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# Country Development Strategy Statement

**FY 1986**

**OMAN**



**January 1984**

Agency for International Development  
Washington, D.C. 20523

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FY 1986 SMALL PROGRAM STATEMENT UPDATE

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I. INTRODUCTION

This Small Program Statement submission updates the SPS prepared last year. The FY 1985 submission focussed on the development environment in Oman and the programming constraints which resulted from it. The Joint Commission has made much progress since that time and has learned to more successfully operate an A.I.D. program in Oman. This submission, therefore, emphasizes the developmental aspects of the program and how the program fits into Near East Bureau and Agency development strategies and priorities.

The first section briefly discusses macro-economic developments in 1983 and the effect of lower oil prices on the Omani economy. A brief discussion of the Joint Commission program follows, followed by an overview of the Joint Commission program strategy and a discussion of the sectors of concentration. A discussion of the program in terms of agency priority areas is next, along with mention of the special issues of participant training, evaluation and women in development.

The next section relates the program to the Near East Bureau regional strategy, both the overall strategy and the sectoral priorities. A final section provides tables of sector and project funding and briefly discusses Joint Commission staffing.

## II. MACROECONOMIC UPDATE

The major macroeconomic development in Oman in 1983 has been the continued weakness in the price of oil. Unlike many other oil-producing countries, however, Oman has been able to weather the price decline without any perceived dampening effects on the economy and to continue to carry out the Five Year Plan without major interruption.

Oil is the basis of the Omani economy and normally produces about 90% of government revenue and export earnings and almost two-thirds of GNP. The current Five Year Plan (1981-85) began with an oil price of about \$40/barrel and assumed a 5% annual rise in the nominal price of oil, so the anticipated price in 1983 should have been about \$44/barrel. The actual selling price was \$29/barrel, resulting in a significant drop in revenue at the planned production level of 330,000 barrels per day (bpd).

To make up for the price decline, the Government has taken a number of steps. Most importantly, oil production has been significantly increased; average daily production, 336,000 bpd in 1982, rose to 380,000 bpd in 1983, and daily production was near 400,000 bpd by the end of the year. Oman was able to make this increase as a marginal world producer which is not a member of OPEC and thus is not subject to OPEC production quotas.

Secondly, the Government doubled tariffs (from 2% to 4%), which should add about \$100 million to Government revenues per annum.

Thirdly, efforts were made to cut back on recurrent expenditures in the Government. While overall recurrent expenditures continued to rise, the effort was successful in some areas and the rate of increase in these expenditures was reduced.

Finally, Oman, with an excellent credit rating and a very low debt service ratio, has been able to easily borrow internationally. A \$300 million Eurodollar loan was negotiated and drawn on and \$300 million in other loans were negotiated with Arab and Islamic Development Funds, and export credit institutions, particularly the British ECGD.

These measures enabled the Government to maintain the previous level of revenues, which have been essentially flat over the last couple of years. Expenditures, however, have continued to rise, although at a slower rate than previously, putting the budget into deficit in the years 1982, 1983 and, as projected, 1984. To finance the deficit, the Government has borrowed from the State General Reserve Fund. The Reserve Fund was established in 1980 as a national reserve to aid the country in the post-oil era. Fifteen percent (15%) of oil revenues are deposited in it annually along with any budget surplus at the end of the year. Fund deposits do not enter into budget statistics, and most of the Fund is invested abroad. While deposits are still being made to the Reserve Fund, it is providing the means to finance the budget deficit at the same time. The spending at Five Year Plan forecast levels may also lead to a balance of payments current account deficit in 1984, the first since 1978.

Although the growth rate slipped to 4.9% in 1982 ((from 22.9% in 1981, due to negative growth in the oil sector), the Oman Government has thus been able largely to insulate the economy from the effects of slumping oil prices and the impact on the economy and on development plans has been minor. A few projects in the Plan have been cut back, postponed or stretched out (some ministries underspend simply because they lack the administrative capability to implement projects), but the great majority are being carried out as planned and several major projects which are not in the plan - such as the University - are also being constructed. Contractors in Oman are paid on time.

The non-oil economy grew at much lower rates in the last two years than had been the case previously but the growth rate was still significant: non-oil GDP rose by about 20% in 1982. The rate of increase can be deceptive, however, as most of the non-oil GDP are services paid for by oil revenues and productive non-oil activities are still a very minor part of the economy.

Manufacturing contributes only about 3% of non-oil GDP. Growth rates have been high in this sector with the inauguration of several new projects in 1983; a \$100 million copper mine and smelter and two cement plants, for example.

There was some growth in agriculture and fisheries, although good data are not available and they still constitute a miniscule portion of the GNP. Scarcity of water, poor soil and rural labor shortages contributed to the continuing stagnation of these sectors.

