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# REGIONAL AND SECTORAL WISE DISBURSEMENT OF SMALL AND MEDIUM SCALE LOANS IN OMAN DEVELOPMENT BANK

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**Abstract:** The Oman Development Bank (ODB) was established in the year 1976 under the Royal Decree No 31/76. The ODB is the first specialised development bank started in Sultanate for the purpose of contributing to the economic and social development in the country. ODB is attracted by more local and foreign investments created many investment opportunities in development projects by providing the funds, technical support and advice to its clients especially in the establishments of Small and Medium Scale Enterprises (SMEs). The objective of this study is to analyse the role of ODB in financing the small and medium scale industries with the aid of qualitative data. The study analyses the approved loans in region wise. To study the effectiveness of ODB in financing small and medium scale industries in sector wise. The study period is from 2006 to 2009. The analysis and findings of this study provide useful information for bankers, policy makers and to the customers who seek to start SMEs in Sultanate.

**Keywords:** Sultanate; Oman Development Bank; ODB; Small and Medium scale Enterprises; SMEs.

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## INTRODUCTION

The Oman economy has grown strongly over recent decades, with oil at the heart of this growth story. Real GDP has seen a high growth rate since 1980, regularly out-pacing world averages. From 2000 to 2008, average real GDP growth was

5.5%. On the prevailing higher oil prices, robust domestic demand, increased non-oil exports and investment climate, the preliminary estimates of the national accounts indicate a Financial Year 2008, GDP growth at current prices at about 40%. This could result in a nominal GDP of RO 22.4 billion. This is achieved

amidst the global financial and economic crisis and the national economy showed steady growth in financial year 2008. (Annual Report. ODB, 2008).

It is expected that the GDP at constant prices to grow by more than 10% in financial year 2008. The oil revenues for 2008 are expected to be higher by 55.7% compared to the previous year backed by 51.4% increase in oil prices along with 6.6% increase in production. The non-oil activities are expected to show 26.7% Year-on-Year growth with the presence of strong domestic demand and increased exports. The inflation rates were on the rise, with the rate for the period (January-October 2008) amounting to about 12.4% compared with about 5.3% for the same period of 2007 (Source: Ministry of National Economy).

The five years economic development plans in the Sultanate form the cornerstone of sustainable economic development, on the same track comes the Seventh Five Year Plan 2006-2010 to ensure the Government's plan to push the wheel of national economy ahead. The Seventh Five Year Plan 2006-2010 gives Omani national economy a new momentum. Its main aim is to push the economic diversification wheel forward towards self sufficiency, through development of tourism, industry, fisheries and agricultural sectors, along with providing for export. It also aims at developing Small and Medium Scale Enterprises (SMEs) and accelerating the development of non-petroleum sectors at the rate of 7.5% per year (Annual Report - ODB, 2007).

The Seventh Five Year Plan is considered as the biggest development plan

executed by the Government. The total public expenditure on the Seventh Five Year Plan is approximately at RO.20,896 million. The plan endeavours to reinforce the competitiveness of the national economy, to improve its production, and to raise the investment rate to the gross production through petrochemical and tourism projects.

According to the Seventh Plan the total revenues expected during the plan will reach RO.18,636 million in that RO.12,884 which are net petroleum revenues and RO.5,752 million is non-petroleum revenues.

With respect to the five year development plans, Oman Development Bank (ODB) plays an important role, because it provides an effective tool in supporting private sector to contribute effectively to the achievement of the functions assigned to it in the plan. As one of the financiers of lending plans and programs the bank provides loans starting from big loans, to medium and small loans, to very small loans.

### **ORIGIN OF ODB**

The beginnings of the emergence of ODB goes back to 1976 when it was launched vide Royal Decree No.31/76. ODB is the first specialised developmental bank in the Sultanate for the purpose of contributing to the economic and social development of the country. ODB celebrates three decades of dedicated, beneficial and effective developmental banking service in the country. ODB has contributed effective role in creating plenty of employment opportunities for Omanis in the

economy. It also attracted more local and foreign investments and created many investment opportunities in developmental projects by providing the necessary funds, technical support and advice to its clients, especially in the establishment of SMEs. These SMEs covered different fields of investments in all sectors of development, serving many economic and social developmental and service projects and purposes (A1 Markazi, 2008).

