

**Country Development
Strategy Statement
Small Program Statement
FY 1984**



OMAN

January 1982

Agency for International Development
Washington, D.C. 20523

BEST AVAILABLE

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AGENCY FOR INTERNATIONAL DEVELOPMENT

OMAN

SMALL PROGRAM STATEMENT

FY 1984 - FY 1988

March 1982

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I. COUNTRY OVERVIEW

A. INTRODUCTION

This is a Small Program Statement for Oman for the period FY 1984-1988. While more can be said about all areas discussed, time and staff limitations have precluded more than a summary presentation of highlights, general observations, and a brief discussion of strategy.

Oman plunged into the modern world in 1970 with the ascent to power of Sultan Qaboos bin Said. Prior to that Oman was a traditional society virtually closed to the outside world. Because of oil receipts, there have been enormous positive changes in economic infrastructure, education, health, housing, and general standard of living. Aggregate income is quite high, and the economy is growing at a rapid rate. Public services have expanded to almost all parts of the country. Despite this, population is moving into urban areas at the expense of the traditional sectors, agriculture and fishing. At the same time traditional values have been protected, though change is evident. Everyone appears to be participating in the boom. Even modest homes in the Capital Area and some in the rural areas have both television and air conditioning. Petroleum is a non-renewable resource, however, and may not last more than 20-25 years at current production levels. The government consequently desires to diversify the economy and is taking measures to do so.

Oman occupies a strategic location on the Arabian Peninsula on

the southern side of the Straits of Hormuz and bordering major oil producing states. Moreover, Oman is a stable country and generally adopts moderate stances on international issues. The United States has a vital interest in deterring hostile action in this crucial region, and Oman has agreed to the use of certain facilities by U. S. forces.

An Omani-American Joint Commission was created to contribute to strengthening the relationship between Oman and the United States by promoting economic and technical cooperation between the two countries through development projects, trade, and access to U. S. technology.

B. NATURAL RESOURCES

1. Petroleum

Oman is an oil-producer though not a major one. Its crude oil output is equal to only one-half of one percent of the world's production. Still, oil is the key to economic development in Oman. In 1980 it accounted for over 90 percent of government revenues and export earnings and over 65 percent of GDP. The country's oil exports were \$3.6 billion based on an average price of \$32 per barrel, up from \$2.2 billion in 1979. Despite a decline in production since 1976, revenues remained high in the late 1970's due to higher prices. The Government has now established a production ceiling of 330,000 barrels per day (bpd) for 1981-85 which will generate an estimated \$19 billion for that period. It is estimated that recoverable reserves are about 2.5 billion barrels, though this may increase as explorations continue.

and as recovery technology improves. This should provide Oman with oil revenues for at least another 20-25 years.

Most of Oman's oil production is handled by Petroleum Development Oman which is 60 percent Government-owned, 34 percent Shell, and the rest by two other international oil companies. Oman is not a member of OPEC or OAPEC. The first oil refinery in Oman, a 50,000 bpd facility constructed by a Japanese firm for \$76 million, will open in 1982 relieving Oman of the cost of importing refined petroleum products.

Natural gas, so far discovered only in conjunction with petroleum exploration, is estimated as sufficient to supply the country's energy needs for power, household, and normal industrial uses for at least 40 years. It has been used since 1978 to fuel the desalination plant and to meet all power generation requirements for the Capital Area.

2. Minerals

Little is currently known about the extent of minerals throughout Oman. In 1982, however, a new copper mine and smelter at Sohar, 140 miles northwest of Muscat and the site of an ancient copper industry famous in pre-Islamic times, is scheduled to begin operations leading to the production of 20,000 tons of copper annually. Some have questioned the timing and economic viability of this \$155 million investment that projects only 15 years' production.

Other minerals existing in Oman include chromite, marble, gypsum, manganese, nickel, iron ore, and asbestos. Whether some of

these are commercially exploitable is still a subject of conjecture. More will be known after the government completes a geological mapping program to identify mineral and water resources. (The U. S. Geological Survey submitted a proposal to do this, but it is understood that a French organization has been selected.)

3. Agriculture

Oman's agricultural output is small, accounting for less than 2 percent of GDP. Usually lumped together with fisheries, the two activities together account for only 2-3 percent of GDP. Nevertheless, they provide employment for the majority of the population. An agricultural census was completed in 1980, but its results have not been made available.

Striking is the fact that only 0.12 percent of the land (about 36,000 hectares) is cultivated owing to a severe lack of water. Estimates indicate that cultivated land has not increased in recent years. Dates account for about half of all production with the rest in alfalfa, limes, vegetables, bananas, coconuts, wheat, maize, tobacco, and mangoes. Animal husbandry consists largely of open grazing by small herds of sheep and goats, though stall feeding is being introduced.