Arab aid flows seem to have declined over the past year. Grant funds particularly appear to have diminished. Projects are still being supported but they are apparently much smaller than the large projects funded in the past by Arab Development Funds. Decisions have not yet been made on two major Gulf Cooperation Council funded projects; an export refinery in the South and an oil pipeline from the UAE and Saudi Arabia through Oman.

The inflation rate remains low. It is estimated that prices have risen in the past year less than five percent. The expatriate labor force has continued to grow, increasing perhaps 25% during 1982. Expatriates now represent about 40% of the public and 80% of the private labor force.

#### Emerging Trends

Economic growth in Oman will be strongly affected by what happens to oil prices, a situation over which Oman has no control. The boom period which began

after 1974 is over but steady growth through 1984 and beyond is likely if oil prices remain stable. A major change in oil prices in either direction would require altering this forecast.

The economy will also be strongly influenced by the level of future oil production and the extent of new discoveries. Announced plans are to increase production to around 450,000 bpd by the late 1980s. The major current constraint to oil production is pipeline capacity. A phased program of pipeline capacity increase is being implemented, with capacity to eventually reach 650,000 bpd; full utilization of this would require new discoveries.

Oman's identified reserves are currently estimated at 2.98 billion barrels, enough for about 20 years production at present (400,000 bpd) rates. Oman has thus far discovered oil reserves faster than they have been pumped and it is possible that recoverable reserves will double over the next 20 years, extending oil production well into the 21st Century. Costs of production for this oil may also rise, however, with the increased need to use enhanced oil recovery techniques.

The objectives of the Second Five Year Plan (1981-85) are to diversify the economy and reduce dependence on oil, achieve a better regional development balance in the country and continue improvements in physical and social infrastructure. The Plan has been successful. Most of the planned projects have been carried out, although the overall objective, effective diversification of the economy, remains an elusive goal.

The next Plan (1986-90) may shift emphasis toward increased support for the private sector to produce import substitution products and develop the agriculture and fisheries sectors more fully. Improvement of social services,

particularly in rural areas, will also continue to be a goal in Oman's development for years to come.

Implications for A.I.D.

As oil prices began to slump in 1982, there was concern that the Government of Oman would be forced have to make significant cutbacks in its ambitious development plans. As stated above, this has not happened and there has been little effect on the Joint Commission program. Barring a major further fall in oil prices, the Joint Commission strategy outlined in this document is likely to remain valid. In the outyears, if there is increased emphasis on development of agriculture, fisheries, and other income producing industries, this may create some new programming opportunities.

### III. STATUS OF JOINT COMMISSION PROGRAM

The Joint Commission has made considerable progress since the SPS Update was prepared last year. At that time, project implementation was proceeding very slowly and the SPS emphasized the various constraints that the Joint Commission faced in mounting a program in Oman. Over the past year, implementation has gone much faster. Although the constraints still exist and the development environment has not changed, the Joint Commission has learned much about working in Oman and designing projects which are doable in the Omani environment. Using Fixed Amount Reimbursement (FAR), A.I.D. direct contracting, and other mechanisms, some of the problems in implementing projects have been overcome and the program is proceeding much more smoothly.

The following is a summary of the status of major Joint Commission projects. (Tables are on pp. 32-33.) It should be noted that the Government of Oman has made significant financial contributions to the four projects which have been agreed thus far. The total cost of the current program is \$133.7 million, to which A.I.D. loans and grants will contribute only \$68.5 million.

#### Loan Projects

---Wadi al-Khawd Aquifer Recharge. A \$16 million project, for which A.I.D. has loaned \$7.5 million, to build a recharge dam near the Muscat Capital Area. The dam will hold back surface water when it rains, allowing the water to sink into the ground and recharge the aquifer. A feasibility study and final design were financed by grant funds. The project was subject to frustrating planning delays for two years but is now being carried out, the construction contract having been signed and physical work begun.

---School Construction. The project consists of FY 83, FY 84, and FY 85 loans of \$12.5 million, \$10 million and \$15 million, respectively. The project will provide about 50% of the cost of building about 75 primary and intermediate schools throughout the country. A.I.D.'s contribution will be made available on a FAR basis, with reimbursement provided when certain stages of construction have been completed to standard. A.I.D. is also assisting the Oman Government with technical suggestions on the design of the schools. Final A.I.D. approval of the first batch of designs is, at this writing, close to completion and tenders for this first group should be issued very soon.

---Urban Water Supply. The project, intended for FY 1986-89 period, will seek to increase the water supply to the rapidly growing Capital Area. Using experience gained under the Wadi al-Khawd project, a series of seven additional recharge dams will be constructed in an area to the south of Muscat. The last dam will be completed about 1990. Groundwater supplies, enlarged by the dams, will yield additional water to be pumped through pipelines to Capital Area users. The Joint Commission is considering providing \$60 million of the estimated \$120 million program, over four years. The project is currently under development: two IQC consultants will be arriving soon to assist in developing prefeasibility information. The large size of the project may lend itself to co-financing with Arab development funds and enable A.I.D. to play a larger policy role. Efforts will be made to interest other donors in the activity.

