large cost relative to other investments that involve less planning and resources." [1]

The projects referred to most widely in the report are known in the industry as 'hard' capital projects, defined as those "in which the final result is a relatively unique tangible product, such as a building, production plant or utility." [2]

In order to cater for the highest possible number of construction and building management service providers, the scope of the market evaluation exercise on which this report is based goes beyond the 'bricks and mortar' aspect of infrastructure projects and covers the wider services in the construction value chain.

This is illustrated in Figure 1 below.

[1] Definition of 'Capital Projects.' Retrieved 20th January 2019, from https://www.investopedia.com/terms/c/capital-project.asp
[2] Definition of 'Hard Capital Projects.' Retrieved 20th January 2019, from http://www.maxwideman.com/papers/capitalprojects/capitalprojects.pdf

3.2 | Services related to major capital infrastructure projects

The value chain above captures the key services that contribute to the different stages of a major infrastructural project.

As we break these down even further, it is immediately clear that these services can be provided by several Malta-based firms, many of which have the required experience and specialisation in dealing with large-scale construction and building finishing projects. This experience stems not only from the recent shift in construction patterns locally, particularly the significant increase in larger and more complex development projects, but also from the international experience already acquired by leading firms.

Table 1 below outlines some of the key services across the value chain.

Breakdown of Services

Architectural Services

- Pre-design & Planning
- Conceptual Design & Building Plans
- Construction Documents
- Construction Management

Engineering Services

- Structural
- Mechanical
- Electrical
- Lighting
- Energy

Specialised Services

- Process
- Environmental
- Noise & Acoustics

Construction and Finishing

- Construction Supervision
- Conveyers
- Building Materials & Supplies
- Fire & Security
- Quality Assurance
- Quality Inspection
- Heating & Cooling

Table 1: List of Services Across Construction Value Chain

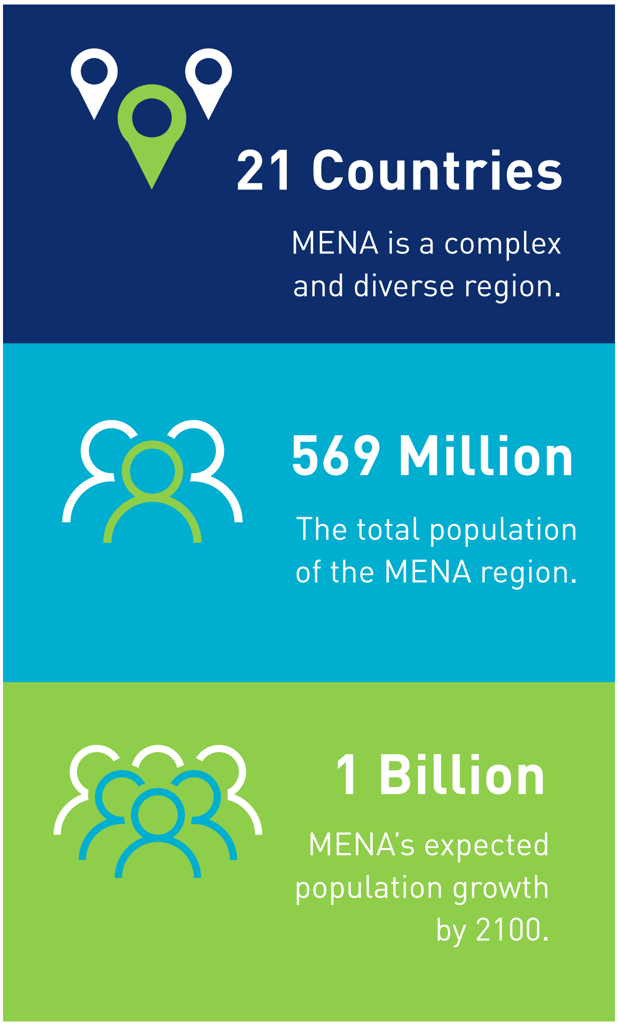
4.0 | General Regional Overview: Middle East and North Africa

The three countries that are the focus of this report are situated in the Middle East and North Africa (MENA), a region stretching from Morocco in Northwest Africa to Iran in southwest Asia, and down to Sudan in Africa. This strategic location gives the region significant potential as a hub connecting Africa, Asia and Europe.

Made up of 21 countries,[3] MENA is a complex and diverse region which encompasses countries at very different stages of social, political and economic development and with varying degrees of internal security and stability.

This diversity is accentuated by the fact that the region comprises both the oil-rich Gulf Arab states, many sharing similar types of rigid, centralised political systems, as well as more resource-poor nations dealing with long-standing political issues and conflicts. The fragile security situation associated with the region has always been a major deterrent for investment, however there are indications that this is changing, and that away from the troubled hotspots of the region, a number of factors are driving growth and innovation in the more stable countries. Key among these factors is the region's demographic profile.

As the second most populated region in the world after Asia Pacific, in demographic terms alone MENA holds considerable potential as a growth market across a number of sectors. With a total population of just over 569 million people, current forecasts by the United Nations Department of Economic and Social Affairs (UNDESA) project that this number will double to over 1 billion inhabitants by 2100.[4] To put this figure into some sort of perspective, this means that by 2100 there will be more people in the MENA region than in China.



[3] As per the World Bank Regional Classification System. Retrieved on 2nd February 2019, from www.worldbank.org/en/region/mena

[4] Western Asia Population. (as at 12th June 2018). Retrieved on 2nd February 2019, from http://worldpopulationreview.com/continents/western-asia/

Annual Rate of Regional Population Growth (2017)

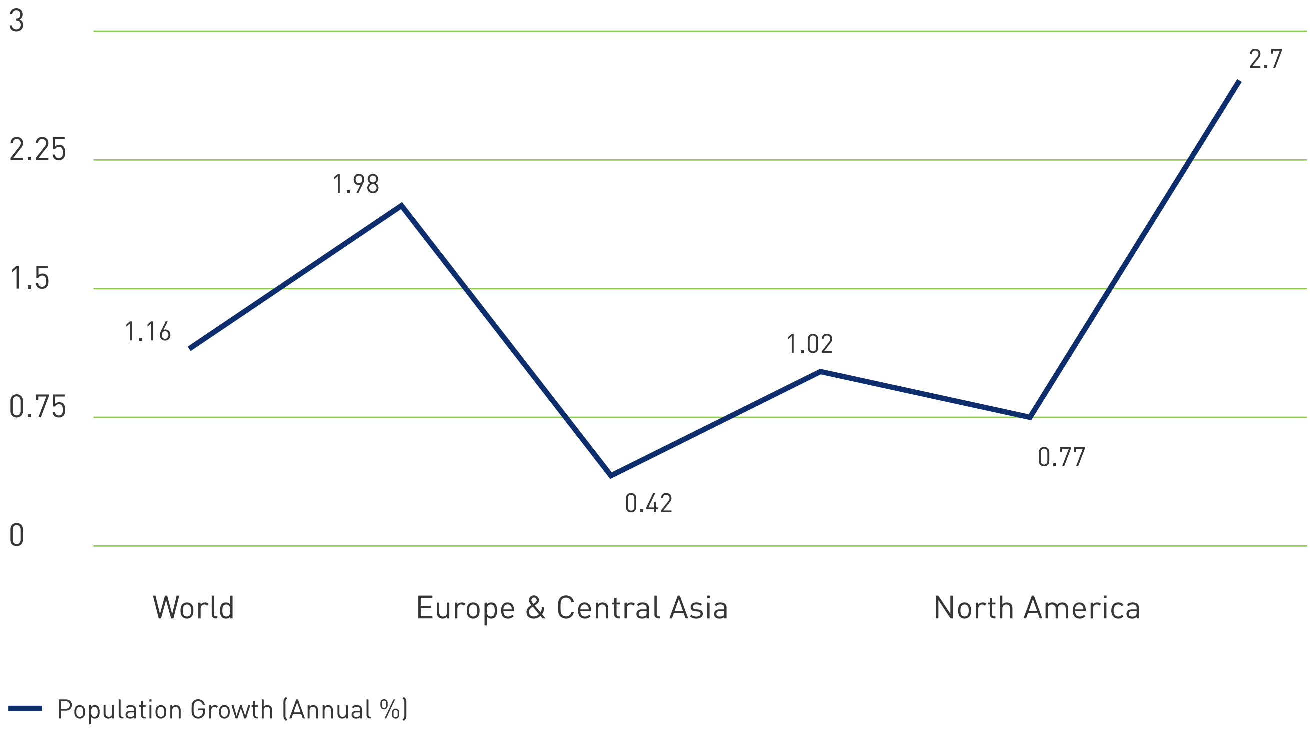
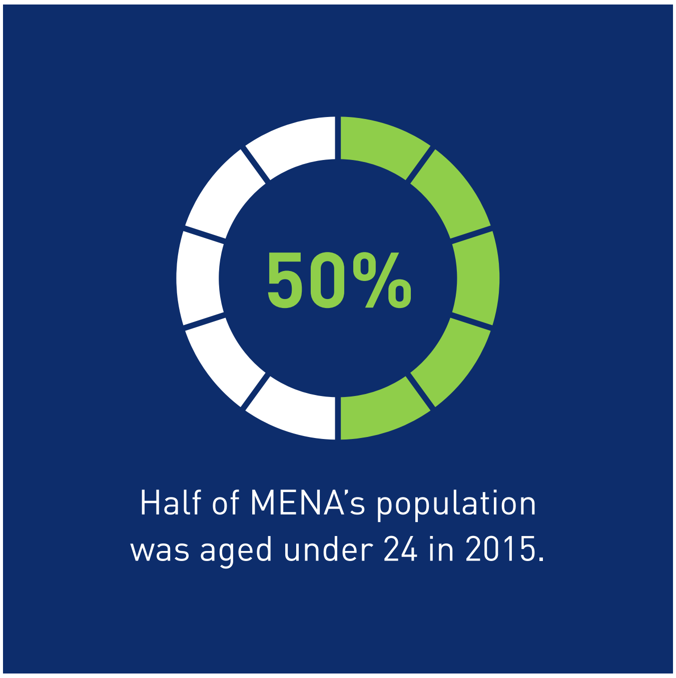


Figure 2: Annual rate of population growth
Source: United Nations, World Population Prospects: The 2017 Revision



Another factor worth noting is the size of the region's youth segment relative to other regions: in 2015 almost half of the region's total population was aged under twenty-four, with the United Nations concluding that the current Arab youth population is "the largest, the most well-educated and the most highly urbanised in the history of the Arab region." [5]

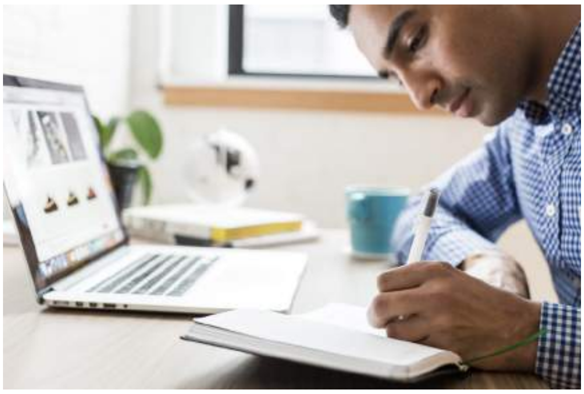
[5] United Nations Development Programme. (2016). Arab Human Development Report 2016. Youth and the Prospects for Human Development in a Changing Reality, New York, UNDP, http://hdr.undp.org/en/2016-report

There are three further trends associated with these demographic shifts which are also contributing to the region's socio-economic development:

Urbanisation, Education and Digital Innovation.

