**Sultanate of Oman**

*Ministry of National Economy*

# *The Address of His Excellency the Minister of National Economy*

## To Majles A'Shura

## On The Outcomes Of The Assessment Of The Sixth Five-Year Plan Performance

### In The First And Second Year (2001 & 2002)

**March 2003**

*His Majesty Sultan Qaboos Bin Said*

In the Name of God, the Compassionate, the Merciful

Prayer and Peace be upon his noblest messenger, our master Mohammed the faithful prophet.

**Your Excellency the Sheik, President of Majles A'Shura**
**Your Excellencies members of Majles A'Shura**

Peace be upon you and God's compassion & blessings.

At the outset, I would like to express my thanks and gratitude for your cordial invitation and for giving me this great opportunity to meet with you so that we collectively review the outcomes of the performance assessment of the Sixth Five-Year Development Plan in the first two years (2001 and 2002). This will cover the fiscal performance, the overall performance of the national economy, economic diversification, the strengthening of the private sector with particular emphasis on privatization policies and programmes, policies and procedures adopted to attract domestic and foreign investment, regional and international economic cooperation, human resources development and finally policies, procedures and plans adopted to boost research & development and advance the information technology in the country.

Oman has managed, under the wise leadership of His Majesty Sultan Qaboos Bin Said, to remarkably raise standards of living in the last three decades, a manifestation of good vision, proper planning, fruitful and constructive cooperation between government and citizens.

Your Excellency the President
Your Excellencies

Your esteemed Majlis has appreciably and positively contributed to the formulation of the draft document of the Sixth Five-Year Plan. In addition, the suggestions and studies made by your Majlis had positively helped improving our development work.

Therefore, I am absolutely confident that the discourse of your esteemed Majlis on this address will certainly benefit the progress of the economic and development performance in general.

**Public Finance:**

Your Excellency the President
Your Excellencies

Public finance, particularly in oil producing countries, assumes a critical role in determining the path of development. The patterns of public expenditure and instruments of funding have direct impact on general economic activities, on macro fundamentals as well as on prices of commedities, exchange and interest rates. The Sixth Five-Year Plan has, therefore, aimed at embracing sustainable fiscal policies based on increasing government non-oil revenues, rationalizing government expenditure, and augmenting government financial reserves, in addition to keeping the public debt within internationally accepted risk-free limits. Its ultimate objective is, to reinforce the stability of the national economy and encourage its growth.

Several factors affected government fiscal position during the first and second year of the plan, most important of which are the decline in oil production and the increase in prevailing average international oil prices.

With regard to oil production, Petroleum Development Oman Company (PDO) faces seemingly technical problems that have contrived to reduce crude production at some major fields earlier than initially envisaged.

Consequently, the scale of oil production slipped from projected levels, as average daily crude oil production dropped to 880.1 thousands bpd in 2001 and then fell further to 823.2 bpd in 2002, that is a decline of 2.6% and 9.5% respectively, as outlined in table No. 1 hereunder. The average daily production in 2003 is expected to be 763 thousands bpd.

On the other hand, the Omani oil prices witnessed considerable surge as against an estimated average of USD 18 per barrel. The average oil price increased to USD 23 per barrel in 2001 and continued to rise in 2002 to reach an average price of USD 24.4 per barrel in 2002 corresponding to respective increments of 27.8% and 35.6% over the planned price. The premium on oil prices during the first and second year of the plan has offset the negative effects that arose from lower oil production. Net oil revenues were to the tune of R.O. 1875 million in 2001 and R.O. 2011 in 2002. The net oil revenue in 2001, matched the budgeted amount, but registered an increase of 6.9% of the planned in the following year.

**Table No. (1)**

**Fiscal Performance Indicators for the Years 2001 &2002**

(R.O.Million)

| Actual | Planned | | ITEM | Actual | Provisional Estimates | Rate of Change Against Planned (%) | |
|---|---|---|---|---|---|---|---|
| 2000 | 2001 | 2002 | | 2001 | 2002 | 2001 | 2002 |
| 888 | 904 | 910 | Average Daily Production (000's Barrels) | 880.1 | 823.2 | -2.6 | -9.5 |
| 27 | 18 | 18 | Average Price (USD/B) | 23 | 24.4 | 27.8 | 35.6 |
| 1721.0 | 1875 | 1882 | Net Oil Revenue | 1875 | 2011.1 | 0.0 | 6.9 |
| 568.9 | 620 | 640 | Other Revenue | 664.8 | 781.9 | 7.2 | 22.2 |
| 2289.9 | 2495 | 2522 | Total Revenue | 2539.8 | 2793 | 1.8 | 10.7 |
| 2656.2 | 2812 | 2744 | Total Expenditures | 2860.2 | 2893 | 1.7 | 5.4 |
| -366.3 | -317 | -222 | Deficit | -320.4 | -100 | 1.1 | -55.0 |

The government attaches significant importance to the expansion of non-oil revenues in order to augment income and diversify resources. Thus the total non-oil revenues soared to R.O. 665 million, an increase of 7.3% over the planned amount, largely due to the positive measures taken by the government. It continued to grow to reach R.O. 782 million in 2002, registering a 7.2% increase over the budget estimates. The improvement in actual total non- oil revenues in 2001 and 2002 is mainly attributed to the growth in profit from government investments.

In the light of the foregoing, we conclude that the fiscal performance, with respect to revenues in the first and second year of the plan, has improved significantly as compared to the plan estimates. Government actual revenues amounted to R.O. 2540 million in 2001, and have continued to rise to reach R.O. 2793 million in 2002, an increase of 1.8% and 10.7% in comparison to the planned figures respectively.

The current Five-Year Plan targeted prudent government spending to maintain a balanced fiscal position, and it also targeted commitment to sustainable fiscal policies. The plan is striving to realize these objectives mainly through privatization of services and restructuring of the state general budget utilizing a cost effective methods. However, it is of vital importance to emphasize that the plan, based on realistic prospects, has envisaged gradual reduction of government spending to provide for the intended improvements and expansion of educational services, development of tourism sector, natural gas along with gas-based industries, maintenance of existing government assets, implementation of electricity sector privatization programme and preservation of gains realized in the past period.