The agricultural sector suffers from a depleted and aging workforce as an estimated 5,000 persons, primarily young males, leave for employment in urban areas or outside the country each year. Maintenance and renovation of the falaj system of irrigation has fallen behind, and the Government recognizes its upkeep as a priority. Low crop

yields are characteristic though the World Bank believes increases are technically feasible. The Government is attempting to raise production through centers which provide fertilizers, insecticides, improved seeds, and tractor and other equipment services, some of these at subsidized prices. They have established five research stations through the country and plan to establish five more. An agricultural training center was established in Nizwa in 1979 for about 100 students. Eleven veterinary centers have been set up and the imports of animal feed are subsidized in order to encourage animal husbandry. Other activities include private poultry projects, an animal feed mill, a livestock breeding/feed project, and a banana ripening and packing factory.

Despite the desire and attempt of the Government to strengthen the agricultural sector, very serious obstacles exist such as ineffective marketing systems, unattractiveness of agricultural investments compared with other investment opportunities, and labor intensive methods in an expensive labor market. It will require careful and imaginative planning and appropriate incentives to spur the increased agricultural growth the Government hopes to see.

4. Fisheries

Oman enjoys 1,000 miles of coastline stretching from the Arabian Sea to the Straits of Hormuz. These waters are rich in marine life which include species such as sardines, anchovies, tuna, and kingfish, as well as oysters, abalone and lobster. Probably 7,000 -

9,000 largely rural people along the coast depend on fishing for their living. Only ten years ago Omani fishermen went to sea in sailboats. Today, many have outboard motors and modern boats. Though little is known about the exact extent of fishery resources, it has been estimated by some experts that yields from these waters could be greatly increased without damaging the resource. The Government has given priority to the traditional fishery by providing assistance to fishermen in the form of loans and grants for boats, motors, nets, and etc. Cold storage and fish processing plants have been established to aid in marketing.

5. Water Resources

Oman has very little rainfall, averaging only 4 inches per year in most areas, and no rivers or lakes, thus constraining agricultural and industrial growth. Lack of water is Oman's most serious natural resource limitation and considerable effort has been directed to it.

The Persians brought the falaj irrigation system to Oman centuries ago. A falaj system utilizes water either from the surface gravel of a wadi or from the top few meters of the water table by means of a well and horizontal tunnels. Water is carried from the source in small gravity flow channels to crop areas. Depletion of the labor force has resulted in deterioration of the falaj systems in many areas. Wells are also used for irrigation, formerly using animal power and a hoist and bucket, but now equipped with electric pumps.

Over-pumping has been the resultant problem.

Little is currently known about the amount of underground water, but it is known that considerable fresh water is lost into the sea. Replenishment of ground water in some areas is falling behind the increasing consumption of agricultural and urban users. Water conservation through aquifer recharge schemes, reuse of waste water, and other means is therefore a top priority concern.

In the Capital Area water consumption increased from 63 million gallons in 1971 to 1,532 million gallons in 1980 as a result of rapid economic growth. Water demand growth is increasing more rapidly than population because system expansion is eliminating suppressed demand and per capita usage rises as income increases. Piped potable water is available in many urban areas. The Government also assists private parties to construct their own wells. A desalination plant currently accounts for over 50 percent of the potable water in the Capital Area, and capacity will be doubled shortly.

C. MACRO-ECONOMIC SITUATION

1. General

The Sultanate of Oman today has an economy many times that of 1970, the year the present Sultan acceded to power and began using the country's petroleum earnings for development. Of great importance to Oman during the decade of the 70's were the rise in oil prices yielding greater resources for modernization and investment and the

start of multi-year economic planning. By 1980, Gross Domestic Product had reached \$5.2 billion of which the petroleum and minerals sector contributed \$3.6 billion, 68.1 percent of the total. The 1980 GDP compares with what is thought to have been Oman's GDP in 1970, \$315 million. Per capita GDP in 1980, using 891,000 as the population estimate, was \$5,800, ranking Oman ahead of most "middle income" countries but behind industrial and other Gulf-area oil-exporting nations.

Annual growth rates of GDP have varied from year to year but averaged about 20 percent in current prices during the 1976-80 period. In 1979 and 1980, the rates of growth were highest, 31.3 and 55.5 percent, respectively, in current price terms. The major oil price increases during those years were largely responsible for the growth. Real, or constant price, growth is difficult to arrive at for Oman due to the lack of any comprehensive price index. The World Bank recently suggested that inflation rates for Oman for recent years and for the next five years should be assumed to be on the order of 10 or 11 percent.

The non-oil segment of the economy has grown, also, though largely the consequence of having oil revenues to spend. Government expenditures for public administration and defense constituted the second largest component of GDP, 10.3 percent in 1980. Construction was the third largest contributor to GDP in 1980 with 6.1 percent, having steadily fallen from 10 percent in 1975.