#### Grant Projects

A \$5 million A.I.D. grant is annually made available for the Joint Commission, which is used to finance technical assistance and training projects,

consulting services and a portion of the Commission's operating expenses. The grant-financed projects are:

---Fisheries Development. A \$17.2 million project of which \$6.6 million is being financed by A.I.D. The Project supports institutional development of the Directorate General of Fisheries through technical assistance and training, particularly emphasizing development of the capacity to measure and monitor the fish stock, establishment of a Marine Science and Fisheries Research Center, where marine research will be carried out, and development of a fisheries extension service. The process of contracting for technical services was complicated by lack of precedent in Oman, but the contractor began work in October 1983. Additions to the project totalling \$1.0 million may be made during FY 1985-87 to cover costs of additional training and assistance to the Marine Science and Fisheries Center.

---Scholarships and Training. A \$55.5 million, seven-year project, of which \$31.9 million is from A.I.D. grant funds, to train 200 Omanis in undergraduate studies and 100 in graduate programs in the U.S.; 100 Omanis in short-term courses in the U.S. and third countries; and 675 Omanis in short-term training courses conducted in Oman. Technical assistance will also be provided to the Ministry of Education and Youth Affairs (MOEYA) in planning and managing training programs. The first long-term trainees are now in the U.S. and the contract for the technical assistance is under negotiation. Implementation of this project is being facilitated by funding the long-term training under a modified FAR basis. The Scholarship and Training Project will heavily mortgage grant funds over the next few years.

The residual in the grant will be used for Joint Commission operating expenses (now over 50% paid for by the Government of Oman), and occasional consultants for particular project development/implementation management needs.

IV. JOINT COMMISSION STRATEGY

General Strategy

The FY 1984 SPS review, the first held for Oman, concluded that the program should be concentrated in a very few sectors, with the emphasis in the grant program on training.

The FY 1985 SPS concluded that, for a number of reasons stemming from the unusual Omani development environment, the objectives of the Joint Commission had to be limited and the Commission should focus on finding and funding doable projects which are visible and developmentally useful. It was also decided that new mechanisms would need to be found which would facilitate implementing projects in Oman. Given the small size of the staff and the newness of the program, this was determined to be the most appropriate strategy.

The approved strategy approaches have been followed. Program activities are concentrated in three areas critical to Oman's development. Useful projects are being implemented. Employment of FAR mechanisms in two of the projects has made these activities much more doable and has avoided some of the implementation problems which the Joint Commission faced in other areas. A.I.D. direct contracting is also being used, and appears to be facilitating project implementation. Multi-year activities have reduced the burden of project development.

In the period FY 1986-89, this strategy will continue. Grant funds will continue to concentrate on training, while water resources projects will utilize the loan funds. Additional funds may also be added to the Fisheries Project, which is in the third program sector.

While the Joint Commission intends to adhere to the strategy of program concentration, it will remain open to new opportunities which may emerge or be suggested by the Oman Government. Most grant funds will be used for training, but there should be enough grant funds to allow further technical assistance activities if needed. The Joint Commission will be especially alert for any opportunities to promote policy dialogue which has thus far been limited.

In the loan program, current plans are for the FY 1986-89 loans to fund the Urban Water Project. If the FY 1988 and FY 1989 loans are not required for that large activity, other appropriate loan projects in the water or possibly another sector will be identified. The FY 1986-90 Five Year Plan will be issued in 1985 and should offer some good project possibilities.

#### Program Sectors

The Joint Commission and the Oman Government have chosen to focus the program on three sectors: water resources, fisheries, and education and training. These correspond to the three most critical development problems in Oman; the scarcity of water, the need for non-oil income-producing activities and the extreme shortage of educated and trained Omanis. The projects are designed to help eliminate key constraints in each of the sectors.

1) Water Resources. Oman is an extremely arid country, with very low and erratic rainfall. All agriculture is irrigated, in the interior from an irrigation system originating in the mountains and brought to the farms in underground channels, and on the coast, from wells. Water for the Capital Area comes from wells in the vicinity and from desalination plants. Rapid development has put a severe strain on existing water supplies. Along the

coast, digging of new wells and overpumping of old ones have led to major salt water intrusion. It is expected that the Capital Area will continue its explosive growth, further increasing the seriousness of the problem.

Continued economic expansion of the country will require careful conservation of current water supplies and development of new sources. The question of water supply is complex, involving alternative technologies with widely varying costs. Although much study has been made of water matters in Oman, many issues remain to be explored and resolved.