As shown in table (1) above, government expenditure rose by 1.7% in 2001 compared to the planned amount, and stood at R.O. 2860 million, while it increased by 5.4% in 2002 compared with planned figure to R.O.

2893 million. The increase in government expenditure in 2001 was mainly attributed to expanded government spending on lending and contribution to local, regional and international organizations, which soared to R.O. 101 million against the planned R.O. 53 million. It was also attributed to the 3.4% increase in actual investment expenditure compared with planned figure to stand at R.O. 532 million. It is worth mentioning that despite the increase in government actual expenditure in the plan's first year, current expenditures had decreased by 0.7% against the planned amount as a result of the drop in interest payments on the public debt from the planned R.O. 110 million to R.O. 94 million.

In the second year of the plan, the entire key expenditure items contributed to higher government spending, as compared to the amount provided for in the plan. Current expenditure increased by 4.4% than planned, whereas the payments of interest on public debt continued to decline from the planned R.O. 110 million to R.O. 69 million. The actual total contributions and private sector subsidies increased by R.O. 42 million compared to the planned amount to reach R.O. 70 million due to the increase in actual spending on lending and contribution to local, regional and international organizations. Actual investment expenditure had also increased by 2% over the planned amount because of the additional projects, approved during His Majesty's Meet the People Tours, which are intended to cater for the basic needs of the citizens in various parts of the Sultanate.

On the above basis, it can be concluded that, higher oil prices, increased non-oil revenue and prudent spending, have helped arresting the actual deficit at the planned level for 2001, and indeed reduced it to R.O. 100 million in 2002 from the planned volume of R.O. 222 million.

In the early Eighties of the last century, the Sultanate took the initiative of building up financial reserves to back sustainable economic development. Such reserves also represent an additional source to reduce dependence on oil and also cushion public finances and the national economy in general against the adverse repercussions of fluctuations in international oil prices.

In pursuit of this course, the current plan and its fiscal framework attach particular importance to the enhancement of the state financial reserves. Available data indicate a surge in reserves balance in the first two years of the plan, though such balance was expected to slip during the plan period against the background of the projected budget deficit. The improvement in fiscal performance of the state's financial reserves was mainly attributed to higher oil prices than projected, and also to the scrupulous adherence to fiscal policies designed to boost reserves through regular transfers of a specific tranche from oil revenues to the State General Reserve Fund and limiting drawdowns from the Fund to finance actual deficit, in addition to slimming expansion in government spending.

Public debt indicators constitute one of the basic measures of the soundness of government fiscal position. The Sultanate was very keen, since the dawn of its renaissance, to avoid excessive borrowing and has therefore controlled the public debt in line with the capacity of the national economy. The fiscal framework of the current plan is based on keeping the public debt within internationally accepted risk-free limits and striving to restructure it in order to mitigate the burden of public debt service.

We conclude from the public debt indicators in the first two years of the current plan that the Sultanate continued to have manageable financial liabilities, as a result of its commitment not to recourse to borrowing to finance budget deficit in addition to the improvement in fiscal performance of revenues and expenditure. During the second year of the plan, the public debt was slashed by R.O. 247 million or 16.2%, as the anticipated budget deficit was fully covered and at the same time some expensive loans were settled.

Another appealing characteristic in this connection is the substantial reduction in the foreign debt volume from 66.5% of the total public debt in 2000 to 44% at the end of 2002. On this account, the amount of interest paid was less than envisaged. Moreover, the liability of the LNG upstream project was substantially reduced during the past two years because, as planned, the sale proceeds were applied to pay off the loans extended to the project.

In regard to the fiscal performance of the remaining period of the current plan, it should be pointed out that the slippage in oil production would continue at least in the medium term as indicated by the studies conducted on this issue. Undoubtedly, such a situation poses difficulties and challenges to the public finances and to the national economy as a whole, which require appropriate remedial action to mitigate its backlash.

PDO has recently framed a medium term plan to address this issue. The plan envisages an increase in oil production from 703 thousand bpd in 2003 to about 800 thousand bpd in 2007. The plan is three-phased, the first phase will focus on maximizing the utilization of existing assets through the optimization of wells management operations and existing reserves, the second phase will focus on water inundation projects to enhance extraction rates from existing reserves, in the third phase the focus will be on adoption of modern enhanced oil recovery techniques. Of course, the PDO plan entails an increase in current and capital expenditures and that will in turn lead to a decrease in net revenue per barrel from the company production. The government has resorted to research alternatives and other means to increase non-oil revenue and decrease spending levels.

**Development Programme:**

Your Excellency the President
Your Excellencies

The Development Programme of various ministries and civil units (development expenditures) encapsulated in the plan represents a key agency by which its objectives are attained. In the Sixth Five-Year Development Plan, the Development Programme devised for ministries and civil units was drawn up with a view of serving its their purposes and goals. To this end, special emphasis is put on increasing absorptive capacity of higher education institutions for a larger intake of secondary school graduates; expanding basic education, enhancing human resources development, bolstering up economic diversification activities and supporting privatization programmes with the focus placed upon the privatization of service projects run by the government.

Consistent with the fiscal framework of the plan and financial recourses available to the government, the original total allocations for the Development Programme of ministries and civil units were estimated to be to the tune of R.O 1690.8 million for the entire period of the plan, out of which R.O. 1185.9 million was assigned for new projects and R.O. 504.9 for ongoing projects from the Fifth Development Plan.

During the first and second year of the plan, a number of additional projects were approved to provide basic social services to meet the needs of the citizens particularly in the least developed regions. Some of these projects were initiated in accordance with Royal Directives during HM's Meet the People Tours.

The additional allocations amounted to R.O. 242.5 million, thus the total allocations for the development programme of ministries and civil units stood at R.O. 1933.3 at the end of 2002, an increase of 14.3%.