MENA's population growth is driving rapid **Urbanisation**, with most data forecasting that over 75% of the population will be living in cities by 2050. This rate is considerably higher in the more developed economies, with urbanisation already averaging over 85% in the Gulf states.[6]

Increased investment in education in the past few decades has led to practically universal access to **Education** across the region, with the regional literacy rate now averaging over 70%[7]; the rate of enrolment in higher education is also slowly but surely increasing.



Most of the more stable countries are rapidly adopting policies to boost investment in, and take-up of, new technologies and **Digitalisation**. This applies particularly to the Gulf states, with McKinsey recently predicting that the Middle East "is on the verge of a massive digital disruption."[8]

[6] As per the World Bank Regional Classification System. Retrieved on 2nd February 2019, from www.worldbank.org/en/region/mena

[7] MENARA Project. (October 2017). Demographic and Economic Material Factors in the MENA Region.

[8] United Nations Development Programme. (2016). Arab Human Development Report 2016. Youth and the Prospects for Human Development in a Changing Reality, New York, UNDP, http://hdr.undp.org/en/2016-report

4.1 | Economic Outlook

Following significant year-on-year growth in the first half of the decade, the MENA region experienced an economic slowdown in 2016 and 2017.

This was due mainly to the ongoing conflicts in Yemen, Syria and Iraq, as well as the political implosion in Libya, which all had a negative impact on trade and tourism across the region. A decline in oil revenues also affected growth in the Gulf states.

The current outlook is however more positive, with the most recent data issued by the World Bank indicating that "growth has picked up across the region and is projected to strengthen over the next few years."[9]

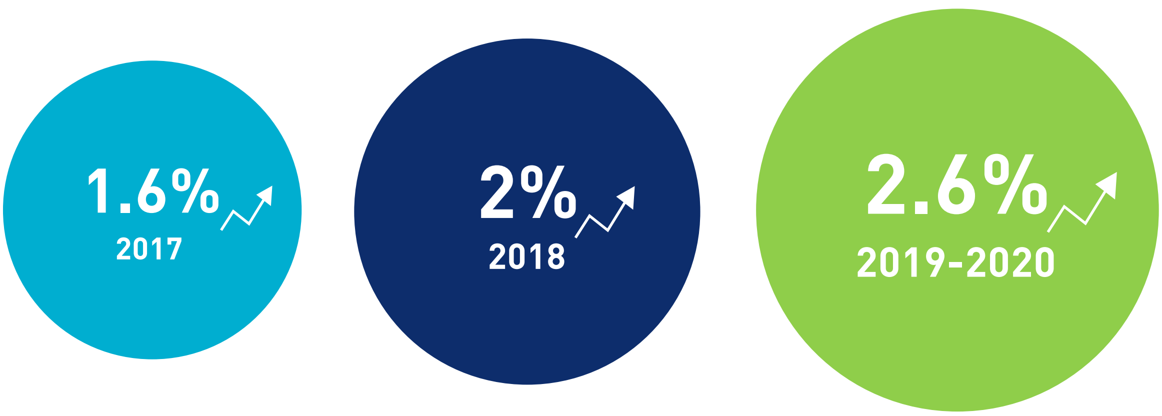
The World Bank has in fact reported a rebound in regional growth to an average of 2% in 2018, up from 1.6% in 2017, and forecasting a rise to 2.6% in 2019-2020. This assessment is reinforced by the latest report issued by the International Monetary Fund (IMF).[10]

Although both institutions highlight the fact that the long-term conflict in the region continues to present an undeniable risk, the IMF economic outlook as at November 2018 predicts that:

- Economic growth will "rebound" in 2019 and 2020 in the oil-exporting countries given higher oil production and stronger non-oil activity;

- Modest growth will continue in the oil-importing countries, with some performing better than others.

This moderate improvement in the Gulf economies does appear to be reflected in the 2019 budgets of a number of states, which are less austere than in the last few years. There is an average increase of 8% forecast in public spending for 2019 across the Gulf Cooperation Council (GCC) – this is of particular relevance to the infrastructure industry since capital projects are, to date, mainly driven by the state.



Rebound in MENA Regional Growth Average according to year.
Source: World Bank

[10] International Monetary Fund. (November 2018). Regional Economic Outlook: Middle East and Central Asia
[11] Emirates NBD Research. (January 2019). MENA Quarterly: Q1 2019

Given that economic performance varies greatly across the individual countries within the region, tables 1 and 2 below lay out an economic snapshot of each country in terms of growth in Gross Domestic Product (GDP) – for ease of reference and as per the International Monetary Fund convention these are divided into oil exporting countries and oil importing countries. The three countries that are the focus of this report are highlighted.

	2015	2016	2017	2018	2019 (f)	2020 (f)
Algeria	3.7	3.3	2.1	3.5	2.0	1.3
Bahrain	2.9	3.0	2.5	1.7	2.1	2.1
Iran, I.R. of	-1.3	13.4	4.3	4.1	4.1	4.2
Iraq	4.8	11.0	-0.8	2.5	4.1	1.9
Kuwait	0.6	3.5	-1.0	1.9	3.5	3.0
Libya	-8.9	-2.8	26.7	14.9	9.4	7.5
Oman	4.7	5.4	0.7	2.3	2.5	2.9
Qatar	4.0	2.2	2.2	2.8	3.2	2.8
Saudi Arabia	4.1	1.7	-0.6	1.8	2.1	2.3
United Arab Emirates	3.8	3.0	2.0	2.5	3.2	3.3
Yemen	-37.1	-34.3	-13.8	-0.5	17.9	16.3

Table 2: MENA Oil Exporters: Real GDP Growth (Annual change; percent)
Source: World Bank

	2015	2016	2017	2018	2019 (f)	2020 (f)
Djibouti	6.5	6.5	7.0	6.5	6.4	6.3
Egypt	4.4	4.3	4.2	5.0	5.5	5.8
Jordan	2.4	2.0	2.1	2.4	2.5	2.5
Lebanon	0.8	2.0	2.0	2.0	2.0	2.0
Morocco	4.5	1.2	4.0	3.0	3.5	3.7
Syrian Arab Republic	/	/	/	/	/	/
Tunisia	1.1	1.0	2.0	2.7	3.3	3.7

Table 3: MENA Oil Importers: Real GDP Growth (Annual change; percent)
Source: World Bank

4.2 | Risks and Challenges

The latest regional analysis issued by the IMF in advance of the World Government Summit in Dubai on 11th February 2019 identified fiscal issues and good governance as the major challenge for Middle East economies.

In a pre-event speech on 9th February,[12] Christine Lagarde, Managing Director of the Fund, warned that the main risk to the positive economic outlook projected for the medium-term was the failure to consolidate good governance.

This, coupled with weak fiscal frameworks, could negatively impact economic growth and push public debt to unsustainable levels – these factors could, she warned, trigger further social unrest in the region.
The risks highlighted so recently by the Managing Director of the IMF, particularly the inefficiencies resulting from lack of good governance and corruption in state finances, do apply very strongly to the construction industry given its reliance on state funding for many larger capital projects.

It should be noted however that the situation does vary from state to state, with some governments obtaining some positive results by tackling the issue more firmly than others.

“The situation does vary from state to state, with some governments obtaining some positive results by tackling the issue more firmly than others.”

[12] Lagarde, C. (9 February 2019). Laying the Foundations of Good Fiscal Management in the Arab World. Speech presented at the Fourth Arab Fiscal Forum, Dubai.

4.3 | Key Takeaways

Despite the business risk posed by the endemic conflict that affects the region, MENA continues to present vast potential for Malta-based companies seeking to export their services to the region. This stems to some degree from the key aspect of population growth, which is strong relative to other developed and developing regions, together with the high urbanisation rate that it brings with it.

Perhaps the essential point in this context is to analyse the individual markets within MENA, rather than view this from a purely regional perspective. The fragile hotspots of Libya, Syria and Yemen are well known, however there are other states that have secured relative internal stability and are applying forward-looking social, economic and fiscal policies to drive their economies forward. This is apparent in the fluctuating GDP growth figures presented in tables 1 and 2 above.

On this basis, the Gulf states present positive prospects, despite some undeniable risks which will be discussed below, and which must be catered for. With the steady economic growth forecast for this sub-region driving infrastructure investment, the opportunities in terms of capital projects are clear.

This applies particularly to countries that are acting to diversify their economies and invest in innovative business streams: this focus is linked to increased demand for new infrastructure. Countries in this bracket are found both in the Gulf states, most of which are keen to reduce their dependence on oil revenues, as well as the resource-scarce North African states aware of the need to identify growth niches that will mitigate this scarcity.

However, when assessing these countries, the position of the relative government in terms of developing and applying reformist policies that facilitate private sector participation should be considered. This is mainly because this is more likely to attract the funding needed to supplement state expenditure on infrastructure and ensure that the more ambitious projects actually make it off the drawing board.

Beyond the oil-exporters, a few countries in North Africa are also emerging as stronger developing markets. A fundamental factor in this scenario is relative political stability - while many of the countries impacted by the Arab Spring are still dealing with domestic issues, others such as Tunisia and Morocco have consolidated stronger government systems that are contributing to better economies; others, such as Egypt, may still be grappling with political dissent but present attributes, such as a population and urbanisation rate that is significantly above the regional average, which make them strong contenders.

5.0 | The Capital Projects and Infrastructure Industry in the Middle East and North Africa: A Brief Overview

Infrastructural investment is increasing significantly across the MENA region, in step with the economic recovery that has followed the slowdown of 2016 and 2017. Demographic trends, social change and the rapid pace of urbanisation are placing huge pressure on existing general infrastructure and leading to an increased demand for new purpose-built infrastructure.

5.1 | Industry Forecasts

On this basis, the latest report by BMI Research[13] on the global infrastructure industry ranks MENA as the fastest growing region in the world, overtaking Asia which led the ranking in 2016. By their estimate, MENA countries have invested 3–5% of their GDP in infrastructure in the last decade, a rate which is higher than in Latin America, Europe and Central Asia but lower than in South Asia and East Asia. This steady investment is now projected to expand considerably, with BMI estimating MENA's infrastructure investment and maintenance needs up to 2020 at approximately USD 106 billion per year, or 6.9% of the annual regional GDP.

3-5%

Percentage of GDP invested in infrastructure by MENA countries.

USD 106 billion

BMI's estimated annual rate of MENA's infrastructure investment and maintenance up to 2020.

[13] BMI Research. Fitch Group. (July 2017). MENA Infrastructure: Key Themes for 20179

For the purposes of this report, the BMI outlook was cross-checked against two other dependable industry sources:

• 2019 forecasts issued by the multinational AECOM Technology Corporation[14]

Like BMI, AECOM also forecasts that the Middle East and Africa region will shoot ahead of the global average sectoral growth rate, expanding by an estimated 9% between 2018 and 2022 to hit a value of USD 635 billion. This means that although the Asia-Pacific market remains the largest global construction market, the Middle East and African construction markets are expected to grow the fastest. Figure 3 below illustrates this significant regional contrast.