Water is fundamental to development in Oman and is the most serious constraint on long-term economic development. Progress in developing water resources will affect aspects of growth in most other sectors and will strongly influence the course that development takes in the country. The Joint Commission goals and objectives in this sector are to assist in the development of ground water resources through transfer of U.S. technology into this field and through funding of projects which will increase water supplies and serve as models for possible replication elsewhere in Oman.

The first water project, an aquifer recharge dam at Wadi al-Khawd, involves an internationally recognized technology not yet utilized in Oman. The Project is intended to serve as a prototype for application at many other locations in the country. The Wadi al-Khawd Project will make it possible for the suitability of this technique to be evaluated at the same time that it increases groundwater supplies in an important area. Technical assistance will be provided to the Ministry of Agriculture in monitoring and evaluating the hydrologic results of the Project.

The second water project, now in the early planning stage, will result in the installation of a series of seven recharge dams, and their associated piping systems, to supply water to the Capital Area. The Project will help alleviate the impending water shortage in the Capital Area by tapping a currently unutilized water resource. It will also provide further demonstration of the suitability of water recharge technology in Oman.

2) Fisheries. Fisheries and agriculture still employ a majority of the Omani labor force although they contribute less than 2% of GNP. Despite the Government's strong efforts to provide technical assistance and inputs to fishermen, the sector has largely stagnated. Foreign commercial trawlers have been permitted to fish off the Omani coast under Government contract, but most fishing is still carried out by traditional fishermen, using methods which are no longer competitive. The waters around Oman appear to be rich in a variety of fish and production and productivity could be substantially improved. Fisheries has the potential to be a major source of food and export earnings and is one of the more promising areas for income-producing activity in the post-oil period.

Development of fisheries faces a number of problems, however. The extent and nature of the fish stock and the current size of the catch are not yet known. The optimal sustainable yield is therefore not known and it is not clear how much the industry can expand without threatening the sustainability of the resource. Further research is needed before a set of fisheries policies can be put in place.

Other problems are the low levels of technology employed by traditional fishermen. Attempts to assist fishermen have not been fully effective and a greater institutional capacity to assist small fishermen is needed.

The purpose of the Fisheries Development Project is to strengthen the technical capabilities of the Directorate General of Fisheries, particularly its ability to measure and monitor the fish stock, provide assistance to fishermen through a fisheries extension service and implement the plan for a Marine Science and Fisheries Center. The principal component of the Project is U.S. technical assistance and training for the Directorate General.

3) Education and Training. Because of the almost total lack of educational opportunities before 1970, Oman is handicapped by an extreme shortage of educated and trained people. The shortage permeates almost all segments of the society, is a constraint to development throughout the economy and necessitates the presence in the country of large numbers of expatriates to perform work for which insufficient numbers of Omanis can qualify. Since 1970, remarkable progress has been made in establishing a basic education system and many students have studied abroad. The rapid growth of the economy, however, has made the labor shortage even more acute.

Joint Commission interventions in this critical sector are support of university level participant training and short-term professional training and construction of primary and intermediate schools.

The Scholarships and Training Project will over a seven-year period provide undergraduate and graduate-level training for Omanis at U.S. institutions and short-term development-related professional training in the U.S., Oman and third countries. Technical assistance will also be provided to the Ministry of Education and Youth Affairs in developing and monitoring training programs. The Scholarships and Training Project has as objectives increasing the number of trained Omanis and strengthening the training management capacity of the MOEYA.

The second education sector intervention is the three year School Construction program. While construction of schools in Oman has proceeded at a very rapid rate, there are still parts of the country which are not covered. There are also many substandard school facilities which had to be used to meet urgent needs and these need to be replaced with more adequate buildings. The Schools Project assists primary and intermediate education by providing schools which are fully up to standard and allows A.I.D.'s long experience in school construction around the world to be utilized by the MOEYA. The goal of the project is enhanced educational opportunities through the provision of better facilities.

#### A.I.D. Priority Areas

Although Oman is an unusual setting in which to operate an A.I.D. program, with a development environment significantly different from the situation of most A.I.D.-assisted countries, the Joint Commission follows A.I.D. program priorities and utilizes most of the Agency's priority areas as the means to implement Joint Commission programs.

1) Technology Transfer. Transfer of U.S. technology appropriate to Oman was one of the original goals of the Joint Commission. While there are constraints to technology transfer in Oman - the preference for turnkey projects and the dominance of expatriates in most professional and technical positions, for example - the Joint Commission has tried to build the transfer of technology into all its activities. A major aspect of the Fisheries Project is technical assistance in several areas of fisheries, and the Scholarship and Training Project involves technical assistance to the MOEYA. The Water Projects, projects, in addition to a possible specific technical assistance activity in

evaluating the results, involve the transfer to Oman of a potentially very useful aquifer recharge technology. The Schools Project, while primarily construction, transfers U.S. experience in developing country school design and construction management.