The share of GDP attributed to trade, a traditional occupation for Omanis, varied during the period 1975-1980, averaging 6.6 percent. It is expected to decline to 5.2 percent by 1985. Agriculture and fisheries, other traditional pursuits, experienced positive growth but declined as a share of GDP from 2.8 percent in 1975 to 2 percent in 1980. The two are expected to comprise 2.2 percent of GDP in 1985. Manufacturing, with which Omanis are generally unfamiliar, expanded during the 1975-1980 years but reached only about one percent of GDP. The Government hopes, in the years 1981-1985, to see manufacturing grow faster than any other sector, at an average rate of 34.2 percent per year in current prices. To attain such a rate of expansion the Government is establishing an industrial zone near the capital area, extending subsidized credit, granting tax holidays, and participating in joint ventures with private partners when such partnerships are necessary to get projects started.

The Government's management of its own fiscal affairs has been to a large extent dictated by oil receipts. In 1976, the Government had total revenues of \$1.5 billion of which oil provided \$1.3 billion. By 1980, the revenue figures were \$2.8 billion and \$2.4 billion, respectively. Government expenditures amounted to \$1.7 billion in 1976 and \$2.7 billion in 1980. Preliminary reports on the 1981 budget results indicate a surplus. For 1982, however, a deficit of \$485 million is foreseen. Defense expenditures of \$1.7 billion in 1982 are a principal reason. Expenditures for defense have averaged 43 percent of the budget over the last five years. Unless substantial amounts of grant

and loan development capital are raised from foreign sources, such as the Arab funds who have aided Oman generously in the past, it is likely that the development side of the budget will experience some curtailment. Oman's external debt, borrowing from the Arab funds, World Bank, and commercial banks, amounted at the end of 1980 to \$494 million for which the servicing was equal to 7 percent of Omani export earnings.

In anticipation of a time when petroleum revenues may decline, Oman established a "State General Reserve Fund" in January 1980. The Fund receives a percentage of oil receipts and some or all of the funds remaining with the Government in years of budgetary surplus. The Reserve Fund is maintained in several hard currencies.

Oman's balance of payments has been characterized by favorable trade balances diminished by increasing payments for services, notably workers' remittances. Oil exports were enhanced by the increase in the barrel prices for crude oil in 1979 and 1980. From the lowest trade balance of the 1976-1980 period, \$315 million in 1978, net trade increased to \$1.7 billion in 1980. Services and private transfers went from \$420 million in 1978 to \$637 million in 1980. Of the latter figure, workers' remittances were \$365 million. The current account balance, which was negative in 1976 and 1978, was by 1980 a favorable one billion dollars.

2. Income Distribution

A vast discrepancy in personal incomes exists in Oman as in most of the world. The Sultan, however, is attempting to distribute

benefits of the new wealth to the populace as a whole. The first and major advantages of the oil revenues and increased economic activity have accrued to the educated and influential people, particularly of the Capital Area. In order to spread the benefits and offer an improved standard of living to residents of all regions, the Government has engaged in massive road-building, free health-care, public education, and other infrastructure and development projects.

A significant difference in GDP per capita, \$5,800 according to the IMF, and rural sector GDP per capita exists, although somewhat mitigated by such considerations. Using the 1980 IMF population estimate of 891,000 and assuming that only half of the population is engaged in agriculture and fishing, and using 2 percent of the GDP of \$5.2 billion which agriculture and fisheries are thought to comprise, the GDP per capita for these sectors is about \$250 per year. Many farmer and fishermen families, however, also earn other income with some members working in the police, armed forces, or civil service. And, the Government is providing less-than-cost power, low-cost houses, and subsidized agricultural inputs and fishing equipment in an effort to improve rural life and stem the flow of migration into urban areas.

3. Banking

The Government established the Central Bank of Oman (CBO) with the following functions: to issue currency, establish a fractional reserve system, finance government deficits, advise on economic policy,

market government securities, develop other financial institutions (particularly those that finance development), maintain an interest rate conducive to development, encourage savings, and maintain a high level of demand to maximize growth. The CBO has adopted a policy to encourage banks to set up as many branches as possible to encourage savings, and thus aid long term economic growth.

There are 20 commercial banks in Oman (the limit set by the Government) with over 144 branches, a very high number for a developing country. These banks are able to provide considerable and convenient resources for development. The commercial banking sector anticipates continued growth in the light of the 1980 increase in bank credit of 25 percent, to \$859 million. The bulk of commercial bank lending went to financing imports (53 percent), with construction absorbing 19 percent and personal loans 13 percent.

An interest rate ceiling has been set at 11.5 percent for loans and 9.5 percent for time deposits in Omani Rial accounts. If the transaction is in foreign exchange, international market rates are used.