Global Construction Prospects 2018-2022

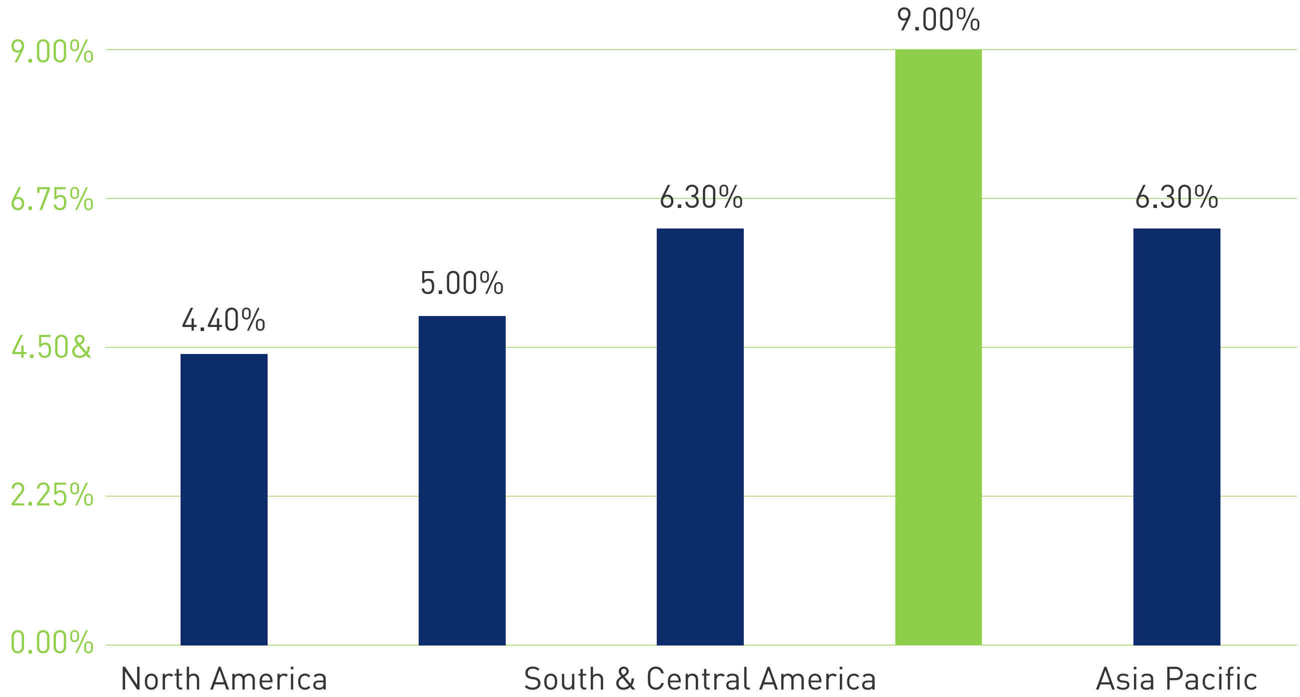


Figure 3: Projected growth in global construction markets 2018-2022
Source: Adapted from AECOM Middle East Construction Handbook 2019

• PwC Middle East: Capital Projects and Infrastructure Survey 2018 [15]

In their latest survey, PwC Middle East also point to an upturn in activity across the region compared to 2016 levels. In their view this is due to the pressing need in most countries to deliver social and economic projects. The conclusion highlights that nearly half of industry leaders surveyed expect investment to increase up to 2020, in marked contrast to the 2016 results when less than a third expressed any such optimism.

[14] AECOM Technology Corporation. (2018). Middle East Property & Construction Handbook 2018-2019

[15] PwC Middle East. (2018). Middle East Capital Projects and Infrastructure Survey 2018

5.2 | Key Regional Construction Trends

In terms of the types of infrastructure that will feature most prominently, AECOM concludes that construction contracts in 2018-2019 will be dominated by building projects (53% of contracts), followed by energy and infrastructure projects.

The following are proving increasingly popular in the region:

- Mixed-use and industrial zone developments
- Megacity projects (these include new economic zones specially aimed at attracting foreign investment)

In general, there is an emphasis on:

- **Commercial infrastructure:**

  Due to demand generated by economic diversification policies.

- **Water projects:**

  Waste-water treatment and desalination projects are a significant growth area given increasing demand for potable water.

- **Renewable energy projects:**

  Oil-importers are consciously acting to reduce reliance on fossil fuels and increase renewable energy sources; new developments are being specifically planned to run as far as possible on renewable energy.

- **Tourism-related infrastructure:**

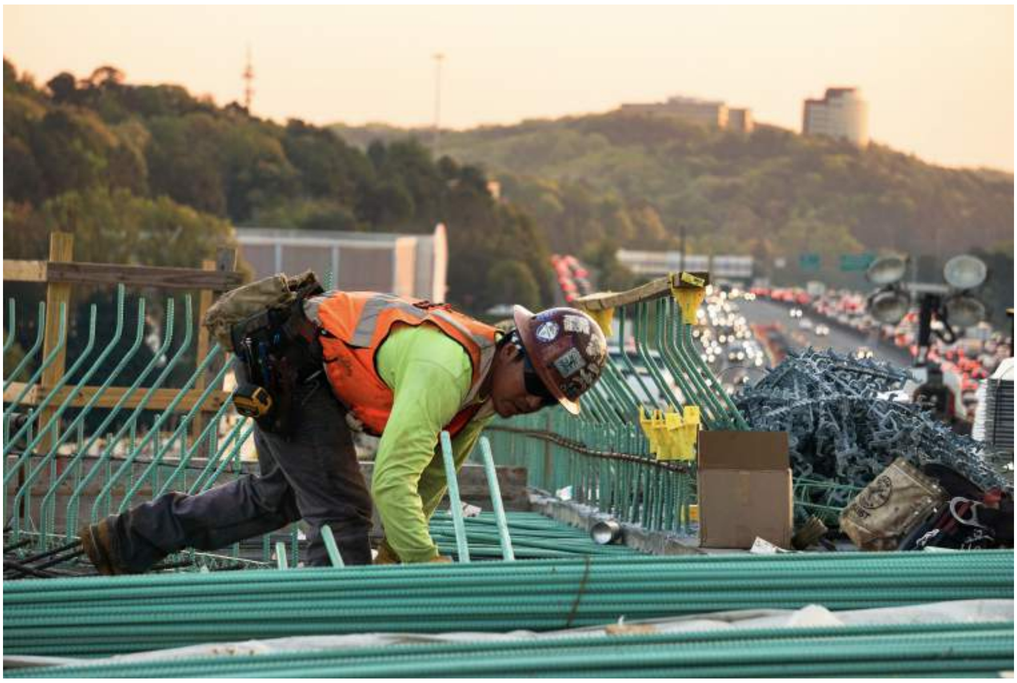
  This has been triggered in large part by the build-up to the Expo 2020 in Dubai and the 2022 World Cup in Qatar.

5.3 | Key Expansion Drivers

One key driver of this expansion is the anticipated rise in the price of oil in the coming years given that many countries – particularly the Gulf states but also markets like Algeria, Iran and Libya – rely heavily on oil and gas exports to boost government revenue, and by extension, investment in infrastructure.

For the purposes of this report, these favourable projections for oil prices until 2025 were confirmed with other industry sources, including the U.S. Energy Information Administration (EIA)[16]. This anticipated rise in oil prices will encourage governments to divert more resources to infrastructure, generating a healthy project pipeline. This investment by a number of MENA states is also fuelled by another factor. This is the region's large youth population, sometimes referred to as the 'youth bulge,' which brings with it the ever-present issue of youth unemployment.

Keeping this in check, particularly given the volatile domestic political situations in many countries, is a further incentive for governments to invest in infrastructure with the added benefit of job creation.



[16] U.S. Energy Information Administration. (February 2019). Oil Price Forecast 2019-2050

5.4 | Role of the State

A point to be emphasised in any discussion on the construction industry across MENA is the central role that the state continues to play in the planning and financing of large capital projects.

This easily remains the most fundamental investment channel for projects in most countries. The downside of this, of course, is that the construction sector closely mirrors government revenue and is open to any internal or external shocks that can impact this.

Modernising countries, however, are making concerted efforts to establish viable public private partnership (PPP) frameworks that aim to channel private capital into infrastructure projects. These reforms, particularly in the United Arab Emirates (UAE), Oman, Qatar and Kuwait, are beginning to gain traction and, in fact, the PwC Middle East survey referred to above found that 80% of respondents felt that private sector financing in the sector will increase.

Percentage of respondents who felt that private sector financing in the sector will increase.

5.5 | Risks and Challenges

5.5.1 | General Regional Risks

- **Political**

Political tensions across the region can hinder growth with spill-over effects beyond the armed conflicts in Syria, Iraq and Yemen. The diplomatic situation between Qatar and the other members of the GCC, and the tension between Saudi Arabia and Iran, can also destabilise investor confidence.

- **Economic**

Large deficits in a number of countries continue to present an issue that may impact on state spending on development projects. However, many countries appear to have taken steps to curbing this through fiscal adjustment policies; there is also a stronger emphasis by some governments on increasing increase efficiencies in the delivery of state-funded projects. It is still too early to say whether this will be successful.

- **High Unemployment**

This remains an issue across MENA and bears the risk of creating disgruntled social and political forces within some states. This is a greater risk in the non-GCC countries, such as Sudan, Jordan, Tunisia and Egypt. Most states are addressing the issue by seeking foreign and private sector investment to boost job opportunities; the Gulf states are implementing policies to reduce reliance on the expatriate workforce and boost local employment.

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5.5.2 | Regional Construction Risks

- ### Financing

Financing remains a key risk in the region and is driving the rise in PPP models as a mitigator; securing funds can lead to delays in actual project initiation once planning is approved.

- ### Change Management

With increasingly large and complex developments on order, traditional project management styles are proving incapable of efficient delivery.

One aspect of this is in the decision-making and consultative process within a project: this tends to be fragmented rather than cohesive and inclusive. A second aspect is an ongoing issue with cost and time management which can also result in late payments to contractors, particularly in projects which require revisions to initial plans or other project changes.

It should be noted that the PwC Middle East survey detected an improvement in these areas in their latest findings (2018) compared to previous years: some of this may be due to the fact that governments are increasingly aware of the need to increase efficiency to curb costs.

5.6 | Key Takeaways

The MENA region is home to some of the most exciting capital projects markets in the world, offering abundant opportunities as governments aim to develop infrastructure that meets the needs of rapidly expanding populations as well as economic diversification.

In global terms, it is clearly the fastest growing market in the industry. Malta-based service providers benefit from geographical proximity and familiarity with the culture.

The short to medium-term economic outlook looks positive, with a number of countries, particularly the Gulf states, upping their investment in infrastructure as economic recovery sets in.

There is a trend for large-scale developments that mix commercial and residential use which many governments are seeing as the flagships of their respective economic advancement strategies; this strategy is aligned with recent developments on the local scene and therefore one in which Malta-based service providers are gaining experience and expertise.