The Joint Commission will not be able to participate in the A.I.D. Research Priorities Initiative during the SPS planning period. Part of the reason is the small size of the Commission's staff and the resultant need to concentrate the program. The chosen areas of concentration which the Joint Commission and the Oman Government consider most important do not include the designated areas in the Initiative.

Little research activity is taking place in Oman: few institutions have developed to the point where significant amounts of research can be carried out. Of the four areas in A.I.D.'s Research Priorities Initiative, fuelwood is of limited relevance owing to the predominance of desert. Contraceptive research would not be considered acceptable because of the Government's view that programs to limit the growth of population are not suited to Oman's realities. Biomedical research could be useful, but the Omani health emphasis thus far has been on creating a health delivery system rather than research. In agriculture, the Ministry of Agriculture has a number of experimental farms, mostly staffed by expatriates, which carry out limited applied research. Joint Commission involvement in these does not appear to be necessary or desired at this point and there are institutional constraints to becoming more deeply involved in agriculture than providing training opportunities.

The Joint Commission will, however, participate in important research in fisheries through the Fisheries Development Project and assist in the

establishment of a Marine Science and Fisheries Center, an important research institution.

The further development of Omani institutions and the increase in the number of Omanis with appropriate educations may eventually lead to greater possibilities for research activities. Sultan Qaboos University, now being planned to open in 1986, may eventually become a center for some fields of research. For the near and intermediate term, however, research opportunities other than in fisheries will likely be extremely limited and there is little potential for Joint Commission involvement.

2) Institutional Development. Institutional development is particularly important in Oman, as there were virtually no public or private institutions before 1970. The development of a wide network of government institutions that perform most of the functions of a modern state has taken place since that time and many private institutions have also been created. The process of institutionalization is continuing but many institutions are still weak and lacking in experience. Assistance in the further development of Omani institutions is an important goal of the Joint Commission program and Commission projects have a positive impact on institutional development.

The Fisheries Project is primarily an institution building project, designed, broadly, to increase the capacity of the Directorate General of Fisheries to promote the development of that sector and assist establishment of the Marine Science and Fisheries Center, a major new institution. The Training Project has a component for some institutional development in the MOEYA: its Directorate General of Scholarships and Foreign Relations will receive technical assistance in management of training programs.

There is less opportunity for institutional development in the Water and Schools projects, which are primarily construction. It is hoped, however, that Joint Commission emphasis on feasibility studies, competitive procurement procedures and cost-reimbursable contracting will enhance the participating ministries' capacity to procure services by means other than turnkey contracting.

In addition, a basic constraint to the development of institutions in Oman is the lack of Omanis with appropriate education and skills. This is true for virtually all institutions, public and private (for example, 40% of the non-defense Government work force is expatriate). The Scholarships and Training Project, by helping to alleviate this shortage, is probably making the greatest contribution to Omani institutions which the Joint Commission can make at this stage of Oman's development.

Sultan Qaboos University, currently under construction and scheduled to open in 1986 with a very ambitious curriculum, is potentially an institution of development importance to Oman. The Joint Commission has held discussions with the planners of the University, suggesting Joint Commission assistance. The Government has thus far not come forward with a request. Expatriate advisors assisting the Government in planning for the University are for the most part British, although American advisors, are helping with the planned College of Agriculture. The Joint Commission will continue to follow the University project with interest, but it does not seem likely that there will be an opportunity for any significant Commission involvement.

3) Private Sector Development. The private sector in Oman is flourishing and Government policies strongly support a free enterprise

economy. With about two-thirds of the GNP passing through the Government as oil revenues, the Government necessarily plays a very large role in the economy. While defense and construction of social and economic infrastructure take substantial shares of the Government's revenue, there are also Government programs to support private sector development of agriculture, fisheries and industry. Private firms operate with few regulatory and tax impediments and it is clear the private sector is developing rapidly. Specific interventions by the Joint Commission thus appear to be unnecessary.

The Joint Commission can be of greatest usefulness to the private sector by providing appropriate education and training opportunities; the Training Project is open to trainees from both the public and private sector. Training Omanis in appropriate areas may help to orient some businessmen away from trading and commerce, where quick profits have been possible thus far, toward more long-term, employment generating investment in productive facilities.

In the fisheries segment of the private sector, the Joint Commission's project seeks to increase fishermen's participation in national wealth and expand their contribution to the output of the economy.

4) Policy Dialogue. The Joint Commission has had little occasion for policy dialogue with the Omani Government. The reasons for this were reviewed in the FY 1985 SPS. Fundamentally, the Oman Government does not see the Joint Commission as having a role in the determination of national development policy. Moreover, the lack of a central point within the Government where development policies could be formally reviewed and brought to decision would make an A.I.D./Joint Commission/Government policy dialogue difficult.