D. SOCIAL SITUATION

1. Population

Data on the population make-up of Oman is limited. The official population figure for planning purposes for Oman is 1.5 million including 170,000 expatriates. This figure has remained

unchanged for a number of years despite what is thought to be a 2.6-3.0 percent annual growth rate. The IMF estimated the population to be 891,000 in 1980 including 149,000 expatriates. The World Bank estimated a total of 930,000 at the end of 1980 including 170,000 expatriates. A reliable population estimate, critical for accurate and meaningful planning, is lacking.

The estimates are not based on current censuses or samples. Though the government has done some village sampling of households, the survey results are not available to the public. Even the population figures for the Capital Area are not known for sure, variously estimated between 100,000-200,000.

2. Human Resources

Oman's rapid development has created a very high demand for labor and skills, far outstripping the numbers of Omanis available for work in the modern sector and the numbers of Omanis experienced in the skilled trades and management. There has had to be heavy reliance on expatriate personnel at all levels of the public and private sectors.

The Omani labor force is estimated to be about 160,000, with another estimated 20,000 working abroad. Expatriate workers in Oman number about 144,000, mostly South Asian, but also British, Dutch, Egyptian, and Sudanese, and mainly males without dependents. The modern sector is about 70 percent expatriate, the civil service about 40 percent. While most agencies and ministries are headed by Omani nationals, expatriates possess needed expertise and education, and

thus exert considerable influence. At the projected growth rates of the economy, the demand for increased numbers of workers will result in expatriates becoming an even larger percentage of the labor force in the years ahead, rising from 47 percent in 1980 to 55 percent in 1985, according to the World Bank in its recent manpower planning study. The Bank suggests that Oman will be a net importer of non-nationals until the second half of the 1990's when the number of expatriate workers will approach 440,000.

Rapid progress has been made in the development of Oman's education and training system since 1970 when there were only 900 students in three primary schools in the entire country. In 1981, it was estimated that school enrollment of boys in the 6-11 age group was about 75 percent and girls about 40 percent. Secondary schools are likewise growing in enrollment. Government efforts to develop the educational system have been directed at increasing school enrollment and providing literacy training for adults to overcome the results of past neglect.

The Government actively promotes greater freedom for women though traditions are strong and women lag in education and employment. In 1981 girls represented only 34 percent of the primary school enrollment and only 24 percent of the secondary enrollment. Omani women constitute less than 4 percent of the civil service, outnumbered even by expatriate females who constitute almost 9 percent. Considerable progress remains to be made but the Government is strongly promoting education and employment for women, giving recognition to a

valuable, largely untapped, resource.

3. Health

Statistics are lacking on many aspects of Oman's health sector, although there have been assessments of particular diseases such as malaria. Health administration has been heavily weighted on the curative side. As in other sectors, there are few trained Omanis and heavy reliance has had to be placed on expatriates. There is a small nursing school begun in 1970 which graduates a small number of nurses, 17 in 1979, 9 in 1980. The school is being broadened into a general health training institute to prepare Omanis for a variety of health technician specialties such as paramedical care, laboratory and x-ray work. Qaboos University, Oman's first institution of higher education, which is scheduled to open in 1986, will have a medical school. The Government has placed a high priority on construction of hospitals, clinics, blood banks, etc. A statistical unit exists in the Ministry of Health but systematic collection of health data is limited. There is a system of birth registration, but it is confined to the Capital Area. Deaths are not recorded.

Malaria is regarded as the primary health problem. It has been estimated that about 10 percent of the population in Northern Oman has malaria at any one time, many with the very serious falciparum form of the disease. In December 1981, with Joint Commission funding, an epidemiologist from the Center for Disease Control joined WHO malaria experts in an evaluation of Oman's malaria control program.

The report of the evaluation team has not yet been issued.

Another major health problem is the high rate of infant mortality, estimated by some observers as being as high as 142 per thousand. Unsanitary drinking water is thought to be the principal cause, although unidentified viruses may be an element of the problem. Water supply and sanitation are receiving increased attention. In February 1982, the UN sponsored a Drinking Water and Sanitation Conference to sensitize Government officials to the problem and move toward a national plan for drinking water supply and sanitation development. Rural areas would be expected to receive greater attention in such a plan.

Eye diseases are common, especially cataracts and trachoma, and mobile teams are providing treatment. Schistosomiasis is not now a problem, but vectors are present in the southern region and expatriates are known to carry the disease. Only one case has been documented. Polio outbreaks have occurred as vaccinations were not completed.

Family planning is neither promoted nor discouraged by the Government. Contraceptives can be purchased at commercial outlets. Many Omanis believe the country is under-populated since it has a need for large numbers of expatriates, has considerable open space, and revenues to finance development.

