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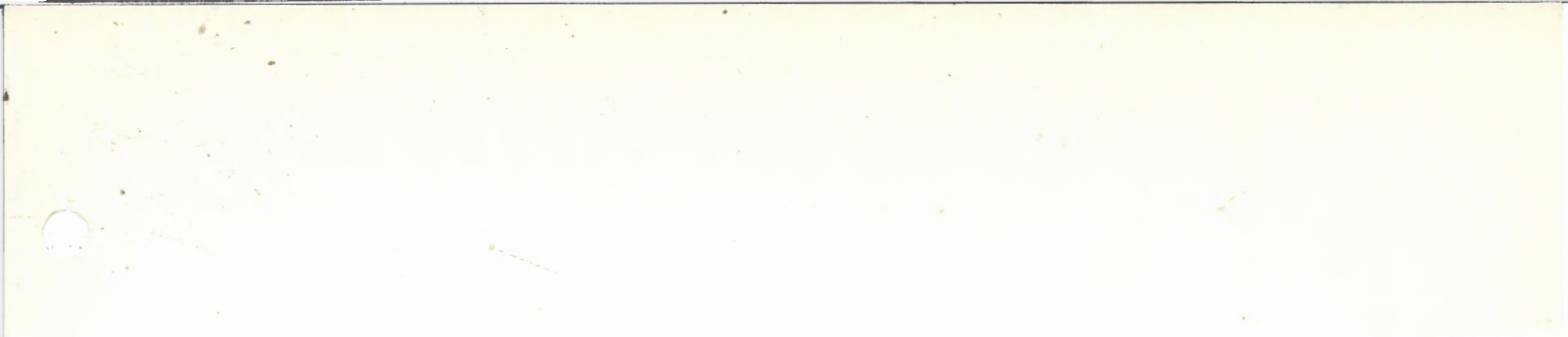
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OMAN

OMAN

1. 10/4/71 Philip Aldous, Secretary for Financial Affairs and Financial
Adviser to the Sultan
Mahmoud U. Murad, Treasury Director
2. 1/25/73 Dr. Riad Rayes, Development Secretary



MEMORANDUM FOR THE RECORD

October 18, 1971

Mr. Philip Aldous, Secretary for Financial Affairs and Financial Advisor to the Sultan of Oman, called on Mr. McNamara on October 4 at 4:30 p.m. He was accompanied by Mr. Mahmoud U. Murad, Treasury Director. Mr. Shoaib was also present.

Mr. Shoaib informed me that no substantive points were discussed at the meeting. It was essentially a courtesy call. At the end of the meeting Mr. Aldous extended, on behalf of the Sultan, an invitation for Mr. McNamara to visit Oman.

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1971 - ANNUAL MEETING

BRIEFING PAPER - OMAN

I. Date and Time of Meeting: September 30, 1971

11:00 a.m.

II. Delegation:

Observers:

Mr. Mahmoud V. Murad Treasury Director

Mr. Philip Aldous Secretary for Financial Affairs

III. Recent Political and Economic Situation:

In spite of the intense efforts of the new ruler of Oman, Qabus bin Said, ruling the country since July 1970, the country's membership to Arab League and consequently United Nations appears to be deferred. Imam Ghalib Ben Ali, former Omani ruler living in exile in Saudi Arabia, still claims to be a legitimate ruler of Oman. Reconciliation efforts of the new Sultan were not successful so far. Imam Ghalib is strongly supported by Saudi Arabia, the bargain being the territory of Buraimi Oasis because of which Saudi Arabia fought Omanis in 1952. Radical opposition comes from Democratic Yemen, which together with China is backing the guerillas in the southernmost province of Dhofar, under the name of the Popular Front for the Liberation of the Occupied Arab Gulf. At the Arab League meeting in Cairo, last week, it was hoped that the Saudi Arabian and Democratic Yemeni opposition could be relieved and Oman admitted to the Arab League. However, the matter was referred to a "study group" and the meeting failed to take a decision on Oman's membership. The new Sultan recently announced a number of reforms to calm down the radical movement. Offer of amnesty to the guerillas and political exiles has been made, without known response.

For a country almost completely isolated until recently from the outside world, socio-economic reforms announced by the new Sultan may contribute in calming down dissident groups in the country. The liberalization of laws regulating social activities and travel abroad, removal of restrictions on importation of agricultural machinery and on house construction, giving official priority and promising financial support to agriculture, communications, including telecommunications, radio and television and transportation are the main thrusts of these reforms.

To support such development effort the country's resources rely almost exclusively on oil. Commercial exploitation started in 1967, with 2.8 million tons and reached in 1969, 17 million tons.