Additionally, as noted above, the Government of Oman is committed to a free enterprise economy with as few controls as possible and there appear to be few public/private sector issues on which a policy dialogue would be particularly useful. Policies regarding taxation, exchange rates, subsidies, health and education systems, institutional development and rural development are generally in accord with A.I.D. views. The Government has had to play a prominent role in large industrial projects, but it is attempting to divest itself of its share in these activities once they have been launched. While implementation of these policies has not always been effective and some errors have occurred, the broad development policies of the Government appear to be sound.

The Joint Commission will continue to seek opportunities when useful discussion of economic policies can be undertaken. It is likely though that few such occasions will present themselves.

There will be some opportunity for discussion of project and sectoral issues with the ministries which the Joint Commission works with. The Joint Commission may be able to have some influence in such areas as competitive procurement, contracting procedures and project feasibility studies. It may also be able to have useful input to Government policies on fisheries, water, training and school construction, the areas in which the Commission is active and in which it has access to policymakers.

5) Participant Training. As discussed at several points in this document, the limited pool of educated and trained Omani manpower is a serious development constraint. The demand for trained and educated personnel is increasing at a higher rate than the expansion of the educational system and the

number of expatriates in-country is rapidly increasing. The demand for undergraduate and graduate education will also strongly increase as much larger numbers of Omani students graduate from secondary school; the opening of Qaboos University will reduce but not end the need for university training abroad. There is also a substantial need for training of Omanis who are occupying positions of technical and managerial complexity but who cannot get away from their jobs for long training programs.

The Scholarship and Training Project is the cornerstone of the Joint Commission program, providing participant training at all levels: undergraduate, graduate and short-term, in the U.S., Oman and third countries, in a variety of developmentally useful topics. While Omani manpower needs are likely to grow at a faster rate than can be met and the expatriate presence will continue to grow, the training project will help to alleviate the problem and support the other Joint Commission projects.

6) PL 480 and Local Currency Projects. There are no PL 480 projects in Oman and no activities which have generated local currency.

#### Interrelationships Among Priority Areas

The A.I.D. priority areas are closely linked in Oman. Training is linked to all of the areas as the shortage of educated and trained Omanis is a critical constraint throughout the economy. Effective institutions cannot function without trained people and the lack of trained Omanis is the biggest impediment to further development of institutions in Oman. Stronger institutions are a pre-requisite to technology transfer; the lack of institutions and trained

Omanis capable of absorbing technology has been the major constraint to effective technology transfer. The private sector, although flourishing, requires people educated in skills that will move business in the direction of productive investments.

#### Other Subjects of Interest

1) Evaluation. Because of the delays in project implementation, no projects are yet at the stage where evaluation is appropriate. Evaluations for projects are planned as follows:

- Wadi al-Khawd Aquifer Recharge. FY 1985 end of project evaluation.
- Fisheries Development. FY 1985 initial evaluation of contractor performance.
- Scholarships and Training. FY 1985 initial evaluation of contractor performance and progress in selecting Omanis for long-term training.
- School Construction. FY 1986 evaluation.

A general evaluation of the Joint Commission program would also be inappropriate at this stage, projects not yet having had time to have impact.

A.I.D. experience in water, fisheries, training and school construction projects were used in developing the projects. The Joint Commission project planning experience, gained over three years, has become the basis for the ongoing project design effort.

2) Women in Development. Joint Commission activities will help advance the status of women in Oman. Relative to other countries in the area, Omani women have good opportunities for career and social advancement. The principal limitation to women's advancement occupationally is the lack of job skills and

work experience. The Scholarship and Training Project will provide education and training for women. It is anticipated that about 30% of the academic trainees in the U.S. will be women. Women will also participate in the short-term courses. In addition, under the Commission's School Construction Projects there will be increased female education. In the 48 primary and intermediate schools financed by A.I.D. loans in FY 1983 and 1984, 129 classrooms will be in schools for girls and 214 in co-educational schools, thus enhancing educational opportunities for women. Education and training are the most direct ways in which A.I.D. can effect the status of women in Oman; providing useful knowledge and skills to women will allow them to take advantage of the growing opportunities which the labor shortage is bringing about.

V. RELATION TO NEAR EAST BUREAU REGIONAL STRATEGY

The Joint Commission strategy outlined in this document is fully consistent with the NE Bureau Regional Strategy. It follows both the Bureau's overall strategy and its sectoral priorities.

Overall Bureau Strategy

The Joint Commission seeks to achieve growth with equity in Oman. Given the modest size of the program relative to Oman's total resources, Commission activities cannot make a major contribution to the development process. Nonetheless, the Commission attempts to maximize the impact of its small program by concentrating its resources in sectors of development priority, selecting areas where U.S. assistance can be useful.