E. DEVELOPMENT CONTEXT

1. Government

Oman is governed by Sultan Qaboos bin Said, an absolute monarch. The Government functions through the cabinet of ministers and regional governors whom the Sultan appoints. There is no parliament nor civil court system although disputes can be taken up by administering officials, police courts, Shari'a (Koranic) courts, or committees of arbitration. The desires or requests of individuals or groups can be taken up by direct petitioning of officials, a frequent means of redress in Islamic societies.

In November 1981, the Sultan established a body called the Advisory Council for the State with a membership of 45 government officials, businessmen, and regional leaders. The role of the new Council is not yet fully defined, but it is thought to be a first attempt at representative government.

2. Five Year Planning

The rapid rise in government spending in the early 70's, initially made possible by oil revenues which had accumulated since 1967, led to budget and balance of payment deficits and resulted in a serious liquidity crisis in 1974. The Government then undertook measures toward better financial and economic management. A "Development Council" was established to provide a long-term approach to economic development. The Five Year Development Plans are the Council's efforts toward that objective.

The First Five Year Plan, 1976-1980 was moderately successful in meeting its physical and financial targets. The main target was to achieve a positive rate of growth in non-oil sectors in the expectation of declining oil production. This was achieved largely through the promotion of income-producing sectors either by government-only projects or with private sector participation. Projects completed include a flour mill, two date processing factories, roads, schools, hospitals, and houses; those started but not completed include a copper mining and smelter project, a cement plant, and an oil refinery. Financial targets achieved include a five year balance between revenues and expenditures, the reconstruction of public debt from short to medium and long-term, and restrained inflationary pressures. On the other hand, performance fell short of targets in some sectors, such as in agriculture. Although several commercial poultry, dairy and vegetable endeavors were established, several traditional crops appeared to decline. The amount of land under cultivation is also thought to have declined due to lack of water and the attraction of labor into salaried employment. Traditional agriculture conditions have been described as worse today than in 1976.

The Second Five-Year Plan, 1981-1985 has objectives similar to those of the First except greater emphasis is placed on helping the private sector engaged in productive activities such as agriculture, fisheries, manufacturing, mining, and handicrafts. Funds have been allocated for grants to small enterprises in those sectors and for loans to joint-ventures in manufacturing, mining, and quarrying. The

Plan is designed to move further towards "achieving the long-term goal of creating a national economy based on private enterprise." An annual GDP growth rate of 13.1 percent in current prices is projected. Other important short-term targets include the expansion of low-cost housing in the interior, an increase in the number of vocational training centers, and development of water resources.

The two Five-Year Plans reflect Oman's initial efforts at mapping out a course of development for its economy as a whole. Sector strategies are not set forth in detail nor have the reasons for the Plans' outlines been thoroughly explained. There is heavy emphasis on physical results - things to be built - but quality of life targets are not stated in specific terms.

3. Institutional Development

The modern institutional history of Oman is short, dating only from 1970. Government ministries had to assume functions not before known in the country and were expected to plan and carry out new development programs in a broad range of fields. New institutions were established, including new financial organizations - a central bank, a group of specialized development banks and a network of branches for the commercial banking system. Special bodies of the Government were set up to address particular subjects or concerns, such as the Development Council for long-range development planning, the Public Authority for Water Resources for assessing the country's water resources potential, and the Council for Protection of the Environment.

The private sector, too, entered new fields as opportunities presented themselves in the increasingly complex marketplace. Businessmen entered into partnerships with foreign firms to gain expertise and capital. The Oman Chamber of Commerce and Industry was formed.

The task of managing the new institutional arrangements has been a formidable one for both the Government and the private sector. The recourse the Omanis have taken, as mentioned earlier, is to hire expatriates to manage for them. The desire to reverse this situation is formulated in the Government policy goal of "Omanization," replacing expatriates with trained Omanis.

Many organizations are weak even with a number of expatriate experts and managers. Management analysis and manpower development and training plans should be undertaken to strengthen a number of key development ministries. Some ministries, for example, have no active planning units, or in certain cases, the planning function is performed by a single individual devoting only a portion of his/her time to the work.

The problems of bringing organizations to operational effectiveness are difficult given the shortage of trained and experienced people, but they are not insoluble. Some organizations of the Government (such as the Central Bank and the Directorate General of Finance) have well trained and well qualified staffs, and it is clear that special efforts have been exerted to achieve such levels of quality.

II. RESOURCES FOR DEVELOPMENT

A. GOVERNMENT OF OMAN AND SPECIALIZED BANKS

The Government's long-term development goals center on developing new sources of income to augment and eventually replace oil revenues, to spread progress and prosperity to all regions in order to maintain existing population distribution, to improve the capabilities of nationals to contribute to the economy, to develop water resources, to promote a competitive private enterprise system, and to meet infrastructure requirements. The goals of the Second Five-Year Plan are short-term targets which will contribute to reaching these ultimate goals. Public and private development investments are projected at \$9.7 billion (in current dollars) during this period. This represents a 99 percent increase over investments during the First Five-Year Plan period.