Besides that, in the first and second year of the plan other additional projects were sanctioned costing R.O. 171.7 million at the end of 2002 and were financed from the allocations made for tourism development and privatization programmes as well as nation wide projects. Hence, the total cost of the additional projects, that were designated and their respective allocations approved, amounted to R.O. 414.2 million.

The commitments made for development projects in the first and second year of the Sixth Five-Year Plan including ongoing and new projects amounted to R.O. 952.4 million which represent 49.3% of total allocations. The low percentage of commitment is attributed to several factors most important of which are:

- The delay in preparing technical and feasibility studies of some projects and non-preparation of the designs thereof.
- Approval of some new additional projects during year 2002.
- Provision for financial discrepancies arising from tender costs of some projects exceeding the budgeted allocations.

The Ministry of National Economy is following up with the parties concerned to identify the reasons for delay in execution and iron out any problems.

The sectoral distributions of allocations for the Sixth Five-Year Plan's Development Programme and the status of commitments at the beginning of the plan and at the end of 2002 are shown in the following table No. (2). The table also incorporates the commitments made for the new projects in 2001 and 2002:

**Table No. (2)**
**Approved & revised allocations of the Sixth Five-Year Plan (2001 - 2005) and Allocations for new projects in 2001 & 2002 and percentage of commitments by sector**

(O.R.Million)

| Allocations as of 1/1/2001 | Sector | Revised allocation as of 31/12/2002 | Revised allocations for 2001 & 2002 | Percentage of commitments for the projects in 2001&2002 % |
|---|---|---|---|---|
| 112.2 | Commodity production sector | 154.6 | 55.5 | 19.3 |
| 488.3 | Services Production sector | 538.8 | 262.7 | 79.6 |
| 394.5 | Social structures | 407.2 | 136.2 | 60.4 |
| 695.8 | Infrastructures | 832.7 | 360.5 | 58.9 |
| 1690.8 | Total | 1933.3 | 814.9 | 63.1 |

## A. Commodity Production Sector:

The Sixth Five- Year Plan allocations for the commodity production sectors which include crude oil, gas, minerals, agriculture, fisheries and manufacturing industries, have grown from R.O. 112.2 million to R.O. 154.6 million at the end of the second year of the plan (2002), an increase of R.O. 42.2 million or 37.8%.

The commitments to approved projects in the first and second year of the plan stood at R.O. 10.7 million or 19.3% of the revised allocation as shown in table (2) above.

The additional allocations for these sectors during the first two years of the plan amounted to R.O. 44.6 million. The manufacturing industries sector obtained additional allocation to the tune of R.O. 24.9 million, mainly for the Sea Water Intake & Outfall Station at Sohar Industrial Estate and the infrastructure project of Oasis of Knowledge (phase one).

**B. Services Production Sector:**

The allocations of the Sixth Five-Year Plan for the service Production sector which include the housing, trade, electricity, water, communication and tourism sectors have increased from R.O. 488.3 million to 538.8 million as of the end of 2002, a growth of R.O. 50.5 million or 10.3%.

Commitments to approved projects in this sector for 2001 & 2002 amounted to R.O. 209.2 million or 79.6% of their revised allocations.

Total additional allocations for the service sector stood at R.O. 108.9 million, which were mainly attributed to:

**1) Housing Sector:**

Total additional allocations for the housing sector, including construction of 1520 social housing units in various Willayats, housing units in different villages and houses for Walis, amounted to R.O. 14.1 million ,out of which R.O. 9.2 million in 2001 and R.O. 4.9 million in 2002. Table (3) shows the additional allocations for the housing sector during 2001 & 2002.

**Table No. (3)**
**Additional Allocations for the Housing Sector Projects**
**(2001 & 2002)**

| Projects | No. of Housing Units | Additional Allocations (R.O.000's) |
|---|---|---|
| Social housing units at Duqm | 150 | 1500 |
| Social housing units at Jazir | 100 | 1000 |
| 52 houses at Ras Jifn, 18 at Salba village, a mosque and pave roads at Jaalan beni bu Ali | 70 | 750 |
| Houses at Tanuf village in Nizwa | 22 | 200 |
| Houses at Kamil & Wafi | 37 | 250 |
| Houses at Diba | 26 | 286 |
| Rehabilitate slum houses for low income individuals in some Willayats | 174 | 1644 |
| Social houses at Sohar | 30 | 300 |
| Houses at Hail Tawinah for the people of Jabal Aswad in Quriat | 15 | 200 |
| 50 houses, mosque, shops, pave roads & power connection at Mad'ha | 50 | 955 |
| Houses for the residents of the Western part of Jabal Abyadh in Dimaa Wa Ta'yeen | 72 | 554 |
| Houses at Ghubra North in Jazir | 20 | 200 |
| Houses & pave roads at Haima, Abu Madhabi, Ajaiz, in Wusta | 146 | 1460 |
| Social houses at Khaluf village in Willayat of Mahut | 60 | 600 |
| 95 houses, mosque, shops, center for artisans at Najda in Mahut | 95 | 1000 |
| Other housing projects | 453 | 3204 |
| **Total** | 1520 | 14103 |

## 2- Electricity Sector:

Total allocation for additional projects of electricity sector amounted to R.O. 25.6 million, out of which R.O. 17.7 was allocated in 2001 and R.O. 7.9 in 2002. Table No. (4) hereunder shows the additional allocations for the electricity sector during 2001 & 2002.

**Table No. (4)**
**Additional Allocations for Electricity Sector Projects**
**(2001 & 2002)**

| Projects | Additional Allocations (R.O.000's) |
|---|---|
| Privatisation projects of electricity sector | 16989 |
| Installation of alarm system in power transmission line at Dhahira | 580 |
| Contract with Dhofar Power Co. to improve stations | 1368 |
| Electricity connection to territories and farms of Thumreit | 827 |
| Electricity underground connection at Masseirah | 365 |
| Electricity connection to Bausher heights | 800 |
| Electricity connection to Wadi Zahimi in Wiallayat of Liwa | 130 |
| Electricity connection to Wadi Rajma in the Willayat of Shinas | 133 |
| Others | 4409 |
| **T O T A L** | **25601** |

## 3- Water Sector:

Total allocations for additional projects in the water sector during the two years 2001 & 2002 amounted to R.O. 60.3 million, out of which R.O. 58.2 million for 2001 and R.O. 2.1 million for 2002. Table No. (5) below shows the additional allocations for the water sector in 2001 & 2002.