Besides the buildings themselves, there are associated opportunities in water and renewable energy infrastructure as well as clean transport solutions.

Service providers considering MENA opportunities should assess individual countries on a number of criteria and plan for their entry into these markets in a very informed manner.

At a general risk level, political and economic developments in that country should be examined to assess, as far as possible, whether continuity is to some extent assured. In addition, attention should be paid to the specific challenges that this sector carries, particularly in terms of how projects are managed and the issues this can raise in project planning and delivery.

6.0 | Country Profiles

This section will focus on three countries in terms of their potential as capital projects markets for Malta-based businesses and service providers in the construction and building management sector. As mentioned above, one of these Arab states is located in the Persian Gulf, while the other two states are situated in North Africa.

6.1 | Oman

6.1.1 | Key Indicators

Population 2018	4.9 million
Population Growth 2018 (%)	3.56%
% Age of Population Under 25	40%
Current estimates: Total population by 2050	6.5 million
Urbanisation rate 2018	85%
Total Unemployment (% of labour force)	16%
Current GDP	USD 73.7 billion
Level of Income (World Bank Atlas Method)	High
Growth in GDP 2018	2.3%
Average GDP Growth 2018: Oil Exporters MENA Region	2.9%
World Economic Forum Global Competitive Index (GCI) Score 2019	64.4/100
GCI Regional Ranking 2018	6th
World Bank 'Doing Business' Score 2019	67/100
Regional 'Doing Business' Ranking 2019	4th
Adult Literacy	93%
Enrolment in formal primary education	95 %

Table 4: Key Indicators - Oman
Source: World Bank; United Nations

6.1.2 | Economic Outlook

After some decline in 2017 due to lower oil production and weakened consumption and investment, Oman's economy recovered to secure a 2.3% increase in GDP in 2018. This recovery was driven mainly by:

- A rise in crude oil production;
- The growth in non-oil sectors, primarily construction, transport and communications;
- Increased private consumption;
- The start of natural gas production;
- Increased regional trade due to GCC sanctions (Qatar re-routing trade away from the UAE and Saudi Arabia to Oman).

The Omani government is having some success in narrowing its fiscal deficit, which has been the highest in the GCC in recent years, mainly by increasing utility tariffs and decreasing defence spending. This cut the budget deficit by 30% to an estimated 13.3% of GDP in 2017 (down from 20.6% in 2016).

In overall terms, according to the World Bank economic growth is set to continue over the medium term, driven mainly by the growth of the hydrocarbon sector as gas production expands as well as the further consolidation of non-oil economic activities.[17] This positive view is backed by the latest forecasts issued by the IMF, which conclude that Oman will lead the GCC states in terms of GDP growth by end 2019, projecting a significant rise to 4.2% (it should be noted that the World Bank forecasts are more cautious).[18] This takes it well above the average GDP growth rate for GCC countries, estimated by the IMF as 3% for that year. As always, however, there are risks that could hinder this progress: these mainly centre around the government's commitment to continue implementing fiscal reforms as well as any further deterioration in regional tension that could impact trade. Any resurgence of international sanctions on Iran could also have a negative spill-over effect.

Oman GDP growth.

+1.2%

Oman's 2019 GDP growth higher than GCC average

[17] World Bank. (April 2018). MENA Economic Monitor

[18] International Monetary Fund. (October 2018). Regional Economic Outlook Update: Middle East and Central Asia

Of particular interest to this report is the fact that both the World Bank and the IMF comment positively on the Omani government's efforts to implement pro-business reforms. These centre on economic diversification programmes, which imply increased demand for purpose-built structures, as well as a drive towards stronger PPP frameworks and legislation. Enhanced PPP activity has been identified as a key driver and enabler of capital project expansion.[19]

6.1.3 | Social and Political Outlook

Oman is a monarchy, governed by a Sultanate and with a political system limited to a legislative assembly. No political parties are permitted. Within the MENA context, Oman is exceptionally stable and is in fact the only MENA country to rank in the top ten states in the World Bank's Political Stability rankings for the wider Asian region (last updated in 2017).[20]

Social unrest is rare. Triggered by the ripple effect of the Arab Spring, street protests in 2011 did lead to some political concessions on the part of the Sultan and since then domestic stability has been largely restored. It should be noted however that the elderly Sultan has no obvious successor and there may be some issues upon his death. Many observers do however believe that a succession plan is in fact in hand and that this transition is likely to be managed without major disruption.[21]

A further contributing factor to this overall stability is the fact that Oman's foreign policy tends be steady and cautious, protecting it from the negative effects of regional tensions and conflict. It sustains good relations with its GCC neighbours as well as the West, particularly the U.S, and has not been drawn into the Islamic State crisis in any way. However, it could still be negatively impacted by any deterioration in the regional political landscape: any resurgence of sanctions on Iran for example would undermine the prospects for Omani trade.

In terms of the scope of this report, and compared to other countries within the Gulf region, Oman can be considered as a stable market in social and political terms, with no foreseeable major domestic disruption.

[19] PwC Middle East. (2018). Middle East Capital Projects and Infrastructure Survey 2018

[20] World Bank Political Stability Index. Retrieved on 9 February 2019, from https://www.theglobaleconomy.com/rankings/wb_political_stability/

[21] Middle East Institute. (April 2016). Can Oman's Stability Outlive Sultan Qaboos?

6.1.4 | Bilateral Links

Commercial links between Malta and Oman have been significantly strengthened in recent years, providing a framework and network for Malta-based businesses and service providers aiming to establish a presence in the country.

This kicked off with a number of bilateral trade visits in early 2015, culminating in a trade visit to Oman in 2015 led by the Minister for the Economy, Investment and Small Business. In the course of that visit, memoranda of understanding were signed between the Malta Chamber of Commerce and its Omani counterpart, as well as between Malta Enterprise and Bank Muscat, the leading financial services provider in the country. Both agreements aim to promote bilateral trade and investment. A double taxation agreement between the two countries is also at an advanced stage and is expected to be signed shortly.

The current ambassador of Malta to Oman is H.E. Paul Mifsud.

6.1.5 | Overview of Capital Projects Environment

Construction is a fast-growing sector of the Omani economy. It is marked by increased activity as the economy recovers from the mid-decade slump in oil prices and as the government presses ahead with its latest five-year plan (2016-2020), aiming to reach the ambitious development targets laid out in its Vision 2020 development programme. A core component of this programme is the 'Tanfeedh' economic diversification initiative, which focuses on innovating and integrating the manufacturing, transport and logistics, tourism, fisheries and mining economic sectors. Its ultimate objective is to attract more investment to these sectors, create more job opportunities and increase their contribution to the country's GDP.

These strategies obviously rely on the provision of the required infrastructure and is resulting in a multi-billion-dollar pipeline of capital projects. Construction is now the third largest non-oil sector in the country, behind retail and manufacturing.

The capital projects market continues to be dominated by state-owned entities, however private finance initiatives have been used successfully in the utilities sector and Oman is about to enact a pubic private partnership law that is aiming to attract further private investment. This is reinforced by a key strategic element of the 'Tanfeedh' programme, which is working to simplify and streamline procedures and policies and reduce bureaucratic red-tape.

[19] PwC Middle East. (2018). Middle East Capital Projects and Infrastructure Survey 2018

BNC Network[22] currently estimates that there are over 2,041 active construction projects in Oman, valued at approximately USD 434 billion. Figure 4 below sets out the current mix of project types in the Omani market: urban construction is by far the largest sub-sector, driven mainly by the housing demands of a fast-growing local and expatriate population as well as tourism.

Construction Project by Type

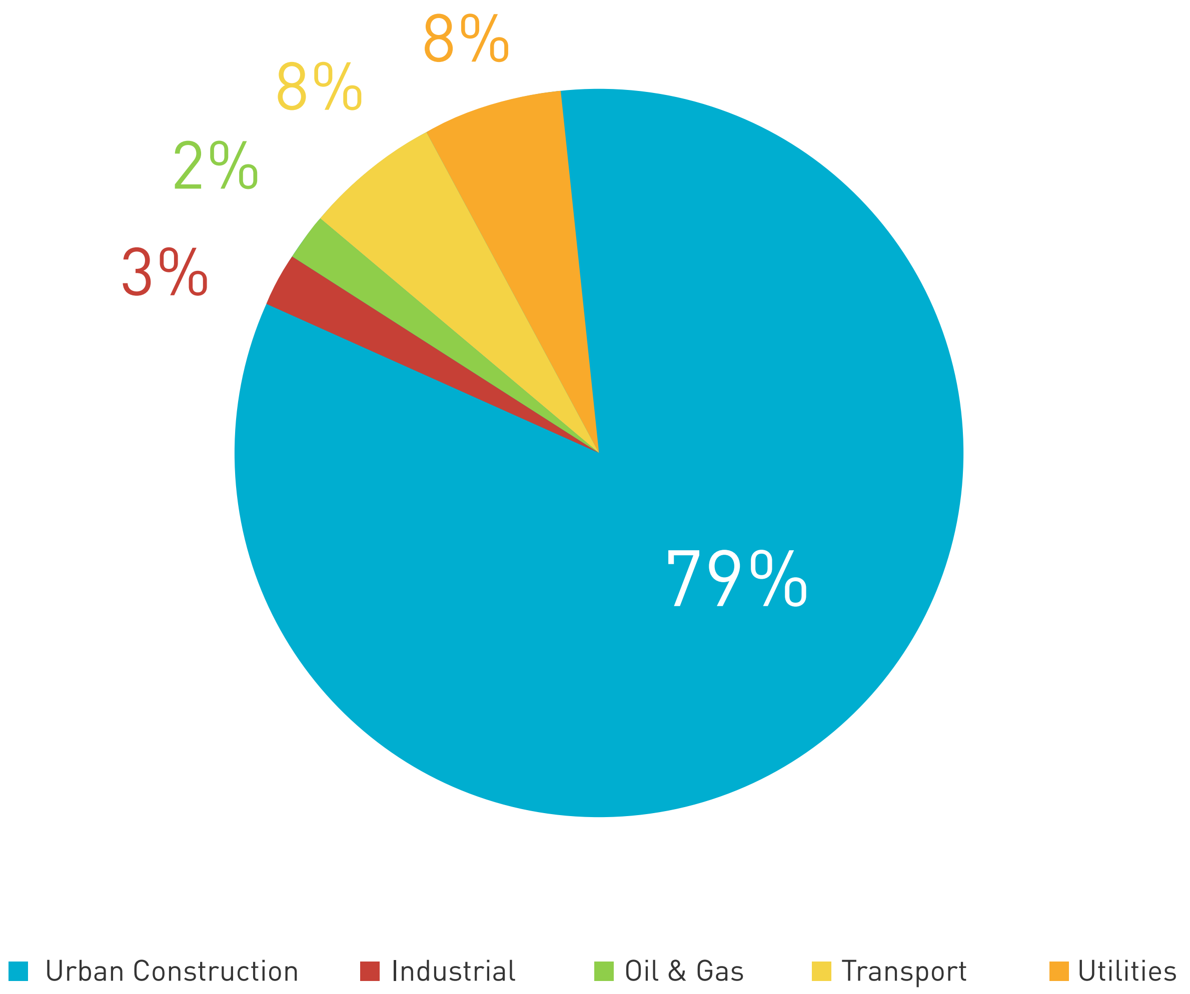


Figure 4: Omani Construction Project Mix
Source: BNC Network

[22] BNC Network. Retrieved on 9 February 2019 from https://www.bncnetwork.net/Access-Oman-Construction-Projects-News-Analytic-Reports-and-Forecasts/

6.1.6 | Overview of Capital Projects Environment

- The public sector is by far the biggest procurer of construction services in Oman. Public works are generally awarded by competitive tender.