1) Economic Environment. On this first level, Oman's macro-economic policies are generally on target, as discussed elsewhere in this document. Physical infrastructure is also generally in place, and what is not is largely identified, on the drawing board or in the process of being installed. The most difficult area of infrastructure, water resources, benefit from two Joint Commission projects. The institutional, managerial and technical capacity to facilitate productive investment is more of a problem. The Joint Commission program attempts to address this weakness, primarily through the Scholarships and Training Project.

2) Direct Investments in Productive Activities. Several Joint Commission activities correspond to this second strategy level. The Fisheries Project is intended in the final analysis to yield an increase in the productivity and production of the fisheries sector, an important non-oil source of income.

The Scholarship and Training Project will, as described above, meet a major constraint to productive investment by training people in necessary managerial and technical skills for the private and public sector.

3) Social Equity. While figures on income distribution in Oman are not available, it is thought that a disproportionate share goes to the urban dwellers who are in a position to take advantage of the oil boom by virtue of trading, real estate investment and provision of services. Virtually all Omanis, however, are benefiting from excellent job opportunities, a social services network which is expanding and rapidly increasing income. Despite the income inequality, the benefits of the economic boom can be seen everywhere in the country and the Government is undertaking numerous activities to provide services to and increase income in rural regions. The basic needs of most of the population are being met and real poverty probably only exists in isolated pockets.

The Joint Commission program is intended to meet critical development needs of Oman; programs should thus help all Omanis. Two projects will particularly address needs of poorer Omanis. Fisheries Development will assist small fishermen and help restore artisanal fishing as an occupation for a significant share of the population. The School Construction Project will help make better educational opportunities available, particularly in rural areas where many schools are sub-standard.

The Joint Commission has not been able to undertake extensive social beneficiary analysis. A suggestion to carry out a Social and Institutional Profile was not approved by the Government, which did not see such a study as within the Joint Commission's mandate. Social analysis will be undertaken when possible in the

project context, particularly in Fisheries where the target group is relatively poor fishermen.

### Sectoral Priorities

The Oman program is consistent with the NE Bureau strategy of concentrating on three or four of the seven sector priorities. There are projects in water, education and training, and agriculture (fisheries). A fourth area, urban water, is under development and provides a crossover to the urbanization theme. The program is concentrated in these sectors of critical importance to Oman, and there are no projects or plans for activities outside of the Bureau sector priorities.

1) Water Scarcity and Utilization. As discussed above, water is a principal constraint to economic growth in Oman. The Joint Commission seeks to assist this sector through two projects involving water recharge technology. Water recharge dams are intended to increase the supply of water to aquifers, thereby expanding water resources. Success of the A.I.D. projects would lead to replication elsewhere in Oman and help deal with the growing problem of water scarcity.

2) Basic Education and Technical Training. This sector is the core of the Joint Commission program. Basic education is being supported by FY 1983-85 loans for construction of primary and intermediate schools throughout the country. Further development of Oman's newly created educational system is essential to create the manpower needed for economic development in all sectors and to provide equitable opportunities for all Omanis.

In training, the Scholarship and Training Project provides both higher education in its university training component and professional training in the short-term training aspect.

3) Agriculture. The potential for expansion of most forms of agriculture in Oman is limited, largely due to constraints on water supply. The fishing sub-sector is probably the most promising aspect of agriculture to become a viable income generating industry. The Fisheries Development Project corresponds to the pertinent NE Bureau objectives for the agriculture sector; it emphasizes strengthening institutions involved in research and diffusion of technical inputs and practices, it will strengthen the institutional capacity to design sector strategies, and it will help develop and adopt technologies appropriate to the Omani environment.

4) Urbanization. The one major urban area in Oman, Muscat or more precisely, the Capital Area, has grown explosively since 1970. Although population figures are not available, probably 20% of the population is now urban, compared to perhaps 5% in 1970. Despite this enormous growth, however, Oman does not have many of the problems associated with urbanization in other developing countries. There have often been utility shortages and needs for services but in general the Government and the private sector have been able to cope with these problems and none seem intractable. For example, the number of vehicles has been increasing at an extremely rapid rate, causing much congestion, but the Government has continuously exerted strong efforts to increase the transportation system capacity. Similarly, there have been fluctuating housing shortages, causing rents to rise spectacularly but eliciting a private sector response of massive housing construction.

As for urban unemployment, this is not a general problem in the booming Omani economy; in fact, much of the urban population growth has come from foreign workers filling jobs for which no Omanis are available. The policy environment for urban services is also not a problem; although most services are not fully self-supporting, the Government has sufficient resources to cover deficits.

An area where an impending urban problem does exist and where the Joint Commission can make a significant contribution is water. The current sources of water for the Capital Area, local wells and desalination, are expected to become inadequate in the next five years. The proposed Urban Water Supply Project will develop a major new water source and pipe it to the Capital Area, thus helping to alleviate this serious problem for the major urban area of the country.

