

Project Summary Information (PSI)

Project No: 000014

Project Name	Sultanate of Oman Railway System Preparation Project
Country	Oman
Sector	Transport/Railway
Project No	000014
Borrower	Oman Global Logistics Group SAOC
Implementation Agencies	Oman Rail
Environmental and Social Category	Category C
Date of PSI prepared or updated	8 December 2016
Date of Board Consideration	8 December 2016
Board Decision	Approved

I. Introduction

The Sultanate of Oman (Oman) borders Saudi Arabia and the United Arab Emirates in the west; the Republic of Yemen in the south; the Strait of Hormuz in the north and the Arabian Sea in the east. The capital of the country, Muscat, is located in the north of the country. In 2015, Oman had a population of 4.4 million (56% Omani, 44% expatriate) and GDP of \$70 billion. With its per capita GDP of about \$16,000, Oman is considered a high income country. However, the country is mainly depending on oil exports as one third of the GDP and 80% of the public finances are derived from petroleum related products. In 2015, Oman produced about 981,000 barrels of crude oil per day. Due to recent drop in world oil prices, Oman operated at a budget deficit of OMR 4.6 billion (about \$12 billion) in 2015 despite the significant level of oil production.

Oil and gas account for almost 60% of Oman's exports. Imports largely comprise mechanical and transport equipment and base metals. Although Oman is blessed with significant mineral reserves that could generate enormous export revenue, mineral exports accounted for only 4% of the total exports in 2015. In order to reduce its dependence on oil, Oman plans to diversify its economy from exportation of crude oil to other mineral exports, manufacturing, logistic service arrangement, warehousing, fisheries, tourism as well as value added industry in the oil and gas sector such as downstream refinery, petroleum storage, and petrochemical plants. With three deep water ports and a favorable position on the Indian Ocean Rim outside of the Arabian Gulf, Oman is strategically positioned to export its natural resources, products and services to the Middle-east, northern Africa, and South Asia. Oman realizes its enormous potential through strengthening its logistics services and transforming the country to a global strategic logistics hub. In line with this, the Government of Oman (the Government) has planned to increase the production and export of construction materials and minerals such as dolomite, gypsum, and marble and prioritize the concurrent development of mineral connection railway line and the commercial terminal at Duqm Port so as to capture full benefits from such diversification. The Government is also committed to leverage Oman's strategic location to boost its role as a regional logistics hub through investments in large infrastructure projects such as the national railway network, inland and coastal logistics centers, and free trade zones.

In 2015, Oman's Ministry of Transport and Communications (MOTC) produced the Sultanate of Oman Logistics Strategy (SOLS) as part of the national economic diversification strategy. The strategy identified that logistics could significantly enable the economy to diversify away from its dependence on oil and gas. SOLS aims to increase logistics contribution to Oman's GDP from 5% in 2015 to 12% by 2040.

In order to strengthen Oman's logistics offering and connect the country to the GCC rail network, the Government had set up a wholly owned Oman Rail Company S.A.O.C. in 2014. It is a company incorporated under the laws of Oman, not a government department, and was tasked with developing an overall rail network

(about 2,135 km) in the country, which is to be completed through two phases. Phase 1 will connect Oman's three deep seaports with the GCC railway network as well as with the inland mineral resources, and Phase 2 will connect various major cities of Oman. The Oman railway network has been divided into nine Segments. Segments 1- 4 are planned to be constructed under Phase 1 and Segments 5 to 9 under Phase 2.

In line with the decision of the Oman's Financial and Energy Resources Council, Oman Rail Company S.A.O.C. in June 2016 was renamed as Oman Global Logistics Group S.A.O.C. (OGLG) under the Companies Act. Subsequently, Oman Rail Company LLC (Oman Rail). OGLG is a wholly owned by the Oman's Ministry of Finance (MOF) and it owns Oman rail and 12 other entities, consolidating all the government investments in the ports, free trade zones, rail, maritime and land transport companies (Annex 7). A key mandate for OGLG is the implementation of the SOLS, under the direct supervision of the MOTC. A key drive in the implementation of SOLS will be to activate the role of the private sector in nurturing logistics through joint investments and innovation, as well as developing national capacity and capability in order to unleash the potential of employment opportunities. The Group is also mandated to take the necessary measures to implement the policies drawn by the government, including the coordination and integration between the government agencies concerned to achieve OGLG's investment and development objectives.

As a commercial entity, OGLG has more flexibility to tap additional resources, when needed, than would be the case if it was a government department. However, to procure any goods, works, and services, OGLG has to strictly follow Oman's Tender Law, which requires international procurement standards for ensuring fairness and transparency. The MOTC remains the regulator and policy setter across the logistics sector.