During these 30 years, the bank passed many milestones, the most salient of which was the merger of ODB and Oman Bank of Agriculture and Fisheries under the name of ODB. ODB's lending limit was raised to RO.1 million, and its capital was increased to RO.40 million in addition to the permission of the bank to finance working capital. The end of the year 2009 was the fourth year of implementation of the strategic plan for 2005-2010. During the past four years, the bank has witnessed fundamental improvement in a number of activities by implementing several projects.

### **DEFINITION AND SIGNIFICANCE OF SMES**

SMEs are a very heterogeneous group. They include a wide variety of firms that possess a wide range of sophistication and skills, and operate in very different markets and social environments. Some are dynamic, innovative, and growth-oriented; others are traditional life style enterprises that are satisfied to remain small (Hallberg, 2002).

The statistical definition of SMEs varies by country, and usually based on the number of employees or the value of

assets. There is no standard definition of SMEs, an alternative taxonomies based on investment, ownership, value added or employment levels can be justified. The classification used in several reports was based on employment levels, defining SMEs as those enterprises employing up to 50 workers, excluding household enterprises (Bahar, 2001; World Bank/ USAID 2000). Small and Medium Enterprises in Oman is defined as an enterprise which has an employment set up between 1 and 50 employees for small enterprises and 10 to 99 employees for medium enterprises (Mohammed, 2010).

SMEs in Sultanate of Oman plays an important role in the process of country's industrial and economic development. In particular, SMEs play a significant contribution to achieve social and economic objectives such as labour absorption, income distribution, rural development, poverty eradication and balanced economic growth (Khan, 2005). Small and Medium Enterprises in manufacturing industry are very important for several reasons, such as potential to create employment and to generate foreign currencies through export. These industries are also important as domestic producers of cheap import substitution consumer goods especially for low-income groups, and as supporting industries producing components, tools and spare parts for large-scale industries (David, 2006).

### **OBJECTIVES AND DATA COVERAGE OF STUDY**

The specific objectives of the paper are as follows:

1. to analyse the effectiveness of ODB in financing small and medium enterprises in sector wise
2. to study the approved SME loans in region wise.
8. Textile and leather industries.
9. Food stuff.
10. Chemical and Petro chemicals.

The objective of this study is to analyse the role of ODB in financing the small and medium scale industries with the aid of qualitative data. The data used for analysis in this paper were collected mainly from Annual Reports of ODB, Reports - Ministry of National Economy and other sources like websites and journals. The study period is from 2006-2009.

### DATA ANALYSIS

To study the SME loans disbursed and its effectiveness in sector wise distribution Linear Model and Compound Model are used in the analysis. The following are the different sectors which ODB disbursed loans; they are

1. Fisheries.
2. Agriculture and live stocks.
3. Education and health services.
4. Tourism and public services.
5. Wood, paper and Metallurgic industries.
6. Electrical and communications tools and equipments.
7. Mining and Building materials.

Table 1 shows the descriptive statistics on the loan amount.

$$\text{Liner Model: } Y = a + bt$$

where  $t$  = time period;  $b$  = Annual increment.

In the above mentioned table the annual increment is satisfactory over the study period, where tourism and wood industry demonstrate significant at 5% level.

Compound Model:  $Y = a(b^t)$  where  $b$  is the growth rate.

The growth rate of loan disbursed over the time period is highly satisfactory which shows the positive role of financing of SMEs. The tourism industry and food stuff industry show 5% significance. The growth rate in percentage shows an increase trend for all the sectors. The growth rate in percentage for food and mining are around 111.65%, 150%, respectively. Overall there is an increase of 44.23% in the growth rate of the loans disbursed sector wise.