- Construction tenders issued in Oman by both public and private entities are either restricted to locally registered companies (sometimes referred to as 'local tenders') or are open to foreign companies (sometimes referred to as 'international tenders').

- Tenders are centrally managed by the Oman Tender Board and regulated by the Tender Law (as promulgated by Sultani Decree No. 36/2008, as amended by Sultani Decree 19/2011 and 120/2011).

- Construction tenders normally fall into four categories: supplies, contracting, consultancy and training.

- The Tender Law does not distinguish between local and international contractors, although as a rule contracts for purely local projects can be only issued in the Arabic language. Contracts for international projects are normally issued in the English language.

- Generally, procurement for public works in Oman is managed through a specific government contract known as the Standard Documents for Building and Civil Engineering Works (4th edition, 1999). These documents cover civil and building works in the traditional employer design/contractor build format, while plant, mechanical and electrical (M&E) works are normally covered in contractor design/build or EPC (energy, procurement and construction) format.

- The following payment structures are the most common:
  - Fixed price (lump sum) with payment on milestones
  - achieved;
    Traditional measure and value (where the payment is based on certification of measured quantities of work completed).

- The Tender Law applies to the selection and the appointment of construction professionals by public authorities. Construction professionals are usually appointed under conventional professional services contracts. The FIDIC White Book (Client/ Consultant Model Services Agreement) is widely used. Bespoke services contracts are also common.

- Contractors and construction professionals must obtain a licence from the Ministry of Commerce and Industry. For construction professionals, the licence is issued in accordance with the requirements of the Engineering Consultancy Law RD 27/2016 (ECL), which specifies the level of qualifications and experience required of construction professionals.

- Foreign companies that are not registered in Oman can participate independently in international tenders. If successful, in the case of contracting, consultancy or training tenders, the company is generally required to register in Oman however this does not apply to supply contracts, which rarely require a permanent local presence.

- Normally, the best option to establish this local presence may be to register a Limited Liability Company with a qualified local partner.

- Many government entities, quasi-government entities and large corporations maintain a registry of vendors as well as a separate list of suppliers – inclusion in this list requires an application and approval process. Normally, only registered companies may participate in tenders issued by these entities. In most cases foreign companies and contractors may apply for registration against a fee.

- The government has recently announced a new approach in the oil & gas sector, where a separate registration system of approved suppliers has been set up. This is open to both local and foreign companies.

- Back-to-back subcontracts (that is, where the subcontractor is bound by all the relevant obligations of the main contract) are normal in Oman. On larger international projects, the terms of the subcontract may be drafted and negotiated to specifically match those of the main contract. More informal arrangements between the main contractor and subcontractor tend to be adopted on local projects.

6.1.7 | Top Five Capital Projects in Oman

- Sino-Oman Industrial City
- Khazaen Economic City
- Redevelopment of Mutrah Waterfront
- Madinat Al Irfan
- Shinas Industrial City

Sino-Oman Industrial City

Type of Development	Mega Mixed Development
Location	Special Economic Zone, Duqm
Estimated Total Value	USD 10.7 billion
Status	Key funding secured and masterplan endorsed. Currently at conceptual design stage.
Description	Construction of a mega-development with 11.7 sq km footprint ultimately aiming to construct a new port city for a population of ca. 25,000; covers 35 sub-projects ranging from residential complexes, schools, a hospital and a hotel to industrial facilities including an oil refinery, petro-chemicals complex and other manufacturing plants.

Khazaen Economic City

Type of Development	Mega Industrial Development
Location	Al-Batinah
Estimated Total Value	USD 11 billion
Status	Key funding secured and currently at design stage.
Description	Designed as an integrated economic city featuring indus-trial, commercial and residential zones as well as a 'dry port.' To include a hotel, showrooms and retail facilities, light and medium industry facilities as well as leisure complexes.

Redevelopment of Mutrah Waterfront

Type of Development	Integrated Tourism Destination
Location	Sultan Qaboos Port
Estimated Total Value	USD 2 billion
Status	Funding secured, masterplan approved and demolition now underway.
Description	Designed as an integrated tourism zone in one of Oman's most historical ports; to include hotels, residences, food and beverage, retail and entertainment facilities.

Madinat Al Irfan

Type of Development	Urban development
Location	Muscat
Estimated Total Value	USD 13 billion
Status	Joint venture announced between Oman Tourism Development Company (OMRAN) and UAE-based Majid Al Futtaim; Planning and design now at advanced stages.
Description	Designed as an urban mixed community featuring more than 11,000 residential units, 100,000 sq m of retail space, 700,000 sq m of office space and leisure/cultural facilities.

Shinas Industrial City

Type of Development	Industrial City
Location	Shinas, North Oman
Estimated Total Value	Not yet announced
Status	Government commitment to proceed with project secured under PPP model. Tenders to be issued later in 2019.
Description	Designed as an integrated economic city featuring industrial, commercial and residential zones. To include hotels, a health centre, retail space, light and medium industry facilities as well as leisure complexes.

6.2 | Arab Republic of Egypt

6.2.1 | Key Indicators[23]

Population 2018	97.4 million
Population Growth 2018 (%)	1.9%
% Age of Population Under 25	52.23%
Current estimates: Total population by 2050	123.5 million
Urban Population 2017 (% of total population)	43%
Urbanisation rate 2017 (% annual increase)	2.1%
Total Unemployment 2018 (% of labour force)	10.6%
GDP 2018	USD 234 billion
Level of income (World Bank Atlas Method)	Lower Middle
Growth in GDP 2018 (% change)	5.3%
Average GDP growth 2018: Oil Importers MENA Region	4.6%
World Economic Forum Global Competitive Index (GCI) Score 2018	54/140
GCI Regional Ranking 2018	11th
'Doing Business' Score 2019	54/140
Regional 'Doing Business' Ranking 2019	10th
Adult Literacy Rate (%)	75%
Net Enrolment Rate in formal primary education	97 %

Table 5: Key Indicators - Egypt
Source: World Bank; United Nations

[23] Data sourced from the databanks of the World Bank and the United Nations

6.2.2 | Economic Outlook

The latest assessments published by the World Bank[24] and the IMF [25] indicate that macroeconomic conditions in Egypt are improving, with a narrowing of the deficit, a significant drop in unemployment and a general rise in economic activity.

Egypt's economy grew by 5.3% in 2018, up from 4.2% the previous year, with this growth driven primarily by investment, exports and consumption. Other key contributors to this stronger performance were:

- Expansion in the gas extractives sector since the opening of the large Zohr gas field;
- Positive spill-overs of the improved energy supply to other sectors, particularly manufacturing;
- Some recovery in the tourism sector;
- Increased private consumption;
- Expansion of non-oil private sector activity.

[24] World Bank. (April 2018). MENA Economic Monitor

[25] International Monetary Fund. (October 2018). Regional Economic Outlook Update: Middle East and Central Asia

Egypt's real **GDP** is expected to rise to

5.5% this year,

and up to

5.8% in 2020.

This recovery is supported by the government's commitment to narrowing the overall deficit through redesigning subsidies, increasing VAT intake and containing public service wage bills. The social effects of these policies are being mitigated through expanded social welfare programmes – these programmes, in conjunction with the sharp drop in unemployment, are going some way towards maintaining relative domestic stability.

Current forecasts indicate that recent positive results are not a fluke but appear to be rooted in the comprehensive reforms set in motion by the government. Both the World Bank and the IMF have acknowledged that Egypt is making real advances in modernising its economy and boosting its competitiveness. This is enabling a decisive shift away from decades of under par performance, resulting from inward-looking economic policies, poor governance and a dominant role for the state that was leading to inefficiencies, corruption and a restricted private sector.

On this basis, and provided the momentum of reforms is sustained, Egypt's economic outlook appears favourable. Real GDP is expected to rise to 5.5% this year and up to 5.8% in 2020. This growth should be supported by further recovery in the tourism sector and rising natural gas production. Of particular relevance to this report is the Egyptian government's strategy to implement key business environment reforms to attract more foreign as well as domestic private sector investment – the target is to channel this into new, non-oil economic activities that will require intensive infrastructural investment.

This progress could however be challenged should there be a slowdown in these important reforms or a reversal of the recovery in tourism due to any deterioration in regional or domestic security.

6.2.3 | Social and Political Outlook

Egypt was one of the key North African states caught up in the Arab Spring, a major revolution that resulted in the removal of President Hosni Mubarek and a drastic shift in the country's political system. In the years following 2011, public expectations of what should constitute these political changes and the pace of reforms often clashed with reality, resulting in further tensions that flared up from time to time. Compared to other large states at the centre of the Arab Spring however, such as Syria and Libya, Egypt managed to avoid any significant civil unrest and has maintained steady progress in strengthening democratic reforms.

Unlike Oman, Egypt does however have to contend with security risks within and beyond its borders, particularly the activities of the Islamic State to the east, west and south, as well as simmering tensions between Egyptian Islamists and the more secular government. Some measure of continuity is however assured by the fact that President Abdel Fattah el Sissi, first elected in 2014, was re-elected for a further term in the least general elections held in March 2018.

On the social front, the fast-growing population and, similarly to Oman, a large youth demographic, does cause pressures. These are sometimes exacerbated by economic reforms that create further hardships for lower-income families. There does appear, however, to be a consistent government commitment to mitigate these effects through targeted social policies. Of particular relevance to this report is the fact that central to these policies is an undertaking made by the Government to introduce an ambitious public works programme aimed at creating employment and improving the quality of life.

In terms of the scope of this report, and compared to other countries within the MENA region, Egypt can be considered as a relatively stable market in social and political terms, with no foreseeable major domestic disruption.

6.2.4 | Bilateral Links

Relations between Malta and Egypt are generally positive, backed by historical ties (including the relatively large Maltese community settled in Egypt) and the more recent support offered by Malta in enabling the evacuation of Egyptian nationals caught up in the Libyan crisis of 2011.

Official visits at ministerial level in 2016 strengthened these ties further, with the Egyptian government clearly keen to reinforce relations with Malta given our status as EU members. Present indications are therefore that Malta-based contractors and businesses can expect to find a generally receptive environment, facilitated by an established network of diplomatic and commercial contacts. A double taxation agreement between the two countries is active and was signed in 1999.

The resident ambassador of Malta to Egypt is H.E. Charles Sultana.

6.2.5 | Overview of Capital Projects Environment

Construction is a key contributor to the Egyptian economy, maintaining significant growth since 2011 that saw a doubling of the average annual expansion rate from 5.3% to 10.2% in 2018. Infrastructure is now the third largest sector in the Egyptian economy, behind tourism and communications. Given the government's clear determination to remain on track with its modernisation policies, it is likely that this growth surge will continue, not least because the sector is seen as indispensable in job creation.