5) Other NE Bureau Priority Areas. Given the Bureau and Joint Commission strategy of concentrating projects in a few key sectors, it would not be appropriate to have projects in other Bureau priority areas under current circumstances. The choice of sectors was based on the critical needs of the Oman economy and the preferences of the Oman Government.

A brief discussion of the other Bureau priority sectors, as they apply to Oman, follows.

---Population. Although the Government does not have an explicit population policy, there appears to be a general belief that the country is underpopulated, particularly given the large expatriate presence. Most views are therefore probably pro-natalist. Although population pressures could eventually strain the country's limited resource in the post-oil era, it is felt that no possibilities for population assistance exist in the foreseeable future.

---Urban Labor Productivity/Industry. Industry in Oman, outside of the oil sector, is growing but is still a minor part of the economy. Direct Joint Commission involvement in this sector does not appear to be feasible or useful; the policy environment is conducive to growth and there is plenty of capital available.

Urban labor productivity improvement, through vocational training, could be a useful sector of involvement. The Joint Commission studied this area and held discussions with the Government, but nothing emerged and it may be that adequate efforts are being made without U.S. involvement.

As in other sectors, the education and training provided by the Training Project are probably the most useful contributions which the Joint Commission can make to this sector.

---Energy. Energy activities do not appear to be useful in this energy exporting country. Oman's energy needs are met internally and pricing is sound. The Government also has considerable expertise and experience in the energy field and would not be in need of A.I.D. assistance. Some interest has been evidenced in solar energy technology, but private firms offering photovoltaic systems are already in existence.

#### Shifts in Strategy Due to Near East Bureau Regional Strategy

The Joint Commission strategy of program concentration and the choice of project sectors was determined before the development of the regional strategy. Since program concentration and the project sectors correspond to the regional strategy, no change in Joint Commission programs is needed to conform to the Regional Strategy.

It is anticipated that any new loan or technical assistance projects developed in the out-years will be in the current areas of concentration or in areas corresponding to the Bureau sector priorities.

VI. RESOURCE ALLOCATION

Table I ECONOMIC ASSISTANCE BY SECTOR  
(\$000)

<u>through</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>
Fisheries	6,640		400	400	200		
Education & Training	19,840	13,675	19,000	4,100	4,300	4,300	4,185
Water	7,799	1,100	150	15,000	15,000	15,000	15,000
Other <sup>1</sup>	496	450	450	500	500	700	815
<u>TOTAL</u>	<u>34,775</u>	<u>15,225</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>

<sup>1</sup>Primarily Joint Commission operating expenses and consultants in fields other than the three major sectors.

Table II PROJECT ALLOCATION FY 1984-86  
(\\$000)

	<u>through</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>
<u>Loans (obligations)</u>		<u>20,000</u>	<u>10,000</u>	<u>15,000</u>	<u>15,000</u>
Wadi al-Khawd Aquifer Recharge		7,500			
School Construction		12,500	10,000	15,000	
Urban Water Supply					15,000
<u>Grants (sub-obligations)</u>		<u>14,775</u>	<u>5,225</u>	<u>5,000</u>	<u>5,000</u>
Fisheries Development <sup>2</sup>		6,600		400	400
Scholarships & Training		7,300	3,675	4,000	4,100
Joint Commission Operations		496	200	250	300
Wadi al-Khawd Aquifer <sub>3</sub> Recharge		299	1,000		
Urban Water Supply Project Development			100	150	
Consultants, Project Development & Technical Assistance		80	250	200	200
<u>TOTAL PROGRAM</u>		<u>34,775</u>	<u>15,225</u>	<u>20,000</u>	<u>20,000</u>

<sup>2</sup> Additional costs for training and assistance to the Marine Science and Fisheries Center in FY 1985-87.

<sup>3</sup> Feasibility and design in FY 81; technical assistance in FY 84.

Staffing

The Joint Commission currently has a (part-time) Omani Managing Director, and, as A.I.D. direct hire staff, an A.I.D. representative, an assistant representative, a project officer and a controller/administrative officer. A fifth A.I.D. project officer/engineer position is under discussion with AID/W. Omani professional staff includes a recent U.S. engineering graduate, serving as a project officer and a graduate of the American University in Cairo who has been serving as a financial officer but is soon to become a project officer. A third Omani professional is now joining the Commission's staff to assist the A.I.D. controller in financial and administrative management. Another assistant to the controller is scheduled to come in the Spring. Support staff members include U.S., Omani and third country citizens.

When the fifth U.S. position is filled, there will be adequate staff to carry out the program outlined in this document. The presence of four Omani professional staff is an important addition and will make the Joint Commission even more of a U.S.-Omani cooperative undertaking.