

## PODCAST: Oman must innovate to advance in Islamic finance

**This week, IFN speaks to MANSOOR MALIK JAMAL the founder and managing partner of Al Busaidy Mansoor Jamal & Co (AMJ). A recognized expert on Oman's legislative and regulatory frameworks with 27 years of experience, Mansoor gives us a unique insight into the challenges and opportunities facing Oman's fledgling Islamic capital market in 2017.**

The regulation in Oman is comprehensive and encouraging for issuance. In contrast to many other countries where the segment is governed by frameworks developed for conventional finance, Oman is viewed today as having one of the most developed Islamic finance legislative frameworks in the world. Since the release of the Islamic Banking Framework in 2012, the central bank has issued multiple new regulations including setting up a Supreme Shariah Audit Authority, while the Capital Market Law was amended to regulate Sukuk issuances and in 2016, the Capital Market Authority (CMA) issued further detailed Sukuk regulations governing both Sukuk programs and stand-alone Sukuk, as well as the introduction of REITs.

However: "A number of challenges remain that need to be addressed if Oman is to maintain momentum and to strengthen the Shariah compliant finance sector," explains Mansoor. "These include the need to expand the range of Islamic finance structures and instruments on offer and to broaden the investor base. Existing restrictions under Omani law which hinder Islamic finance transactions should also be reviewed. These include the inability of foreigners to own land in Oman other than in restricted circumstances, the lack of

clarity regarding the right of companies and banks to own real estate and the prohibition on Tawarruq."

To date, four Sukuk issuances have taken place in Oman: two corporate and two sovereign: one regional (Omani rial-denominated) and one international (US dollar-denominated). These have all been based on an Ijarah (lease-based) structure, with real estate as the underlying asset. "These are popular structures since they are based on the undivided pro-rata ownership of the underlying leased asset, and are freely tradable at par, premium or discount in the secondary market," comments Mansoor. "As the market matures, however, we are aware that a number of issuers are considering or have considered different Sukuk structures such as Murabahah (cost-plus), hybrid and capacity structures. Although less common than Sukuk Ijarah, other types of Sukuk play a significant role in emerging markets to help issuers and investors alike to participate in major projects, including airports, bridges and power plants."

A third Sukuk facility by the Omani government, which will be the second international US dollar-denominated sovereign issue, is in the pipeline. Additionally, two Sukuk programs under the new Sukuk regulations have also received initial approval from the CMA in March 2017. These are Meethaq (the Islamic banking unit of Bank Muscat)'s OMR100 million (US\$258.84 million) Sukuk program and Omani conglomerate Golden Group's intended OMR200 million (US\$517.68 million) Sukuk program.

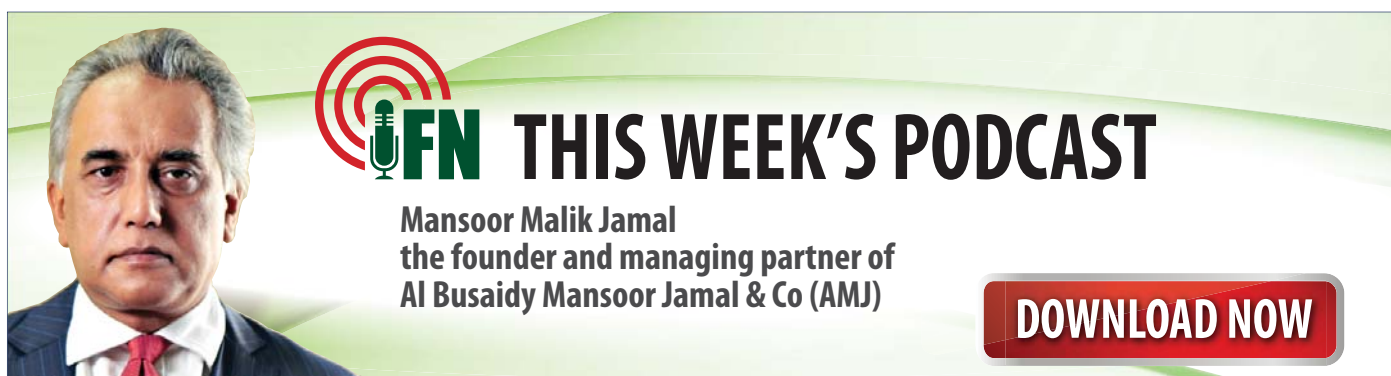
"We believe that more corporates will consider Islamic finance structures if there is more product innovation to suit

their needs, the ease of issuing Sukuk develops and a yield curve developed for issuers as a guide for future issuances and pricing. A good deal remains to be done to raise awareness of Islamic finance products, and the fact that it is not restricted to Muslims, if the investor base is to be broadened," Mansoor adds.

Oman has introduced a raft of new commercial legislation and regulations in recent years to support the government's Vision 2020 strategy of developing the non-oil economy and infrastructure. "The prolonged slump in oil prices, which resulted in shrinking oil revenues and large state deficits, will continue to drive legislative reform throughout 2017," says Mansoor. "Top of the agenda is a new foreign capital investment law, drafted in consultation with the World Bank, which, if adopted in its current form, will allow 100% foreign ownership of firms in Oman and remove the current minimum capital requirement. Oman's first-ever public-private partnership (PPP) law is also due for enactment in 2017. It is designed to attract private sector funding and expertise for infrastructure based on the model that has already proved successful in Oman's utilities sector."

So what will 2017 bring for the Omani market? "We expect to see corporates adopt more diverse Sukuk structures in a move away from the standard lease-based structure," predicts Mansoor. "We anticipate that the launch of Sukuk programs targeting the retail sector will generate considerable interest among individuals seeking investment options, which will result in a significant rise in the level of awareness of the Shariah compliant segment overall." (3)

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