As a result of falling oil prices, members of the GCC have agreed to defer the completion date of GCC railway from the existing target of end-2018 to a later date, to be decided by GCC members in the near future. In light of this revision, Oman Rail has prioritized the development of Segment 4D (a mineral line in the south of Oman) with a view to providing low-cost rail transport connectivity to Oman's fledgling mineral industry by reducing logistics bottlenecks to bring significant economic value to Oman.

II. Project Objectives and Expected Results

The objective of the Project is to achieve full readiness for the construction of a new railway system that will support the Sultanate of Oman with the diversification of its economy and to develop the Sultanate of Oman's position as a transport hub and as an exporter of minerals. This readiness comprises: (a). completion of design and tender documents for the intended Engineering, Procurement, and Construction (EPC) contracts for the mineral lines; (b) advance procurement for the works, goods and services; and (c) capacity building of Oman Rail in institutional, regulatory, operational and commercial development for ensuring the sustainability of railway operations.

III. Project Description

Following are the planned activities under the Project:

Part 1. Consultancy Service

- a) **Railway System Design and Procurement:** This includes the provision of technical, environmental, social and commercial advisory services for the entire railway system design and procurement, including, inter alia, the engineering services for the railway system development, including infrastructure, rail compatible mining and industrial terminals, and port rail terminals and facilities, development of planning activities supported by specialized simulations in order to define the specific terminal and facility types required to develop the operations of Oman Rail heavy haul freight systems, mixed use systems and mass transit systems.
- b) **Institutional Development for Sector Readiness:** This includes the provision of advisory services to support the institutional development required for operating and maintaining freight

and network operations, including, inter alia, (i) assistance with creating the organization and ensuring operational readiness for freight and network operations and maintenance; (ii) ensuring the provision of safe and efficient operation and maintenance (O&M); (iii) development of a profitable business plan and a successful disengagement and handover of the freight and network to Oman Rail; (iv) training and capacity building of Oman Rail's employees through suitable staff development, and performance management; (v) providing rail expertise to support functions to support freight and network operations.

- c) **Baseline Surveys (land, socio-economic, and environment):** This includes (i) Carrying out route surveys of all affected lands and properties, data acquisition from authorities and land owners, plot and land inventories, field verification, and aerial mapping, based on which the resettlement and land acquisition framework/plan will be prepared by the relevant authorities; and (ii) Carrying out the following activities (1) the preparation of environmental and social studies for planning and preparation of the railway network, such studies to include the preparation of a strategic environmental and social assessment, project specific environmental and social assessment, environmental and social management plan and a resettlement and land acquisition framework/plan, and (2) training of the Borrower's and Oman Rail's staff on these issues, and advisory support.
- d) **Legal Services for Preparation of Contracts:** This includes the provision of legal services to support the development and finalization of all contracts needed for the construction and the commercial development of the new railway system, including profiling forms of contracts, determining Oman Rail's risk appetite and allocation, drafting contracts and assisting with the negotiation of contracts, performing legal due diligence on major construction tenders, and any related services as required.

Part 2. Office Equipment

This part includes the procurement of miscellaneous office equipment required for the day-to-day Project activities.

Part 3. Project Management

This includes the provision of technical advisory services and logistical assistance for the management of the Project.

IV. Environmental and Social Category

The Project has been placed in Category C under the provisions of AIIB's Environmental and Social Policy (ESP), since this is a preparatory phase that supports studies, institutional development and capacity building, and no physical works are to be carried out during these studies. Activities under the Project will support the preparation of environmental and social studies for planning and preparation of the railway, training of OGLG and Oman Rail staff on these issues, and advisory support. It is anticipated that studies would include the preparation of a strategic environmental and social assessment, project specific environmental and social assessment, environmental and social management plan and a resettlement and land acquisition framework/plan. The environmental and social documents prepared under the Project will refer to relevant Omani legislation and the ESP. This will include the use of public consultation and disclosure, as appropriate, to support the preparation of the studies.

V. Estimated Project Cost and Financing Source

The Project is estimated to cost US\$ 60 million. The financing sources are as follows:

Total Project Cost:	\$60 million	Total AIB Financing:	\$36 million
Financing Gap:	\$24 million		
For Loans/Credits/Others			Amount
AIB			\$36.00 million (60%)
OGLG			\$24.00 million (40%)
Total			\$60.00 million

VI. Implementation

Project Implementation Period (Start Date and End Date)

1 January 2017 – 31 December 2018

Contact Points

AIB:

Project Team Leader: Dr. Shakeel Khan

Project Team Leader/Principal Investment Operations Specialist

Tel: +86 10 8358 0185

E-Mail: skhan@aiib.org

Borrower:

Mr. Dave Guy

Group Chief Financial Officer

Oman Global Logistics Group SAOC

Tel: +968 22364300

Implementation Agency

Mr. Nathan Wiles

General Manager Projects, Oman Rail

Tel: +968 94581830

E-Mail: nathan.wiles@omanrail.om