The Sector wise allocations of the loans to different regions are actual variables which are as follows:

### RESULTS AND DISCUSSIONS

The oil revenue shows an increased trend

year after year still oil is a depleting natural resource the government focuses more on non-oil projects. Economic diversification is one of the main goal of Seventh Five Year plan with that aim the government is concentrating more in the development of Small and Medium Scale industries in the economy.

### Sector wise disbursement of loans

Table 1 shows the mean and standard deviation the fishing industry scores highest mean value of 7,258.53 and the chemical industry scores lowest mean value of 481.50. Agricultural sectors development is satisfactory in the past few years where the mean value is 4,894.14 different varieties of fruits and vegetables are widely cultivated and available in the local markets, which have two advantages: On one side it is an import substitution product and on the other hand there is remarkable reduction in the price of these products.

Table 2 shows the linear model used to study the sector wise disbursement of

loans where the tourism sector and wood industry are significant at 5% level. The tourism sector is booming in Sultanate where the government and banking sector play a vital role in financing their development.

Table 3 shows the Compound Model used to study the sector wise disbursement of loans. Food stuff industry and tourism sector show 5% level of significance. The growing population with nationals and expatriate population encourage the food stuff sector. The food stuff industry shows a growth rate of 150%.

### Region wise allotment of loans

The governate aims for balanced regional development; keeping this aim the regional development is more sustainable. The number of loans allotted region wise shows a remarkable improvement for the past three years. Table 4 shows the region wise allotment of loans for the year 2009, A1 Batinah region with regional allotment of 29% of number of loans with 33% of the total allotment constitute the highest.

**Table 1** Descriptive statistics on the loan amount

Sector	Mean	Std. Deviation
Fish	7258.53	2907.517
Agriculture	4894.14	1442.080
Education	1264.81	617.934
Tourism	2919.08	1433.180
Wood	1512.95	807.880
Electrical	1206.60	604.570
Mining	5544.75	4049.482
Textiles	162.63	89.814
Food	1665.48	2136.765
Chemicals	481.50	343.724
Total Loan Amount	26910.47	11155.396

**Table 2** The linear model used to analysis the loan amount disbursed to different sectors

Dependent (Y)	R square value	F value	P value	a	b
FISH	0.140	0.33	0.625	5148.50	844.011
AGRI	0.267	0.73	0.483	3450.37	577.508
EDUN	0.225	0.58	0.525	696.853	227.184
TOUR	0.967	58.4	0.017*	190.022	1091.62
WOOD	0.941	32.0	0.030*	-4.9250	607.148
ELECT	0.500	2.00	0.293	378.516	331.235
MING	0.607	3.10	0.221	-567.24	2444.80
TEXT	0.066	0.14	0.743	117.955	17.7690
FOOD	0.729	5.38	0.146	-1867.2	1413.09
CHEM	0.586	2.84	0.234	-28.245	203.899
TOTAL	0.806	8.32	0.102	7514.57	7758.36

Note: \*denotes significant at 5% level

The recent development of this region is highly focused where the SME industrial development is high. The mining, building material and moulding industries are developing at a greater space. The slow growth region like Al Wusta has been allotted only 2% of number of loans and 1% of loan amount.

Table 5 shows the regional allotment of number of loans for the year 2008 where Muscat region contributes the highest of

38% of total loan amount and Al Wusta the lowest with 4% of total loan amount. The SME development in the capital city Muscat is highly sustainable. The growth rate of non-oil projects is at the rate of 7.5% per year. During this period the fisheries industry has allotted the highest loan amount of 36.13%. Table 6 shows the regional allotment of number of loans for the year 2007 with Dhofar region has the highest allotment of 33% with 3,521 loans. Thus, the region wise and sector

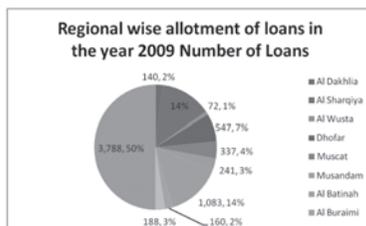
**Table 3** The compound model used to analysis the loan amount disbursed to different sectors