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However, because of declining well pressure, production was dropped to about 16 million tons in 1970. Revenue from oil reached \$100 million in 1970 and in 1971, may rise to \$120-130 million as a result of the Tehran agreement rather than because of increased production. The only oil concessionaire is the Petroleum Development (Oman) Co., owned 85 percent by Shell. Utilization of these resources for future development of the country, are expected to be partly constrained by the need to continue defence expenditures, which have traditionally been extremely high in Oman because of aggressive pressures from Saudi Arabia and Democratic Yemen. At the same time, the developmental needs appear to be large if the country, which is one of the most backward regions in the Middle East, is to be brought into the modern economic age. Not much is known about the prospects and potentials, but this will be the focus of current Bank economic mission.

IV. Issues for Discussion:

(a) Membership in the Bank: The delegation is likely to enquire about the status of Oman's membership in the Bank. We might explain that the Bank membership is contingent upon Oman's membership in the IMF, which we would hope will be finalized in the near future. We might refer to the current visit of the economic mission as an indication of the Bank's willingness to act quickly to assist Oman in its development, once membership has been approved. The Oman delegation says they have been told by the Fund that their request is linked to Oman's admission into the U.N. and they are shocked that a political question should have arisen.

(b) Membership in IDA and IFC: Oman has only applied for membership in the Bank. As the economic mission may determine that Oman could be considered a blend or even an IDA country, we might inquire whether Oman intends to apply for membership in the Bank's affiliates.

V. Status of Operations:

1. Power Sector Review: A one-man mission is scheduled to visit Oman in late October and early November, to conduct a review of the power sector. We have prepared a tentative timetable for a power project in Oman for FY 1973, but our present information is insufficient to assess the definite need for such a project. The economic mission should provide some information in this regard. It has been headed by Mr. Harold Larsen who has reported a desire on the part of Oman for advice on economic planning and for an economic survey "in depth" to help them with long-term policy guidelines.

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SULTANATE OF OMAN

Visit of the Development Secretary Dr. Riad Rayes

Thursday, January 25, 1973 at 6:30 p.m.

I. BIOGRAPHICAL BACKGROUND

Dr. Riad Rayes, who is a Lebanese citizen, was appointed Development Secretary in Oman by Sultan Qaboos in September 1972. After the Sultan, and a purely political figure Sayyid Thuwaini (Mayor of Muscat), he exercises absolute power in the Supreme Council for Economic and Development Planning created in October 1972 to draw up a development plan (by 1975) and devise general economic policies. Dr. Rayes heads the Centre for Economic and Development Planning, which incorporates the former Ministry of Economy, and the Department of Agriculture. He will be responsible for planning, project preparation and execution, rural development activities, and will serve as Oman's contact for all external aid institutions, including the Bank Group. He therefore could wield considerable power, and the Sultan has told a recent Bank mission that Dr. Rayes enjoys his full confidence.

The initial impression of Dr. Rayes is that he is an agile and shrewd administrator. He does not appear very impressive technically, nor does he come across as being particularly authentic. Prior to his Oman appointment, he was a businessman and international civil servant with the Arab League and the UNDP. The UNDP did not feel it could nominate him as a Resident Representative for Oman.

The circumstances understood to surround the appointment and position of Dr. Rayes convey a flavor of the Omani situation. Dr. Rayes was recommended to the Sultan by Ghassan Shaker, an active businessman in Saudi Arabia who is linked with the Robert Anderson Group (New York and Beirut) which has indirect interests in Oman. A conflict may be developing between the more established group of Anglophiles on the one hand, (the Shell-linked oil company (PDO), the British Bank of the Middle East, the British ODA, to a degree, and the present Financial and Economic Secretaries), and the new business, commerce and economic forces - Robert Anderson, Mr. Charles Black of the Mardela Fishing enterprise (Delmonte) and Dr. Rayes on the other. Mr. Black visited the Bank in December to "endorse" Dr. Rayes. There is some anxiety among the UNDP and "Anglophiles" group about the potential conflicts of interest inherent in the appointment of Dr. Rayes.

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RECENT POLITICAL AND ECONOMIC DEVELOPMENTS

Sultan Qaboos, in power since mid-1970, has consolidated his position and is pursuing a policy of gradual internal modernization, and pursuit of the guerilla war in Dhofar province. The Sultan's army, headed and staffed by British officers on contract or secondment, have pressed back the rebels, but sporadic hostilities are expected to continue almost indefinitely, unless there is a change of regime in Southern Yemen, which supports the rebels. Some tensions have also arisen between Omanis and the numerous expatriates whose services remain indispensable for the smooth functioning of the state machinery (such as exists), but whose presence has caused some social unrest. The Sultan's reaction to a partial strike in late 1971 over this issue was swift, tough and apparently effective, and emphasized his determination to personally direct the affairs of state. He is currently Prime Minister, Foreign Minister and Minister of Economy.