**Table No. (5)**
**Additional Allocations for Projects of the Water Sector**
**(2001 & 2002)**

| Projects | Additional Allocations (R.O.000's) |
|---|---|
| Privatisation projects of the water sector | 15423 |
| Sharqya Sands aquifer water supply project | 37746 |
| Drill wells for drinking water in a number of Willayats | 574 |
| Extension to desalination plant and development of distribution network at Niabat Ras Had in Sharqya | 1500 |
| Fulfillment of the needs of Mirbat town for drinking water up to 2002 | 1280 |
| First part of phase two of water supply to Thumreit | 800 |
| Mobile desalination plant in Sur | 745 |
| Establishment of water desalination plant in Najdah at Willayat Mahut | 400 |
| Others | 1849 |
| **T O T A L** | **60317** |

## C - Social Structures Sectors:

The Sixth Five-Year Plan allocations for social structures sector, which include (education, vocational training, health services, information and culture, religious affairs, social centers and youth centers) have gone up from R.O. 394.5 million to R.O. 407.2 million by the end of 2002, an increase of R.O. 12.7 million or 3.2%.

In addition, some other allocations were also earmarked for these sectors within the context of a separate programme of human resources development, which amounted to R.O. 253.6 million. Thus the total revised allocations for these sectors amounted to R.O. 660.8 million.

However, commitments to approved projects of these sectors in the first and the second years of the plan amounted to R.O. 93.8 million i.e. 59% of the revised total allocations.

The total additional allocations for these sectors amounted to R.O. 19.2 million during the first and the second years of the plan. The most important sectors of the social structures are:

**1- The Health Sector:**

Total allocations for additional projects in the health sector amounted to R.O. 8.8 million, out of which R.O. 6.1 million was allocated for 2001 and R.O. 2.7 million for 2002. Table No (6) below shows the additional allocations for the health sector in 2001 & 2002.

**Table No.(6)**
**Additional Allocations for Health Sector Projects (2001 & 2002)**

| Projects | Additional Allocations (R.O.000's) |
|---|---|
| Cancer treatment center in Muscat | 1500 |
| Salalah Polyclinic | 250 |
| Expansion of Haima hospital project | 631 |
| Polyclinic, medical staff residential complex at the village of Khaluf in the Willayat of Mahut | 300 |
| Drug store in Muscat & Nizwa | 1260 |
| Polyclinic at Khadra in Suwaiq | 250 |
| Polyclinic at the Willayat of Mahdha | 250 |
| Other health projects | 4345 |
| **T O T A L** | **8786** |

**2- The Education Sector:**

The estimated total allocations for additional projects in the education sector amounted to R.O. 6.5 million, out of which R.O. 5 million was allocated for 2001 and R.O. 1.5 million for 2002. The additional projects in the education sector focused on supporting the education services at Sultan Qaboos University to increase its absorptive capacity and expand its services through the establishment and preparation of its main library and its center for Omani Studies. The projects also included water and electricity connections to schools.

**D- Infrastructures Sectors:**

Revised allocations for infrastructures sectors, which include (roads, airports, ports, irrigations & water resources, town planning and municipal services, government administration, environment and pollution control) have gone up from R.O. 695.8 million to 832.7 million at the end of the second year of the plan 2002, an increase of R.O. 136.9 million or 19.7%.

Yet, commitments to approved projects of these sectors for the two years 2001 & 2002 amounted to R.O. 212.2 million i.e. 58.9% of the revised total allocations.

The total additional allocations for these sectors amounted to R.O. 246.5 million during the first and the second years of the plan (2001 & 2002). The most important sectors of infrastructures are:

**1- Roads Sector:**

As the plan attaches significant weight to the construction of avant-grade road network to link the various regions of the Sultanate, the road sector has gained 20.7% of total additional allocations. Total allocations for additional projects in this sector amounted to R.O. 86.8 million, out of which R.O. 58.2 million was allocated in 2001 and R.O. 28.6 million in 2002.

Total estimated additional allocations for main roads and consultancy studies amounted to R.O. 53 million in the first two years of the plan. Table No. (7) below outlines the additional projects of main roads and consultancy studies on roads for the two years 2001 & 2002.

**Table No. (7)**
**Additional Allocations for Main Roads Projects and Consultancy Studies**
**(2001 & 2002)**

| Projects | Additional Allocations (R.O.000's) |
|---|---|
| **A- Projects of consultancy studies on roads** | **3534** |
| **B- Main Roads projects :** | **49507** |
| Ibri/Saudi road inclusive of consultancy studies | 3500 |
| Expansion of Wadi Adai/Al Amrat road project in Muscat | 2749 |
| Mahlah/Dima'a road with protective intermediaries in the Willayat of Dima Wa Al Taiyyin | 1571 |
| Alain/Ibri Road | 6567 |
| Sultan Qaboos grand mosque road/airport roundabout in Muscat | 1000 |
| Tanam/Hamra Diroua in the Willayat of Ibri | 2184 |
| Mahdha/Niabat Rawdha in the Willayat of Mahdha | 1600 |
| Dual carriageway Aqar/Khatmat Milaha in the Willayat of Shinas | 1422 |
| Rima/Kahal/Lakbi/Soqra in Al Wusta | 1295 |
| Aseela/ Ras Hud inclusive of supervision in Sharqya | 4000 |
| Ateen / Salalah road inclusive of supervision in salalah | 920 |
| Thumreit / Mazyona road in the Governorate of Dhofar | 1881 |
| Hdbeen/Hasik road in the Governorate of Dhofar | 1717 |
| Road to link Khaluf with Muhut road/Duqm in Al Wusta | 1451 |
| Access Road to touristic Bandr Jissah in Muscat | 2286 |
| Completion of paving Wadi Ghoul/Jabal Shams road in Al Hamra | 1096 |
| Opening pathway Bawshar/Amrat in Muscat | 950 |
| Other main road projects | 12218 |
| **T O T A L (A+B)** | **53041** |

Estimated allocations for additional sub-roads projects, including the most important service roads, in the first two years of the plan amounted to R.O. 33.8 million. Table No.(8) below exhibits the additional allocations for sub-roads projects during the two years 2001 & 2002.