Due to Egypt's physical area and population pressures, the scale and value of its infrastructure market is significantly larger than that of Oman. A further significant development in last few years has been intense investment by China in the country's construction sector, particularly in industrial and transport developments. After Nigeria, Egypt is the second largest recipient of Chinese investment in Africa: Egypt is viewed by China as a key node in its rather controversial 'Belt and Road' initiative[26]. This FDI is significantly boosting capital influx into the sector, reducing the reliance on state funding. It should be noted however that there is a perception that Chinese funded projects may favour Chinese contractors over local firms, or indeed other foreign contractors.

So far this is not backed by any official data, but it should be borne in mind by Malta-based contractors exploring China-backed developments.

[26] The 'Belt and Road' initiative refers to a massive Chinese initiative which covers a string of construction projects stretching from South East Asia to Eastern Europe and Africa – the goal is to make up a 'belt' of overland corridors and a maritime 'road' of shipping lanes.

BNC Networks estimates that there are over 1,420 active projects worth USD 701 billion spread across the country.[27]

According to BNC Networks, and as is the case in Oman, the urban construction sector is the largest segment of the market, comprising residential buildings, mega urban developments, religious buildings, healthcare facilities, retail outlets and leisure facilities. Of these:

79%

Residential and Commercial buildings and Mega Urban Developments valued at

USD 90.5 million

13%

Hospitality Projects valued at

USD 8 billion

It is estimated that approximately USD 178.4 billion worth of projects are in their early stages, indicating a healthy pipeline of projects that will come on stream over the next few years.

[27] BNC Network. Retrieved on 10 February 2019 from https://www.bncnetwork.net/Access-Egypt-Construction-Projects-News-Analytic-Reports-and-Forecasts/

This rapid growth is being supported by government initiatives to open up the market to more private investment, particularly in industrial developments (as is the case with Oman and most other GCC countries, infrastructure is largely state-driven).

One key element of this drive concerns access to land, which has traditionally been a major hurdle for the private sector since most land is owned by the state, leaving insufficient acreage for private sector investors. Industrial land is currently allocated for specific economic activities at pre-set prices in a government-controlled system – this is open to corruption and speculation. However, for the first time the authorities appear to be conceding that this system must change if domestic and foreign private investment is to increase and a reform plan is being drawn up to move to a more transparent and competitive system. It is anticipated that new guidelines will be announced later in 2019. This development should be a major shift for the industrial construction sector.

Beyond industrial expansion another key driver is the sharply growing need for housing units. With a total population just short of 100 million inhabitants, and growing at an annual rate of 2.45%, current estimates indicate that the country has a housing deficit of 3 million units, with an annual demand for an additional 350,000 to 500,000 units.[28] These pressures are exacerbated by the fact that, unlike heavily urbanised Oman, only 43% of the Egyptian population live in urban areas. As economic progress and demographic pressures persist, the urbanisation rate is expanding at close to 2% each year, making urban expansion a national priority.

In addition to the above there is also an emphasis on transport projects. This trend was triggered particularly by the expansion of the Suez Canal, a project that was completed in 2015 in the record time of one year rather than the scheduled three, demonstrating that the government has remodelled its structures successfully to get big jobs done on budget and on time where necessary. This expansion increased revenues from the Canal significantly and led the government to consider its next construction priorities in the transport sector: sea ports. A plan is now underway to expand Port Said and Alexandria Port. Each of these major expansion initiatives includes the inclusion of residential units, commercial space, educational institutions and tourism sites at an estimated total value of USD 16 billion each.

“100 million

inhabitants, and growing at an annual rate of

2.45%”

[28] Oxford Business Group. (2018). Construction and Real Estate: The Egypt Report

There is also an upsurge of activity in land transport, with the government committing to a National Roads Project in 2015 that has already achieved significant progress, completing over 5,000 km of new roads by end 2018. In September last year the government announced new road projects with an estimated value of USD 4.9 billion.

Overall, the Egyptian market is emerging as one of the strongest in the region. The latest market intelligence report issued by the Oxford Business Group on the Egyptian market concluded the following:

"Indeed, in terms of project values – both under way and in the pipeline – Egypt has emerged as one of the hottest markets in the MENA region.

Although not every project, whatever its size, will see the light of day, there are enough contracts across a range of segments to make up for any delays and cancellations.

Therefore, as the government's reform agenda beds in, the currency stabilises, and inflation subsides, the Egyptian market will become an attractive proposition for both domestic and international construction firms."[29]

[29] Oxford Business Group. (2018). Construction and Real Estate: The Egypt Report

6.2.6 | Key points: expatriate firms and contractors entering Egypt's construction market

The rapid growth in Egypt's construction sector outlined in the previous section has generally led to a greater openness to foreign contractors in the market. Given the scale and complexity of the active and pipeline developments across the country, there is now an acknowledged deficit in terms of construction contractors and specialised architectural and engineering skills available in the local market.

Until very recently procurement procedures were somewhat complex and fragmented, particularly when compared, for example, to the prevailing situation in Oman discussed above. However recent changes are consolidating and streamlining the system.

On 3 October 2018, a new law regulating public procurement was issued in Egypt to replace the former Tender Law (Law No 89 of 1998) – this new legislation is entitled 'Law No. 182 of 2018 Regulating Contracts Entered by Public Entities.'

This will apply to all contracts between contractors and any governmental entity or public authority and will cover all supply, service and construction contracts signed by a public entity.

These procurement regulations clearly cover all aspects of construction works including provisions for related professional services. Consultancy services are also catered for and are defined as "works which are of an intellectual and advisory nature."

All contractors bidding for Egyptian construction works must be registered with the Egyptian Federation for Construction and Building Contractors.

Construction Works are classified into different specialisations. Under each specialisation, a contractor is placed under a certain grade, the lowest grade being number seven (7) and the highest grade being number one (1). The grade of the contractors determines the value of construction works that can be carried out by such contractors.

Contractors are typically graded according to several factors including: available capital, number of professional staff, years of expertise, value of equipment, previous experience and projects undertaken in the previous five years.

This registration process applies to the contractors regardless of their nationality. As current law stands, foreign contractors must operate a branch office in Egypt which must be registered with the Federation.

Back-to-back subcontracts (that is, where the subcontractor is bound by all the relevant obligations of the main contract) are normal in Egypt. On larger international projects, the terms of the subcontract may be drafted and negotiated to specifically match those of the main contract. More informal arrangements between the main contractor and subcontractor tend to be adopted on local projects.

Due to the stringent requirement for working through a locally registered company the best option for entering the market is to find an Egyptian partner to bid for government work. This could also be an avenue to post-construction, long-term contracts related to maintenance and improvements.

The FIDIC White Book (Client/ Consultant Model Services Agreement) is widely used in larger construction, infrastructure and industrial projects.

6.2.7 | Top Five Capital Projects in Egypt

- New Cairo
- Atfih Industrial City
- One Million Houses in Egypt
- Benban Solar Park
- El Dabaa Nuclear Power Plant

New Cairo

Type of Development	Mega Urban Development
Location	East of Cairo
Estimated Total Value	USD 45 billion (USD 35 billion pledged by China)
Status	Construction of roads in progress; first phase targeted for completion by end 2020. Design of residential units underway.
Description	Construction of an entirely new city aimed at easing pressures on Cairo and geared for 21st century economic and social life. To be based on 'smart village' concept and will include 1,000 mosques, a medical centre and a university.

Atfih Industrial City

Type of Development	Mega Industrial Development
Location	Giza
Estimated Total Value	Undisclosed
Status	Funding committed and masterplan is in its final stages.
Description	The project involves the construction of a new industrial city spread over an area of 105 sq km. The city will be 16 km long with a width of 4 km and will primarily serve the construction industry, including marble as well as other construction material manufacturing facilities.

One Million Houses in Egypt

Type of Development	Residential Developments
Location	Various
Estimated Total Value	Undisclosed
Status	Programme initiated in 2018 and anticipated to stretch over the next five years. Budget allocations secured until 2021.
Description	Multi-year government project to demolish and rebuild housing for low-income families in slums and tenements across urban centres in the country. The current target is to build 200,000 new houses per year funded by the state, with private developers developing a further 200,000.

Benban Solar Park

Type of Development	Mega Solar Farm
Location	Western Desert, 400 miles south of Cairo
Estimated Total Value	USD 4 billion
Status	Funding secured and first of 32 sub-projects completed; works underway on the next phase of the project.
Description	Targeted to be the largest solar park in the world, this complex will include 32 solar plants on a 37.2 sq km area and will produce 1650 megawatts of electricity.

El Dabaa Nuclear Power Plant

Type of Development	Nuclear Power Plant
Location	Matrouh Governate, west of Alexandria
Estimated Total Value	USD 25 billion
Status	Surveying completed, financing secured, and construction scheduled to begin in 2020
Description	Construction of Egypt's first nuclear power plant with a capacity of 4.8GW and expected to cover up to 50% of Egypt's power generation requirements once completed.

6.3 | Morocco

6.3.1 | Key Indicators[30]

Population 2018	36 million
Population Growth 2018 (%)	1.3%
% Age of Population Under 25	45%
Current estimates: Total population by 2050	45.7 million
Urban Population 2017 (% of total population)	60.3%
Urbanisation rate 2017 (% annual increase)	1.9%
Total Unemployment 2018 (% of labour force)	9.8%
GDP 2018	USD 110.2 billion
Level of income (World Bank Atlas Method)	Lower Middle
Growth in GDP 2018 (% change)	3.2%
Average GDP growth 2018: Oil Importers MENA Region	4.6%
World Economic Forum Global Competitive Index (GCI) Score 2018	58.5/140
GCI Regional Ranking 2018	8th
'Doing Business' Score 2019	71.02
Regional 'Doing Business' Ranking 2019	2nd
Adult Literacy Rate (%)	68.5%
Net Enrolment Rate in formal primary education	98%

Table 6: Key Indicators - Morocco
Source: World Bank; United Nations

[30] Data sourced from the databanks of the World Bank and the United Nations

6.3.2 | Economic Outlook

Following a marked slowdown in 2016, Morocco's economy has been exhibiting slow but sustained recovery, with real GDP growth levelling at:

3% in 2018 compared to just 1.6% in 2016.

This modest growth was due mainly to:

- A significant recovery in the agricultural
- sector;
- Improved performance in the mining sector;
- Improved performance in the manufacturing and services sectors;
- Healthy tourism revenues.

This generally positive economic performance is the first firm signal that the efforts of the Moroccan government to establish a more resilient and diverse economy is bearing results. As things now stand, Morocco is one of North Africa's strongest economies and trends indicate that, barring any external disruptions, this growth is set to continue into the medium to long term.

Morocco's economic profile has seen some interesting shifts in recent years. Its GDP growth has traditionally depended to a very large extent on agriculture, and this does remain the most important economic sector. Given its dependence on rainfall, the fluctuating GDP trends from year to year have led to a perception that the Moroccan economy is somewhat erratic. However, just as the Gulf states are very deliberately moving to reduce their dependence on the oil sector and tap new economic activities, Morocco has recognised this reliance and successive governments have engaged in strategies to reduce it. In the case of Morocco, this effort took shape in 2008 with the creation of an ambitious National Pact for Industrial Emergence. This Pact focused on expanding a broad range of industries, particularly the automative and aeronautics sectors, that would give Morocco an edge in international markets.