ECONOMIC DEVELOPMENTS

The spectacular growth of the oil sector, which spearheaded the recent economic advances -- over 30 percent average annual GDP growth (from a very low base) in the 1967-71 period -- has levelled off. Oil production is remaining between 100 and 120 million barrels annually, with proven reserves being sufficient for another 20 years of production. The economy remains dominated by the oil sector, which contributed upwards of 70 percent to GDP in 1971. Government revenues from oil production were expected to be about \$135 million equivalent in 1972. Construction, the second most important component of GDP, has been growing fast and now accounts for 15 percent of GDP, while the more traditional sectors -- agriculture and fisheries -- contribute another 13 percent. In spite of the decreasing proportion of output from agriculture and its slow growth rate -- at the rate of 4 percent in 1971 -- almost 80 percent of the population continues to derive their income from this sector.

In 1971, public sector current spending reached 24 percent of GDP -- up from 16 percent in 1970. This increase is accounted for largely by stepped up defense spending and by increased spending for public administration. Public development expenditures rose to 18 percent of GNP in 1971 (compared to only 2 percent in 1970) and were concentrated in a few large projects, specifically the new deepwater port, an international airport, and a major road link. Investment for social services were much lower, accounting for 13 percent of the investment budget. This expanded program of spending has put some strain on the budget, with the consequence that a major deficit of some Rials Omani 23 million (US\$60 million) (equivalent to over 40 percent of revenues) was forecast for 1972. Financial reserves are adequate to cover the deficit, but the magnitude of the deficit points up the inadequate attention given to financial planning. Despite this temporary imbalance, medium-term prospects for public finances are good. This is mainly due to the promising prospects for increasing oil revenues -- given the

pricing arrangements based on the Teheran Agreement, and the outlook for some modest increase in oil production - and the introduction of some forward planning and control over expenditures.

BANK GROUP ACTIVITY

Oman joined the Bank in December 1971, and IDA and IFC membership was also approved by the Board of Governors in December 1972. The CPP of September 11, 1972 (copy attached) recommended initial Bank involvement in both technical and capital assistance, and a suggested threefold strategy for the Bank: (i) helping to overcome the major immediate constraints to development -- the absence of information and statistics, trained manpower and essential institutions; (ii) helping to broaden the benefits of growth, especially through assistance to the agricultural and social service sectors; and (iii) helping to devise and implement a long-term strategy for the diversification of Oman's economy. The CPP Review Meeting suggested a technical assistance loan for institutional development, basic resource surveys and project preparation activity, and consideration of a grant for an economic planning team along the line of the Yemen Arab Republic team. This would be in addition to project lending to be initiated in FY1974 (see below).

Recent discussions have confirmed Oman's interest in the technical assistance loan. In view, however, of the conflicts between foreign advisors mentioned above, the idea of a Bank sponsored planning team has been deferred for the time being. Dr. Rayes was not enthusiastic about it, since he is recruiting his own advisors, but may want our assistance in preparing terms of reference for them, which we can provide.

STATUS OF OPERATIONS:

- (1) Power (\$ about 6 million for FY74). The draft feasibility study for expansion of the power sector in the capital area (Muscat/Mutrah) and seven rural population centers has been received by the Bank, but not yet apparently by Oman. Project staff are reviewing several questions with the consultants, and appraisal is scheduled for late February 1973.
- (2) Education (\$4 - 6 million for FY74). A UNESCO/IBRD Cooperative program visited Oman in late 1972 to prepare an education project consisting of one secondary school (the country's first), six special primary schools for overage children (since there were virtually no schools before 1970, children of all ages are now beginning their education simultaneously), a teacher training institute, and expansion of a vocational training centre. Dr. Rayes has apparently sent three copies of the preparation report last week and will bring another copy with him. Appraisal is only scheduled for June 1973 due to staff constraints.

- (3) Technical Assistance (\$3 million for FY74). The April 1972 economic mission identified technical assistance requirements in virtually every sector. An FAO reconnaissance mission in December 1972 has reviewed the agricultural sector. To enable the Bank to define an appropriate technical assistance package, the UNDP has been asked to advise us what its program will be, and arrangements are being made within the EMENA region and with the FAO/IBRD Cooperative Programme to prepare an appropriate project. Assistance is likely to be given for institutional development in transportation and agriculture, and possibly basic groundwater and soils surveys in agriculture.

FINANCIAL CONTRIBUTIONS TO BANK:

Oman has contributed a total of \$2 million to the March and September 1972 two-year bond issues. Due to its short-term financial problems, Oman has advised it is not able to release its 9 percent capital subscription of \$0.59 million at this stage, but will consider doing so in the future.

Europe, Middle East and North Africa Region

January 24, 1973