**Table No.(8)**
**Additional Allocations for Service Roads (2001 & 2002)**

| Projects | Additional Allocations (R.O.000's) |
|---|---|
| Compaction of the internal paved road in Qalhat industrial area | 500 |
| Paving and lighting internal roads and fencing houses in Al Duqm | 644 |
| Internal roads in the Willayat of Masirah inclusive of compensations | 2027 |
| Paving and lighting internal roads and fencing houses in Al Jazer | 578 |
| Paving the service road in Al Batinah | 1000 |
| Paving some internal roads in Ibri | 1100 |
| Paving Wadi Mahram road in the Willayat of Samail inclusive of supervision | 1477 |
| Asphalting Wadi Meeh road in Amrat | 800 |
| Paving 9.5 Kilometers internal road leading the touristic site at Wadi Bani Khalid | 850 |
| Paving Mawaleh South roads in Muscat | 600 |
| Paving roads in new quarters at Salalah (40 Kilometers) | 800 |
| Paving the road from Saada to the industrial workshop area in Salalah (10 Kilometers) | 500 |
| Improvements to Salam road in Salalah | 350 |
| Paving Aqbat Hasheer in Salalah (13 Kilometers) | 500 |
| Road leading to Abyadh village in the Willayat of Nakhal | 466 |
| Other service road projects | 21611 |
| **T O T A L** | 33803 |

## 2- Ports Services:

Estimated total allocations for additional projects of the ports services (commercial ports) amounted to R.O. 22.3 million, out of which R.O. 20.6 was allocated in 2001 and R.O. 1.7 in 2002. Table No.(9) below displays the additional allocations for the ports sector.

**Table No. (9)**
**Additional Allocations for the Ports Sector (2001 & 2002)**

| Projects | Additional Allocations (R.O.000's) |
|---|---|
| Construction of multi-purpose port in Al Duqm inclusive of consultancy studies and designs | 20000 |
| Building a jetty pontoon in Masirah | 250 |
| Erection of a building to receive passengers at Sultan Qaboos port | 545 |
| Khasab port with 10 meters draft, depots and customs quarter | 1067 |
| Filling and deepening works in Shinas port | 380 |
| Others | 93 |
| **T O T A L** | **22335** |

## Regional Distribution:

The Sixth Five-Year Plan revised allocations for all regions of the Sultanate rose by comparable proportions, as indicated in table No.(10) hereunder. However, the upward adjustment in the revised allocations for the Sharqya and Wusta regions at 59% and 45% respectively as at the end of 2002, was proportionately greater than the increase in allocations for the rest of the regions. The increase in allocations for these two regions was attributed to the additional allocations made for two projects, viz the multi-purpose port and pertinent consultancy studies in Daqam (Wusta) at the cost of R.O. 20 million, and the Sharqya Sands aquifer water supply project at the cost of R.O. 37.7 million.

With regard to the allocations for the years 2001 & 2002 projects, the share of the Batinah region from the additions in allocation approved during these two years increased as a result of the new projects approved during HM's Meet the People Tour in 2001 and the subsequent visits made by a number of their Excellencies the ministers to Willayats of Liwa and Shinas. The increase was also attributed to the transfer of R.O. 43 million from the ongoing allocations of Sohar port project to finance ancillary schemes for the port that contributes to the entire national economy. In this way, the initial allocations for the Batinah region grew from R.O. 82.1 million to R.O. 167.4 million, an increase of R.O. 85.3 million or 103.9%.

Allocations for new projects in the Governorate of Muscat went up from R.O. 57.6 million to R.O. 124. 9 million, an increase of
R.O. 67.3 million or 116.8%.

Allocations for new projects in the Sharqya region increased from R.O. 37.6 million to 96.4 million, i.e. a growth of R.O. 58.8 million or 156.4%, as a number of infrastructure projects were approved including Sharqya Sands aquifer water supply project at the cost of R.O. 37.7 million.

Considering the commitments to new projects in the two years 2001 & 2002 at the regional level, the Dhahirah, Dakhilya, Sharqya regions and the Governorate of Dhofar made higher commitments compared to other regions as at the end of 2002.

**Table No.(10)**

**Approved and Adjusted Allocations in the Sixth Five-Year Plan (2001 - 2005)**

**Allocations for New Projects in 2001 & 2002 and Commitments there to Region wise**

(O.R.Million)

| Plan Allocations as at 1/1/2001 | Governorate/ Region | Revised Plan allocations as at 31/12/2002 | Adjusted allocations for 2001 & 2002 | Percentage of commitments to projects of 2001&2002 % |
|---|---|---|---|---|
| 214.7 | Muscat | 280.2 | 124.9 | 57 |
| 255 | Al Batinah | 312.2 | 167.4 | 48.1 |
| 37.4 | Musandam . | 42 | 8.6 | 62.8 |
| 100.2 | Adh Dhahirah | 124 | 31.1 | 77.5 |
| 238 | Ad Dakhliyah | 256.1 | 103.1 | 81 |
| 131.2 | Ash Sharqiyah | 190.3 | 96.4 | 73.5 |
| 76.5 | Al Wusta | 121.6 | 55.6 | 22.3 |
| 90.9 | Dhofar | 120.5 | 57.7 | 72.3 |
| 536.1 | Nation Wide | 471.4 | 163.7 | 76.1 |
| 10.8 | Abroad | 15 | 6.4 | - |
| **1690.8** | **T O T A L** | **1933.3** | **814.9** | **63.1** |

It is noteworthy that, since the beginning of the current year 2003 to date, additional projects worth R.O. 68.7 million have been approved, out of which R.O. 36.5 million was allocated for additional projects approved during the recent H.M's Meet the People Tour in Dakhilya and Sharqya regions, as well as the setting up of an integrated town at Niabat Hamra'a Darua in the Willayat of Ibri. The most prominent additional projects are:

- Road Paving Projects: Additional allocations under this category amounted to R.O. 33.2 million, out of which R.O. 25.6 million was approved during H.M's Meet the People Tour to finance internal roads projects in various Willayats (836.5 Kilometers) and main roads paving (149 kilometers). Furthermore, tenders have been invited for Quriat - Sur Road project that is vital for the encouragement of local tourism business.