A decade on this strategy is producing some results, with automative manufacturing now the country's key export industry. However, some vulnerability persists: agriculture still remains the largest GDP contributor while another important sector, tourism, is always susceptible to the spill-over effects of regional tensions.

Despite this, Morocco's economic outlook seems positive. In their latest reports, both the World Bank and the IMF conclude that the country's economic growth should persist and improve into 2020. The World Bank forecasts GDP growth at 3.5% in 2019, rising to 3.7% the following year.[31] Similarly, the IMF has just released an updated report which generally commends the Moroccan government for consistently reducing "fiscal and external vulnerabilities," adding that the "government remains committed to implementing sound policies and reforms."[32]

IMF goes on to conclude that economic activity is set to remain "robust", reaching 3.3% by end 2019 and rising to 4.5% in the medium-term.

However, both organisations do highlight the risks that continue to face the Moroccan economy. The most significant are:

- Any slowdown or slippage in the fiscal and economic reform process that the government is pursuing could slow growth in the industrial segments that are key to reducing reliance on agriculture and tourism.
- The red-tape and bureaucracy that continues to limit the private sector from reaching its full potential and, in general, often creates a sluggish business environment.
- Unemployment, which remains high particularly among the younger demographic.

[31] World Bank. (October 2018). Morocco's Economic Outlook
[32] International Monetary Fund. (November 2018). Morocco Country Report 19/24

6.3.3 | Social and Political Outlook

Morocco is a constitutional monarchy with an elected parliament. A multi-party state, the executive power is shared between the government and the King, with economic policy-making largely in the hands of the governing party. The coalition is currently led by the Justice and Development Party, a moderate Islamist party which was voted into power in 2016. The next general elections are scheduled for 2022.

Like Egypt, Morocco was one of the North African states most directly affected by the Arab Spring. The Moroccan government responded in a similar fashion to Egyptian leaders, implementing a series of constitutional reforms widely aimed at introducing greater democratic freedoms. However, eight years on real power remains concentrated in the hands of the monarch. This is not helped by the fact that the political landscape is complex and fragmented, with more than six parties competing for power within parliament. However, the interests of parliament and the monarchy generally appear to converge particularly in terms of economic policy – this has maintained the momentum of the macroeconomic reforms outlined in the previous section. In overall terms therefore Morocco's political situation remains relatively stable, particularly compared to other countries in the region.

Social tensions do appear from time to time, generated largely by the pressures of youth unemployment and poverty, particularly in urban areas. In its most recent assessment, the World Bank in fact identified poverty and social exclusion as being a major obstacle to Morocco's economic transformation. The government is responding by driving reforms in education, healthcare and housing however these programmes are still in their early stages.

In terms of its foreign policy, Morocco enjoys positive relations with the European Union and the United States as well as with its neighbours, beyond periodic tensions with Algeria.

In terms of the scope of this report, and compared to other countries within the MENA region, Morocco can be considered as a relatively stable market in social and political terms, with no foreseeable major domestic disruption.

6.3.4 | Bilateral Links

Relations between Malta and Morocco are generally positive, dating back in particular to a joint technical commission established by bilateral agreement in January 1976 which meets annually to "improve the economic relations between the two countries."[33] This commission has met more or less regularly since that date, with political dialogue intensifying on migration matters particularly in the build up to the Valletta Summit on migration in 2015. A double taxation agreement between the two countries is active and came into force in 2007, followed by a Memorandum of Understanding on Political Consultation in 2011.

Present indications are therefore that Malta-based contractors and businesses can expect to find a generally receptive environment in Morocco, particularly given our status as members of the EU, with which Morocco actively pursues a very strong relationship. However, it should be noted that, unlike the case in Egypt, there is no established permanent diplomatic presence in the Moroccan capital except for an Honorary Consul resident in Alexandria.

The non-resident ambassador of Malta to the Kingdom of Morocco is H.E Mr Tarcisio Zammit.

6.3.5 | Overview of Capital Projects Environment

In comparative terms, Morocco's construction sector may not be experiencing the significant level of growth currently seen in Egypt and Oman. The Moroccan market is rather one that presents moderate but steady growth, with indications being that this trend will continue into the foreseeable term, driven by the government's firm commitment to infrastructure projects. This relatively slow growth rate is due mainly to two factors, both of which are largely political:

- The aftermath of the appointment of a new government in 2016 which led to a general slowdown in state expenditure while the new administration consolidated its position; this put a hold on the launch of new infrastructure projects.
- During this same period, 2016-2017, the new government implemented a series of austerity measures in a bid to reduce the fiscal deficit; this put a further limitation on project financing.

33 Economic and Technical Cooperation Agreement between the Government of the Republic of Malta and the government of the Kingdom of Morocco. Signed 22 January 1976.

Under these conditions sector growth slowed to an average compound annual growth rate (CAGR) of 1.27%, however, given that the political landscape has now settled and between the government on a firmer footing, forecasts indicate that this will pick up to approximately 3.33% over the next two years.[34]

Among the key drivers for this growth are two factors that are also present in the Egyptian environment:

- **Population pressures** leading to a housing deficit: the Moroccan government has made repeated commitments to increase the availability of affordable new housing units as well as implement comprehensive slum clearance initiatives; residential construction is the largest segment in the Moroccan market;

- **The unemployment issue:** infrastructure construction is viewed by the government as an indispensable source of job creation.

A further factor is common across three markets in terms of being a growth driver, and this is the infrastructure demand created by the state's entrenched economic diversification strategy. In Morocco's case, and as discussed above, this centres on the need to reduce the country's reliance on agriculture through a shift to more value-added, technology-based industries. As the data presented below indicates, however, the number of active and projects is significantly less than those reported for Oman and Egypt.

BNC Networks estimates that there are currently 418 active projects in Morocco valued at approximately USD 115 billion.[35]

[34] GlobalData plc. (August 2018). Construction in Morocco – Key Trends and Opportunities to 2022
Trimetric. (September 2017). Construction in Morocco – Key Trends and Opportunities to 2021 and the government of the Kingdom of Morocco. Signed 22 January 1976.
[35] BNC Network. Retrieved on 12 February 2019 from https://www.bncnetwork.net/Access-Morocco-Construction-Projects-News-Analytic-Reports-and-Forecasts/

Figure 5 below sets out the current mix of active projects in the Moroccan market: as is the case across all markets, urban construction is the largest sector, however there is notable activity in the transport and utilities segments – this reflects the policy priorities of the government which will be discussed below in terms of what the project pipeline holds in this market.

Construction Project by Type

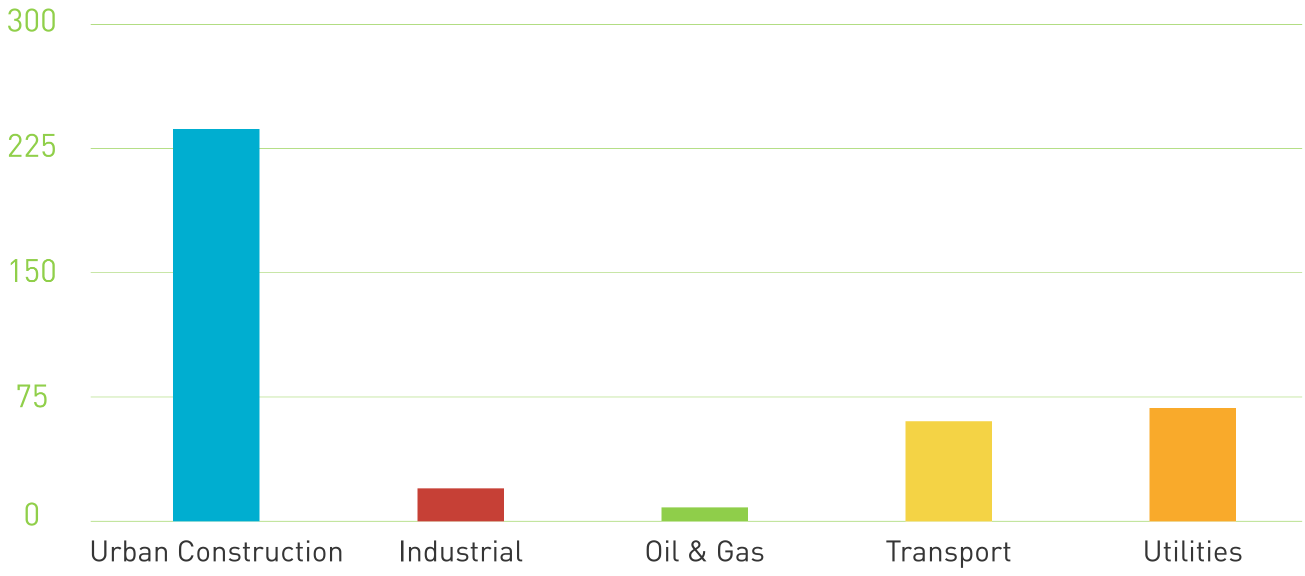


Figure 5: Moroccan Construction Project Mix
Source: BNC Network

Over the next five years the main shifts in the construction sector are based on:

> A focus on transport projects: the development of the national transport infrastructure is recognised as vital to Morocco's economic growth. There is heavy investment in the overhaul of the rail infrastructure, following a USD 112.3 million loan from the African Development Bank for this purpose. The government has also announced a road development plan, running through to 2035, which commits USD 8.9 billion to the construction of 3,400 km of motorway and 2,100 km of expressway. A number of seaports are also in line for expansion – under the 2030 Port Strategy, building and expansion works are scheduled in 17 ports along the Atlantic and Mediterranean coasts. This includes the construction of the new Kenitra Atlantic deepwater port being developed in two phases at a total cost of USD 740.8 million.

Energy projects are taking centre stage in line with the government's commitment to diversify its energy generation capabilities with a target of sourcing 52% of national energy needs from renewable sources (wind, solar and hydro energy) by 2025. Major projects in the pipeline are:

- An 850-MW wind programme being developed by Italy's Enel Green in partnership with Germany's Siemens and the local Nareva Holding. This consists of five wind projects on different sites for an estimated total investment of USD 1.1billion;
- A new USD 150 million dam is to be constructed in the Guelmin region as well as a new 350-MW pumping station in Taroudent. Last year, French renewable energy producer, Voltalia, obtained permits for the development of two hydropower plants with a capacity of 9.8MW and 7.2MW respectively, both in the mid-Atlas region.

Tourism projects are also a growth segment: according to data issued by the specialist industry intelligence firm, Hospitalitynet, there is a "hefty pipeline" of tourism construction projects with the launch of 11 projects in 2019, 6 in 2020 and 17 in 2021. These are luxury or first-class developments.

Housing programmes will continue to be a major component of the construction mix, not least due to the government drive to further reduce the housing deficit following a successful start in the last few years. With the urban population rising by over 2.3% per year, and a target of 800,000 new homes to reach by 2022, it is envisaged that this momentum will be maintained if not intensify. There is also a notable trend in housing policy to increase the availability of new-build middle-class accommodation.