Of the projected total government investment of \$6.3 billion, \$172 million are allocated for indirect financial support to the private sector through three partially government-owned financial institutions.

Oman Development Bank (ODB)

The ODB began operations in 1979 with \$30 million in capital and 5 branches. The Government of Oman provided 52 percent of the capital; Kuwait and Abu Dhabi provided 10 percent each, and banks and Omani individuals the balance, including 8 percent from the

International Finance Corporation. The ODB was set up to be a catalyst to support the development of the productive private sector, encouraging the production of substitutes for imports. The Bank helps entrepreneurs develop their plans and do feasibility studies and provides funds in the form of medium and long term loans at subsidized rates of interest of no more than 8 percent. Small and large projects in the areas of food processing, chemicals, furniture, construction, and clothing have already been aided. The Government plans to provide \$12 million annually to the ODB in the Second Plan period. Bank officials have admitted, however, to having difficulty identifying projects to which to lend funds.

Oman Housing Bank (OHB)

Capitalized at \$30 million (Government of Oman 69 percent and Kuwait 31 percent), the OHB provides mortgages up to \$150,000 to low, medium, and upper income borrowers at subsidized rates up to 9 percent for 25 years. Demand for loans is high. Though arrearages reached one-sixth of payments in 1980, this has since been rectified. The Five Year Plan includes provision of \$12 million annually to further capitalize the bank.

Agriculture and Fisheries Bank

This bank is designed to assist farmers and fishermen with low interest loans for a variety of equipment and inputs. Because the bank was established very recently, in late 1981, it is too early to assess its progress. The Five Year Plan calls for Government inputs of \$55 million from 1981-85.

B. ARAB AID

It is difficult to obtain exact figures on Arab aid. In 1976-78, Arab aid assisted Oman through a period of lower oil receipts with large grants. Grant receipts in 1979, largely from Saudi Arabia and Kuwait, were \$181 million, declining to \$103 million in 1980. The Government expects Saudi assistance to finance part or most of the projected \$485 million budget deficit in 1982.

A few recent examples of Arab assistance give an idea of its magnitude. The Saudis have provided \$100 million for the copper mine and smelter and most of the financing for the construction of the 800 km Nizwa-Thumrait highway, a \$327 million project. The Dubai Government is financing the \$125 million project to upgrade the Muscat-Dubai road from two lanes to a divided highway.

C. WORLD BANK

The World Bank provided loan-funded technical assistance to the Oman Government to help prepare the First and Second Five-Year Development Plans (\$2.75 million, 1974-82). It extended a highway maintenance loan (\$15 million), and a loan for telecommunications (\$22 million). A second highway maintenance loan of \$15 million was recently approved. The Bank also prepared an extensive "Assessment of Manpower Implications of the Second Five-Year Development Plan" dated November 1981. The study was preparatory to providing technical assistance to the new Manpower Planning Unit in the Ministry of Social

Affairs and Labor. The Bank's technical assistance will be provided on a reimbursable basis.

D. UNITED NATIONS (UN)

There has been UN assistance in Oman since 1972 and a fulltime Resident Representative since 1978. Assistance levels are modest, \$5.2 million for 1977-81 and \$3.2 million for 1982-86, largely for technical assistance and training. Areas of UN help include FAO technical assistance to the Ministry of Agriculture, industrial advisory services to the Ministry of Commerce and Industry, malaria control assistance to the Ministry of Health through the World Health Organization, and assistance in community development, education planning, civil aviation development, and meteorology.

E. PEACE CORPS

The Peace Corps has been active in Oman since 1973. About 30 volunteers are presently stationed throughout the country from the Musandam to Salalah. Health and education are the emphases of the Peace Corps program.

Disease control and water sanitation programs have been undertaken in collaboration with WHO and the UNDP. In disease control, the volunteers are involved in trachoma, tuberculosis, malaria, and immunization projects in villages, giving special attention to children. Volunteers in water sanitation are part of a team to plan, survey, and construct sanitation facilities in remote regions of the country.

Eight volunteers are working in English language instruction, two in the nursing school in the capital and six in secondary schools. Small new programs that appear to be having success are those of assistance to nomads in the Al Harasis desert area, rural health in Salalah in which volunteers assist the flying doctor, and outboard motor repair for traditional fishermen. The Peace Corps hopes to expand the coastal fisheries program, adding several more mechanics who will work in villages along the coast.

F. OMANI-AMERICAN JOINT COMMISSION / AID

In August 1980, the Omani-American Joint Commission was established by the signing of an agreement between the U.S. and Oman "to develop and strengthen relations between the two countries" and "to promote economic and technical cooperation." U.S. funding for the Commission is provided through AID. In September 1980, AID granted \$5 million for the Commission. Operations began in October of that year.