- Housing projects at a cost of R.O. 6.9 million, of which R.O. 5.4 million was approved during the recent, H.M's Meet the people Tour, mainly for the construction of 474 housing units for families on social welfare and low income.

- Health Projects: Construction of some polyclinics at a cost of R.O. 6.4 million.

- Electricity connection projects at a cost of R.O. 2.9 million.

- Compensations for properties expropriated for Sohar port amounting to R.O. 4.1 million.

- Rehabilitation of old markets and construction of central abattoirs for which additional allocations in the current year amount to R.O 2.5 million.

**Overall Performance of the National Economy:**

The main objective of Oman Economic Vision Oman 2020 is to ensure a stable per capita income, and its determined endeavour is to increase it by two fold at real value by the year 2020. In harmony with that, the Sixth Five-Year Plan (2001 - 2005) aimed at maintaining the real per capita income at the level prevailing in the year 2000 through targeting the realization of an annual growth in the gross domestic product (GDP) at a rate not less than 3% at constant prices.

Economic data encapsulated in table No. (11) hereunder, indicate that the national economy grew by 0.4% at current prices in 2001 and the GDP came to R.O 7668.4 million also at current prices. Accordingly, the performance of the national economy in 2001 is considered to be good compared to the plan projections, which anticipated a negative growth of 8.1%. Moreover, the rate of growth reached 9.3%, at constant prices, in 2001, higher than the average annual growth rate of approximately 3% targeted by the plan.

In the second year of the plan, the national economy continued to grow (as preliminary estimates indicate) by 2.9% at current prices lifting up the GDP to R.O. 7891.2 million at current prices and achieving 7.5% increase over the planned level.

The improvement in the performance of the national economy against what was envisaged, is attributed to several factors, most important of which are:

- The rise in non-oil sectors actual GDP to levels higher than planned. It rose by 2% in the first year and by 1% in the second year of the plan, mainly due to the huge increase in LNG production and exports, the tangible surge in domestic demand and fiscal and monetary policies adopted to reinforce economic stability.

- The rise in oil prices leading to increase in oil sector actual GDP compared with planned levels by 22.2% and 19.9% respectively for the first and second year of the plan, despite the fall in PDO oil production.

Updated estimates indicate that the national economy will continue to grow in year 2003 by 1% at current prices, in spite of the potential fall in oil prices to USD 22 per barrel during the year and also the fall in PDO production from 771 thousand bpd in 2002 to 703 thousand bpd in 2003.

**Table NO.(11)**
**Development of Gross Domestic Product**
**in Year 2001-2002**
**at Current Prices**

(O.R.Million)

| Actual 2000 | Planned 2001 | Planned 2002 | ITEM | Actual 2001 | Provisional Estimates 2002 | Rate of Change Compared with Planned (%) 2001 | Rate of Change Compared with Planned (%) 2002 | Actual Rate of Growth (%) 2001 | Actual Rate of Growth (%) 2002 |
|---|---|---|---|---|---|---|---|---|---|
| 3717.7 | 2672.3 | 2725.3 | 1. Total Petroleum Activities | 3264.4 | 3267.1 | 22.2 | 19.9 | -12.2 | 0.1 |
| 3616.1 | 2525.8 | 2552.7 | 1.1 Crude Petroleum | 3105.5 | 3113.5 | 23.0 | 22.0 | -14.1 | 0.3 |
| 101.6 | 146.5 | 172.5 | 1.2 Natural Gas | 158.9 | 153.6 | 8.5 | -11.0 | 56.4 | -3.3 |
| 4079.4 | 4461.8 | 4755.7 | 2. Total Non Petroleum Activities | 4552.9 | 4802.0 | 2.0 | 1.0 | 11.6 | 5.5 |
| -204 | -201.5 | -211.1 | Financial Intermediation Services Indirecly Measured | -207.5 | -234.3 | 3.0 | 11.0 | 1.7 | 12.9 |
| 46.1 | 72.0 | 74.0 | Import Taxes | 58.6 | 56.4 | -18.6 | -23.8 | 27.1 | -3.8 |
| 7639.2 | 7004.6 | 7343.9 | Gross Domestic Product at Market Prices | 7668.4 | 7891.2 | 9.5 | 7.5 | 0.4 | 2.9 |

The Sixth Five-Year Plan (2001 - 2005) advocates an ambitious investment programme in order to achieve its main objective of ensuring stable per capita income as well as its other economic and social goals. The plan strives to encourage domestic savings and also attract foreign savings for the opportune implementation of its investment programme.

The available estimates of savings and investments show an increase in actual national savings volume during the first year of the plan compared to envisaged levels. The 49.6% increase is considered to be substantial pushing the savings volume to R.O. 1857.2 million, mainly due to improvement in oil prices. Domestic investment grew by 6.1% in the first year of the plan to R.O. 967.2 million.

On the balance of payment side, the available data indicate improvement in the performance of the national economy during the first year of the plan. Actual current account surplus increased considerably from the estimated R.O. 65 million to R.O. 890 million.