+2.3%

rise in urban population per year.

800,000

target for new homes by 2022.

In terms of commercial infrastructure, the emphasis in the coming years is on high-quality office space, particularly in Casablanca, and high-end retail space. One particularly exciting project which blends the two is the Bank of Africa tower in Rabat and which will stand at 250 metres. This will host a luxury hotel, apartments, office space and a viewing terrace at the top. Construction is just getting started and it is due for completion in 2023.

6.3.6 | Key points: expatriate firms and contractors entering Morocco's construction market

Approximately 80% of capital projects are state-financed. Most government contracts are tendered through the national public tendering portal managed by the Moroccan Treasury.

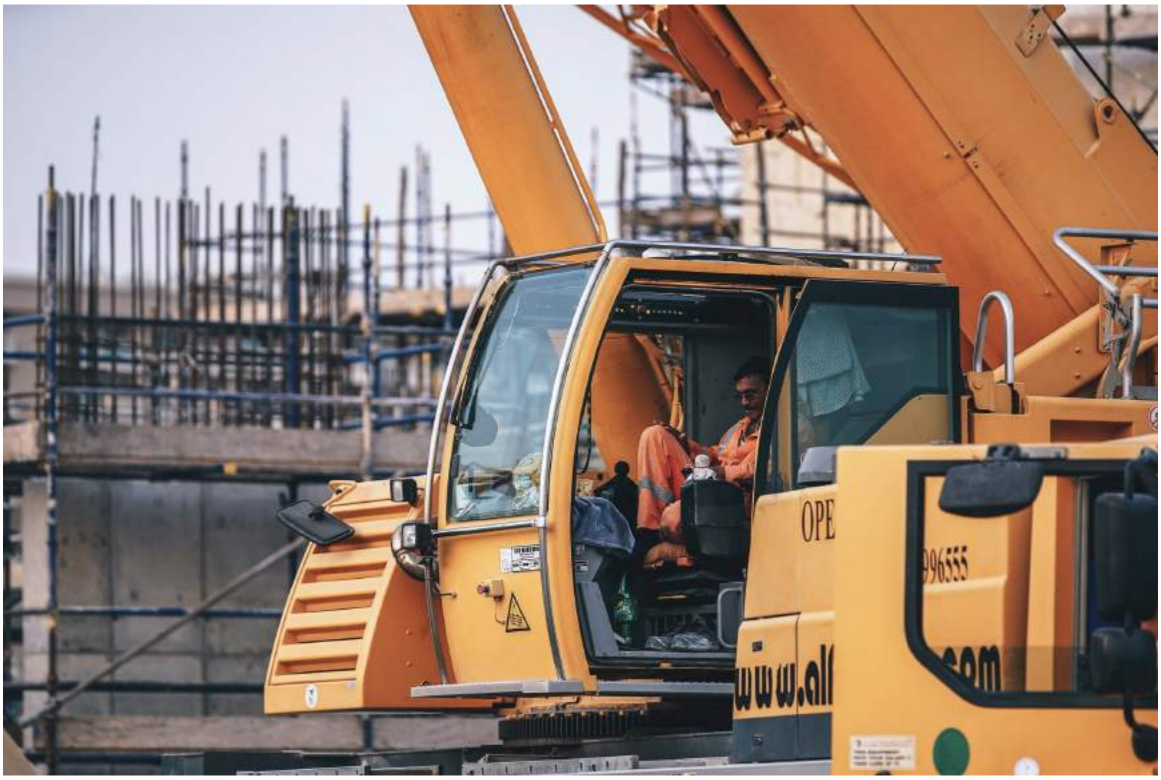
The announcement of tenders is published in newspapers and on the websites of the issuing ministries and distributed to ministries. Deadlines range from 30 to 90 days. One issue to note is that bidding documents are usually published in French and bids must also be submitted in French.

The procurement and management of infrastructure projects are regulated by the following laws:

- Law No. 1-14-192, dated 24 December 2014, promulgating Law No. 86-12 related to PPP contracts: this law is applicable to contracts related to the design, development, financing, construction, maintenance and operation of public infrastructure.
- Law No. 1-06-15, dated 14 February 2006, promulgating Law No. 54-05 related to the public tender for management of public services: this law sets the legal framework for delegated management of public services; and
- Decree No. 2-12-349, dated 20 March 2013: this decree provides for the terms and conditions of the execution of works, deliveries of supplies or the provision of public services.

Back-to-back subcontracts (that is, where the subcontractor is bound by all the relevant obligations of the main contract) are normal in Morocco. On larger international projects, the terms of the subcontract may be drafted and negotiated to specifically match those of the main contract. More informal arrangements between the main contractor and subcontractor tend to be adopted on local projects.

The FIDIC White Book (Client/ Consultant Model Services Agreement) is widely used in larger construction, infrastructure and industrial projects.



6.3.7 | Top Five Capital Projects in Morocco

- Sustainable City
- Tangier Industrial Park
- Mahdiyya Renewable Energy City
- Trans-African Pipeline
- Nador West Med Port Complex

Sustainable City

Type of Development	Mega Urban Development
Location	Rabat
Estimated Total Value	USD 2.5 Billion
Status	Financing secured and tenders are due to be issued later in 2019. Estimated for completion by 2024.
Description	The project involves the construction of a mixed-use sustainable city, spread over an area of 2.3 sq km. It will comprise 400 villas, a hospital, a 2,000-student medical university, a research centre and a golf course.

Tangier Industrial Park

Type of Development	Mega Industrial Development
Location	Tangier
Estimated Total Value	Undisclosed
Status	Construction initiated in 2018; scheduled to be phased over the next ten years .
Description	The project involves the construction of a new industrial city spread over an area of 10 sq km to be doubled over ten years made up of both industrial sites and apartment complexes.

Mahdiyya Renewable Energy City

Type of Development	Urban development
Location	Rabat
Estimated Total Value	USD 2.5 Billion
Status	Masterplan approved and key funding secured.
Description	The project involves the construction of a renewable energy city, which will use sun, wind, and hydro-power to meet its energy requirements, spread over 72,339 sq km, as well as 8 kms of beachfront. It will feature a state-of-the-art teaching hospital, a golf course, a shopping mall, tourist facilities and a two-mile Corniche lined with shops and restaurants. It will have the capacity to accommodate 2,000 people.

Trans-African Pipeline

Type of Development	Oil & Gas Transfer
Location	Marrakesh
Estimated Total Value	USD 20 billion (secured)
Status	Conceptual Design and Feasibility studies completed; Front-End Engineering Design (FEED) underway.
Description	The project involves the construction of a 5,660 km offshore gas pipeline extending from Nigeria to Morocco, passing through other African nations.

Nador West Med Port Complex

Type of Development	Port & Harbour
Location	Nador
Estimated Total Value	USD 25 billion
Status	Initial construction of phase 1.
Description	This new complex will specialise in the storage of petroleum products and will serve as a hub for supplying countries around the Mediterranean. It will include commercial, logistic and tertiary facilities. Construction works will cover a main and secondary breakwater as well as a container terminal with a 1,520 m quay.

6.4 | Key Takeaways

All three markets reviewed for the purposes of this report offer significant potential for Malta-based companies wishing to expand into the MENA region. In each case the capital and infrastructure industry is performing well, with a number of long-term active projects as well as a healthy capital project pipe-line.

In all three cases, the outlook for the foreseeable term, up to 2025, appears to be positive, barring any unexpected developments that cannot be ascertained at this stage.

In each market there is a broad mix of construction segments, from urban residential or commercial to full-scale power and water, with projects at various stages of the construction cycle. This opens up opportunities for operators all across the construction value chain, as well as for firms specialising in particular construction segments.

Apart from the more mainstream urban, residential, tourism or commercial projects, there is a growing nucleus of complex and innovative projects entering the mix. In all three markets there is an increasing focus on energy projects, particularly in the renewables sector, as all three governments aim to decrease reliance on non-renewables in line with some very ambitious self-imposed targets.

We can therefore see a stream of power and water projects coming on line, ranging from Egypt's ambitious solar energy projects to Morocco's hydroelectric initiatives – these all offer interesting options to Malta-based firms who already have or wish to further develop their skills and experience in this growth area. This could pay dividends also in the local market, where non-renewable energy is set to increase in importance in the next few years.

A further growth segment is transport: this covers road-building as well as maritime facilities, railways and various other initiatives. Particularly in the case of roads, Malta's major EU-funded investment in transport infrastructure has created a local nucleus of specialised skills and expertise that may be well positioned to export these skills and services.

In addition to a thriving infrastructure industry, each of the three markets demonstrate some key, basic similarities that are essential in terms of their suitability as entry markets: they are all relatively politically stable, a particularly relevant characteristic given the volatility with which we normally associate the MENA region, with a positive economic outlook.

In all three cases – and this is always a key driver for the infrastructure sector – we also have fast-growing populations coupled with higher than average urbanisation rates. A further common element driving infrastructure growth is the adoption of wide-ranging economic diversification policies by each of the three governments.

The state plays a major role in all three markets in practically every aspect of the capital projects industry. Over 80% of major projects are state managed and funded, making public procurement a necessary route into the market. International tenders are regularly issued in all three markets, particularly since there is an awareness in all three markets that there is an insufficient local skills pool for the number, scale and complexity of the infrastructure initiatives planned.

This central state role carries with it some undeniable risks and challenges: although all three governments are making conscious efforts to improve processes and procedures, a lack of good governance, and the resulting corruption and inefficiency, is a risk. The main effect of this could be project delays leading to delays in payment: this potential risk must always be factored into the planning process and provided for.

Beyond these important similarities, the three markets have different characteristics which should be carefully weighed in any market selection exercise.

Of the three, Egypt is the giant: with the largest physical area and fastest-growing population of the three, as well as possibly the best performing economy, it clearly offers the greatest number, scale and mix of infrastructure projects. It is however also possibly the most prone to social tensions, which must be managed, and public procurement is the most bureaucratic of the three systems under review. Project management styles are also more traditional than those found in Morocco and Oman, a fact that could lead to issues once on site. For all these reasons it may be the most lucrative yet challenging market of the three.

Morocco is the smallest market, expanding at a slower rate and with a smaller number of projects in the pipeline. From a Maltese perspective it is also less familiar than Egypt with less developed bilateral links. This steadier environment may however provide a more appropriate platform for Malta-based companies entering a North African market for the first time.

Oman provides a middle-road between the two. With its growing population as a key driver and its long-term economic diversification programme well underway, its infrastructure industry is set to maintain steady progress. Malta-based companies targeting the Gulf region, as opposed to North Africa, should consider this option positively. Barring any disruptions caused by the succession to the present Sultan in the coming years, it is probably the most stable state in the region.

It would appear that the most sensible option for market entry is to source a reliable and reputable local partner; this is important both in term of meeting legal procurement requirements as well as to access information and contacts on the ground. This option could apply both for developing joint venture options that are project specific, as well as to secure a local base for operating in the market in the longer term. Given the number of multi-year construction programmes in each of the three markets, this may be a benefit for companies wishing to make a decisive, long-term commitment.

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