A second grant of \$5 million is expected in FY 1982, and thereafter an annual grant of \$5 million through 1988 is planned. These grants will finance projects offering technical assistance, training, and feasibility/planning studies as well as provide for some of the operating expenses of the Commission. A sub-grant of \$6.6 million to aid the fisheries sector has just been approved. A general participant training project, requiring a sub-grant of about \$4.1 million, is also planned to begin in 1982.

AID will also make available loans up to \$10 million annually for major assistance projects. A FY 1982 loan of \$6.5 million for a project to demonstrate the concept of aquifer recharge is near approval. The Commission is proposing a \$10 million loan in FY 1983 to contribute to a project to build a storage dam to supply water to the capital area.

III. U.S. ASSISTANCE STRATEGY

A. ESTABLISHMENT OF THE OMANI-AMERICAN JOINT COMMISSION

1. Purpose

The Oman and U. S. Governments established the Omani-American Joint Commission for Economic and Technical Cooperation (JC) in order to place the stronger political and military relationship existing between the two countries against a background of overall U.S.-Oman partnership. The JC is to promote a closer economic relationship and to make that relationship evident to the Oman public.

Oman being a country with adequate resources for development and the will to develop rapidly but with care, U. S. assistance was not offered with the intent of having a major effect on their development. The JC is thus not an AID mission, even though it is funded and supported by AID.

2. Scope

The governments of the two countries decided that a variety of economic undertakings should be assisted or promoted. Developing "economic and technical cooperation" thus involves a broad set of responsibilities, three of which are set forth in the charter:

- a. periodic review of matters involving the cooperative efforts of the two countries in economic and technical areas, including

review of the implementation of relevant economic and technical agreements which may be in force from time to time between the two countries;

- b. identification and exploration of areas for enhanced economic and technical cooperation between the two countries;
- c. recommendation of specific projects, programs or other activities or measures which will encourage and facilitate growth and development through cooperation between the two countries on economic and technical matters.

Although assistance to Oman's economic development program is the principal occupation of the JC, promotion of trade, investment, and technology transfers in Oman are within its scope. Perhaps more clearly than AID missions, it was given an assignment to carry out the intent of Section 601 of the Foreign Assistance Act.

3. Organization

The JC has a unique organizational structure which further distinguishes it from an AID mission. As a "joint" commission, it was designed to afford near equal participation on both sides in programming and administration. The senior officials are the Omani and U.S. Co-chairmen, Oman's Minister of State for Foreign Affairs and the U.S. Ambassador. They must approve all policy decisions, programming directions, and, of course, projects. An Omani official was appointed Managing Director to facilitate the Commission's work with Government agencies. The Managing Director is unable to devote a great deal of

time to the Commission as he has a full-time and demanding position in the Directorate of Finance. The day-to-day operations of the JC are carried out by two AID officers assisted by a locally-recruited staff of five: project officer, translator, assistant administrative and financial officer, secretary, and driver.

B. AID IN PERSPECTIVE

The proposed program level of \$15 million per year is modest in relation to Oman's annual development expenditures. In 1982, for example, the Oman Government has allocated the equivalent of \$900 million for development. The Arab development funds, moreover, are expected to provide substantial amounts over the next several years, perhaps as much as several hundred million dollars.

In this situation, the Joint Commission cannot expect to play a major role in the determination of Oman Government development policy or to influence policy in more than a marginal way in connection with individual projects.

The Government of Oman, in any event, appears to be in substantial agreement with AID policy objectives. It is seeking to distribute development benefits throughout the country; it imposes a minimum of regulation and taxation on the private sector so as not to dampen the climate for investment and growth; it is seeking to develop both public and private sector institutions in a broad range of ways; and it seeks both advanced and "appropriate" technology for its different problems.

Particular areas of policy concern do exist, such as the Government's propensity to subsidize prices in various sectors rather than to let the marketplace determine the allocation of goods and services. But in an economy where government revenues are ample without resort to significant taxation, subsidized prices may not be a major economic or social wrong. Although the Joint Commission is not in a position to counsel the Government against subsidization, Commission-financed technical assistance in particular fields could have an effect in modifying Government views.

C. PROGRAMMING ALTERNATIVES

For the Joint Commission, with its broad development-trade-investment promotion scope of responsibilities, its special joint Omani-American character and organization and its very small staff, questions of programming method must be considered. What mix of activities will be developmentally most useful, be visible enough to the Omani public and manageable by a staff which is going to be smaller than that of an AID mission? How should activities be selected?