The Sixth Five-Year Plan (2001 -2005) seeks to keep inflation at its current low levels with a view to maintaining sustainable economic stability. The Plan targeted an average annual inflation rate of not more than 0.5% during its entire term. One of the most striking favourable developments in the performance of the economy during the past two years, was the control of inflation and pushing it down to negative growth of 1% in 2001 and 0.7% in 2002, mainly due to the prudent economic, fiscal and monetary policies followed by the government.

The available data indicate that the consumer's price index number (CPI) in Muscat recorded a negative growth of 1% and declined to 97.8 points, as the CPI for various categories registered a decrease in prices except the educational services, which showed 1.1% increase in its index. Transport and communications services, which rank third among the goods and services constituting the index basket with a relative weight of 19.767%, contributed 59.3% of the decrease in the consumer price index number, as their index fell from 95.2 points in 2000 to 92.2 points in 2001, mainly due to the reductions introduced during this year in charges of services provided by Omantel. The category of foodstuff, beverages and tobacco, which comes second in the basket with a relative weight of 26.453%, contributed 10.9% to the drop in the consumer price index number as its respective index fell from 101.4 points in 2000 to 100.8 points in 2001.

During the second year of the plan, the CPI for Muscat continued to decline to 97.1 points, a shrinkage of 0.7%. The price indices of all categories of goods and services also declined except those of personal goods and other services, which registered an increase of 2.8% to reach 93.1 points. The price index of textiles, ready-made clothes and shoes slightly increased to 98.8 points in 2002 from 98.6 points in 2001. Thus, the most important categories of goods and services that contributed to the decrease in the consumer price index number includes, foodstuff, beverages, tobacco and transport and communication services as well as house rents, electricity, water and fuels, with relative contributions of 41.5%, 33.9% and 16% respectively to the decrease in the price index.

**Economic Diversification:**

Your Excellence the President
Your Excellencies

The Sixth Five-year Plan attaches great importance to economic diversification, being considered as the axis around which Oman Economic Vision rotates in the pursuit of sustainable economic development. On this basis, the plan primarily concentrates on heightening the growth rates of activities relevant to economic diversification and increasing their contributions to gross domestic product. The plan also focuses on development of natural gas based industries, tourism and non-oil exports through expansion of its volume enhancement of its quality, and improvement of its structures.

In the first year, the plan performed well with respect to economic diversification. The data in the following table (12) indicate that non-oil actual GDP grew in 2001 by 11.6% to R.O. 4553 million against a projected growth of 9.7%. It is pleasantly positive that the outstanding performance of non-oil activities in the first year of the plan was decidedly attributed to the strong growth in the industrial activities on which the economic diversification strategy is based. As a result of the impressive recovery of LNG industry, these activities grew substantially by 37.5% against a projected growth rate of 22.2%.

## Table (12)
## Development of the Indicators of Gross Domestic Product of Economic Diversification Sectors in Year 2001 at Current Prices

(O.R.Million)

| ITEM | Actual | 2001 | | | |
|---|---|---|---|---|---|
| | 2000 | Planned | Actual | Rate of change Compared with Planned (%) | Actual Rate of Growth (%) |
| 1. Commodity Production Sectors | | | | | |
| - Agriculture & Fisheries | 149.4 | 153.4 | 154.6 | 0.8 | 3.5 |
| - Industrial Activities | 655.4 | 789.5 | 901.1 | 14.1 | 37.5 |
| Minning & Quarrying | 18.2 | 19.0 | 17.8 | -6.3 | -2.2 |
| Manufacturing of which | 414.7 | 506.5 | 640.3 | 26.4 | 54.4 |
| Manufacturing of Basic Chemical | 130.7 | 206.0 | 331.7 | 61.0 | 153.8 |
| (Liquified Natural Gas) | | | | | |
| - Elecricity & Water Supply | 77.7 | 76.6 | 79.7 | 4.0 | 2.6 |
| - Building & Construction | 144.8 | 187.3 | 163.3 | -12.8 | 12.8 |
| Sub total (1) | 804.8 | 942.9 | 1055.7 | 12.0 | 31.2 |
| 2. Services Production Sectors | | | | | |
| -Government Services (Public Administration & Defence only) | 715.9 | 835.0 | 757.7 | -9.3 | 5.8 |
| -Other Services of which | 2558.8 | 2683.9 | 2739.6 | 2.1 | 7.1 |
| Hotels & Restaurants Activities (Tourism Sectors) | 54.0 | 55.9 | 56.2 | 0.5 | 4.1 |
| Sub total (2) | 3274.7 | 3518.9 | 3497.3 | -0.6 | 6.8 |
| Total Non-Petroeum Activities | 4079.4 | 4461.8 | 4553.0 | 2.0 | 11.6 |

During the first year of the plan discernible achievements were made in the area of development of natural gas based industries. LNG actual GDP increased to R.O 331.7 million at a growth rate of 153.8% against the envisaged growth rate of 57.6%.

The Sixth Five-Year Plan attaches particular importance to the tourism sector as one of the pillars of comprehensive economic development. The plan attempted to provide the basic infrastructure for this sector and encouraged investment in its activities in order to spur its growth. The statistics show 4% growth in the tourism sector (only hotels & restaurants) during the first year of the plan. Its actual GDP was slightly higher than envisaged by 0.5%. However, the sector could have performed better, had it not been for the 11th of September, which coincided with the tourism season in the Sultanate. Other indicators of the sector show positive developments as its capacities expanded significantly. The number of hotels rose in 2001 by 15% to 115, and the number of rooms rose by 7.9% to 5729. In 2002, the number of hotels increased by 9.6% to 126, while the number of rooms increased by 6.3% to 6089 as compared to 2001.

Exports also performed well in 2001. The exports of non-oil commodities of Omani origin grew by 67.9% to R.O. 717 million, against a projected growth of 26.8%. In addition, the structure of these exports improved considerably as the relative contribution of manufacturing commodities to total proceeds of this category of exports  increased significantly because of the high growth rates achieved by LNG exports (152%) and other manufacturing commodities exports (10.2%). Meanwhile, the growth rate of animal and plant exports did not exceed 1.6%. On the other hand, returns from re-exports grew by 15.8% compared to envisaged growth rate of 7.4%. The positive developments in re-export business are attributed to the remarkable improvements in ports services, particularly the services of Salalah port.