Dependent (Y)	R square value	F value	P value	a	b
FISH	0.195	0.48	0.559	4781.07	1.1524
AGRI	0.342	1.04	0.416	3189.28	1.1680
EDUN	0.385	1.25	0.380	504.090	1.3705
TOUR	0.956	43.77	0.022*	949.294	1.5049
WOOD	0.854	11.74	0.760	375.473	1.6444
ELECT	0.607	3.09	0.221	436.002	1.4335
MING	0.636	3.50	0.202	578.831	2.1165
TEXT	0.231	0.60	0.520	75.1414	1.2843
FOOD	0.942	52.67	0.029*	93.0997	2.5056
CHEM	0.591	2.89	0.231	119.721	1.5995
TOTAL	0.734	5.53	0.143	9798.43	1.4423

Note: \*denotes significant at 5% level.

**Table 4** Region wise allotment of number of loans in the year 2009

Region	Number of Loan	Amount in RO 000'	%
Al Dakhliya		1,675	5
Al Sharqiya	1,020	4,934	13
Al Wusta	72	223	1
Dhofar	547	7,071	19
Muscat	337	7,333	20
Musandam	241	1,106	3
Al Batinah	1,083	11,946	33
Al Buraimi	160	941	3
Al Dhahira	188	1,393	4
Total	3,788	36,621	100



Source: Annual Report. ODB (2009)

wise data show the clear scenario of the development of SMEs in Sultanate.

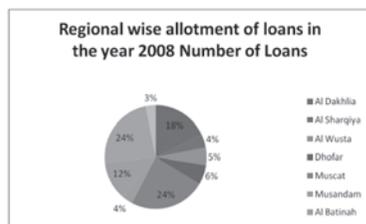
A coin has two sides. Though the ODB development in the past few years is highly witnessed, during the last four years, ODB witnessed sharp decrease in non-performing loans. They amounted to 18.5% in 2008, which brought ODB close to its declared planned strategy aimed at decreasing the level of non-performing loans to 15% by 2010 Table 7.

## CONCLUSION

The SMEs in Sultanate are easily noticeable, they contribute to the economy in terms of output of goods and services; creation of employment opportunities at relatively low capital cost; reducing income disparities; develop a pool of skilled and semi-skilled workers as a basis for the future industrial expansion; it improves forward and backward linkages between economically, socially and geographically

**Table 5** Region wise allotment of number of loans in the year 2008

Region	Number of Loan	Amount in RO 000'	%
Al Dakhliya	5,352	928	20
Al Sharqiya	1,286	235	5
Al Wusta	1,648	181	4
Dhofar	1,855	290	6
Muscat	7,276	1,772	38
Musandam	1,081	268	6
Al Batinah	3,607	397	9
Al Burami	7,142	365	8
Al Dhahira	951	212	5
Total	30,197	4,648	100



Source: Annual Report. ODB (2008)

**Table 6** Regional wise allotment of number of loans in the year 2007

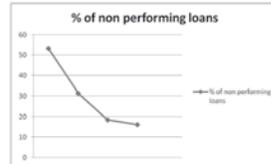
Region	Number of Loan	Amount in RO 000'	%
Al Dakhiliyah	2,447	953	21.9
Al Sharqiya	5,636	245	5.6
AlWusta	518	363	8.3
Dhofar	3,521	1,436	33.0
Muscat	6,820	198	4.5
Musandam	874	727	16.7
Al Batinah	6,965	226	5.2
Al Dhahira	2,216	208	4.8
Total	26,550	4,356	100.0



Source: Annual Report. ODB (2007)

**Table 7** Percentage of non-performing loans

Years	Percentage of non-performing loans
2006	53.2
2007	31.4
2008	18.5
2009	16.2



diverse sectors of the economy; it provides opportunities for developing and adapting appropriate technological approaches, which is often a great to the progressive economic development.

### BIOGRAPHY

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