1. Portfolio Complexity

As one option, the Joint Commission might elect to extend itself over a number of sectors and engage in a variety of different activities. Alternatively, it might restrict its scope to a few sectors or have a smaller number of projects in a few sectors. If, however, the JC is to promote broad Omani awareness of the U.S. and the

Joint Commission and to lay out for Omanis the panoply of American technology, the Commission will want to follow an expansive policy of programming, moving into new projects and sectors as they appear timely and appropriate. Such a policy will require an expansion of Commission staff.

2. Criteria for Selection of Projects

Project proposals come to the Commission or emerge in a variety of ways: detailed project proposals are formally referred to it by the Government (as in the case of Wadi al Khawd Aquifer Recharge); or sector areas of development importance are suggested to the Commission with the Commission thereafter designing a project (as in Fisheries Development); or the JC itself perceives the idea for a project (as in Development Training). In the latter two cases, the Commission staff is obliged to become acquainted with individuals and programs of ministries or private organizations. Again, the implication is a larger staff for the Commission.

The Co-chairmen of the Joint Commission have identified as criteria for selection of projects: developmental usefulness - meaning a project should be important in helping solve a key development problem; the innovativeness of the project concept; visibility of the project to the public; and competitiveness and appropriateness of U. S. technology.

3. Targets of Opportunity

In some AID programs in other countries, it is possible to

design a program around some concept of how the economy should grow. Such a programming method requires a wealth of statistical data, economic modelling and program influence sufficient to encourage the developing country to follow the model. Such circumstances do not exist in Oman. Sufficient data does not now exist and the Joint Commission, as explained, is not in a position of major policy influence. The alternative is "targets of opportunity" wherein the Commission responds flexibly to opportunities to be of assistance. It is a course which may lead into a number of sectors or into sector concentration.

"Targets of Opportunity" is the programming system best suited to Oman and the Joint Commission at this time. It is recommended for approval.

D. PROGRAM EMPHASIS

Because of the flexible programming method proposed, specific sector levels cannot be forecast. Some areas of possible Commission involvement are discussed below.

1. Water

It is expected that the Commission-assisted Wadi al-Khawd Aquifer Recharge Project will demonstrate the water conservation effectiveness of constructing recharge dams in Oman's many wadis. Other projects of the same type may be planned. Waste water conservation is another area of interest to the Oman Government.

2. Fisheries

The recently-approved Fisheries Development Project is in effect a sectoral assistance type project including institutional development of the Directorate of Fisheries of the Ministry of Agriculture and Fisheries in general program management, estimation of the resource base, establishment of an extension system and fisheries research. As more is learned about the fisheries sector, opportunities for further involvement in terms of advanced and appropriate technology transfer may present themselves. Specialized equipment to determine where fish are already exists and could be used in Oman. Coastal aquaculture of fish such as groupers might be possible, permitting fishermen to form small enterprises for production, for both local and export markets. Seafood marketing could also receive attention. In the long run, it might also be worthwhile to assist Oman in developing a commercial trawler-type industry similar to that of Korea.

3. Human Resources

The lack of skilled and trained Omanis is perhaps Oman's most serious development constraint. The Commission is designing a general development training project to help government officials and business people obtain either short-term professional training or do graduate work.

4. Health

With the completion of a recent evaluation of Oman's malaria control program, it is likely that the Government will request Commission

participation in a re-designed program. The Commission provided the services of a CDC epidemiologist to join the evaluation team of Ministry of Health and WHO malariologists. One apparent need is training of malaria control personnel.

A recent conference on Drinking Water Supply and Sanitation sponsored by the Ministry of Health is expected to result in recommendations for rural water and sanitation programs. Infant mortality, often related to unsafe water, may itself become the subject of special attention. The Commission will select areas or respond to requests on a case-by-case basis in coordination with WHO and other donors.

5. Agriculture

The Commission has not yet been of direct aid to agriculture other than sending five Ministry of Agriculture officials to short-term training courses in the U. S. Opportunities may exist for the Joint Commission to be of assistance in research and extension activities.

6. Private Sector

An active private sector, of trading, construction and, recently, small manufacturing exists in Oman. Commission support for the private sector may be limited for the time being to participant training. Some possibility may exist to provide technical assistance in the field of investment promotion. The Oman Chamber of Commerce and Industry has expressed interest in obtaining the services of an expert on how to attract foreign investors.

7. Energy

The Government of Oman is interested in exploring the potential for solar generation of power, particularly for units to be installed in remote villages, far from power lines. U. S. technology in solar power is already under study in the Ministry of Electricity and Water.

8. Low-Cost Housing

Housing units which are low in cost but adaptable to Oman's searing summer heat are a subject which has been mentioned to the Commission for possible assistance.

IV. PROPOSED PROGRAM LEVELS

Proposed Assistance Planning Levels

(\$ Million)

	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>
Grants	5	5	5	5	5	5
Loans*	10	10	10	10	10	10
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Totals	15	15	15	15	15	15

* It is assumed that the loan levels are targets but that the grant levels are fixed.