In order to boost small and medium businesses, the self-employment scheme, household businesses programme, incubators project Sanad programme were launched, in addition to encouragement of women involvement in private business. It was also agreed with Oman Development Bank to concentrate efforts on financing small farmers, fishermen and craftsmen. Oman Development Bank extended 12 soft loans to finance purchase of fishing boats at a cost of R.O. 0.8 million to support the Youth Project.

The development and growth of petrochemical industries, which represent the basic activities of economic diversification, depend to a large degree on the availability of sufficient reserves of natural gas. The government, therefore, strives to increase the proven reserves of natural gas and works towards its optimum exploitation. The parties concerned have made great efforts to follow up the outcomes of the exploration operations with a view of determining the most promising reserves. Serious technical strides were also taken to convert expected reserves to proven reserves. Remarkable improvements were also made in the marketing techniques of concessions. Consequently, the reserves of non-associated natural gas increased by 11.3% to reach 29.6 trillion cubic feet in 2001 compared to a targeted growth of 1.9%. The proven reserves of non-associated natural gas increased by 18% to reach 22.4 trillion cubic feet as against a projected negative growth of 0.5%. In addition, sufficient quantities have been allocated to each project of the plan that depends on natural gas.

Concerted efforts were also made to attract foreign capital to invest in natural gas based industries. The government approved a package of incentives to attract foreign investment in natural gas based projects. These incentives include, among others, reduced price of natural gas inputs, provision of state-of-the-art port services, and exemption from income tax for five years subject to renewal in addition to reduced charges for services provided by industrial estates, which include public utilities and building facilities.

Those efforts have borne fruits, as several projects will soon be executed following the agreement reached between the government and foreign financing agencies. The most important of which are:

- The Third Train for Oman LNG
- Sohar International for Manufacturing of Urea and Chemicals
- Organic Fertilizers Factory in Sur
- Methanol Gas Project in Sohar and the Polypropylene Project in Sohar
- Sohar Refinery

With the purpose of providing the necessary infrastructure for the development of these industries, the government gas factory at Jibal has been expanded, a gas pipeline extended from Fahud to Sohar and from Seih Role to Salalah and pressure reduction stations set up in Barka and Salalah. In addition, work is now already underway in Sohar Port and its Industrial Estate as planning work has already commenced for the execution of the cooling water intake and outfall station.

**Strengthening the Private Sector:**

Your Excellency the President
Your Excellencies

The Sixth Five-Year Plan (2001 - 2005) adopts a number of objectives to ensure the successful delivery of the development strategy that is based on the activity of the private sector. To this end, the plan supports the premises of increasing the contribution of the private sector to the gross domestic product. The plan also attaches special importance to privatization and invigoration of its programmes, encouragement of private savings, and domestic and foreign investment as well as provision of employment opportunities for national labour and upgrading of their skills.

Actual growth rates of non-oil sectors dominated by the private sector in 2001 show little improvement in its performance during the first year of the plan as they registered slight increase to 6.2% against the envisaged rates of 6.1%. The improvement is mainly attributed to the recovery of the construction and trade sectors.

As the encouragement of domestic and foreign investment is an ongoing effort that is essentially needs to be flexible and agile to adapt to changing local, regional and global conditions, the government regularly review the investment environment and accordingly take necessary action to make it more conducive to business enterprise. In this context the government made several provisions in the Sixth Five-Year Plan to improve the investment environment including reform of the legal framework, issuance of new rules and executive regulations to govern various aspects of investment and economic activities. These shall cover areas such as taxes, concessions and incentives as well as simplifications of procedures

and initiation of the electronic government.
The government in cooperation with other GCC States sought to improve investment environment and encourage cross borders trade. Against this backdrop, the Custom Union of the GCC was launched at the beginning of this year. Now, the GCC States form single custom zone allowing free movement of goods. It has been agreed between the GCC countries to impose a unified custom tariff of 5%. A uniformed custom law was also promulgated which took effect from early 2002. This law is now in force in the Sultanate of Oman.

The GCC let no advantage slip on establishment of this Custom Union, is as much as it supports the earnings of free-zone areas and removes impediments to exchange of goods and services. It also harmonizes the investment policies and incentives thereby evenly and efficiently distribute and naturalize investments.

The establishment of the Custom Union also acts as a prerequisite for setting up the Gulf Common Market and for free movement of capital and labour. It has been decided to put the finishing touches to the Common Market by latest 2007.

With the advent of the current year, the Greater Arab Free Trade Zone of the Arab league states entered its sixth year, and expected to be completed by 2005. It is hoped that this zone would play a key role in improving the investment settings in Arab countries and in providing the support services that would allow the Arab investors to maximize gains from the economies of scale in an expanded regional market. The Sultanate had also entered into several bilateral agreements to encourage and protect investments and prevent double taxation.

**Privatisation**:

Your Excellency the President
Your Excellencies

Privatization has become part and parcel of the Sultanate's economic policy as stipulated in Royal Decree No. 42/96 issued on 8 June 1996. The government, through privatization, intends to reduce its role in the goods and services sector and handover the reins to the private sector. The government is keen on enhancing and reforming laws and modus operandi of privatization drawing on the experience gained from the Fifth Five-Year Plan and the admission of the Sultanate to the World Trade Organization (WTO) in 2002. A study is currently being undertaken to constitute a code for organizing privatization activities and encouraging domestic and foreign investment in line with the Sultanate's obligations towards the WTO.

**Objectives of Privatization:**

The main objectives of the privatization policy are:

- Involvement of the private sector in the development of the national economy.
- Upgrade efficiency of resource application.
- Reduce the financial and administrative burden on the government.
- Invigorate market forces and competition.
- Generate budgetary savings and diversify sources of income.
- Create new employment opportunities and improve the structure of the Omani human resources.
- Attract foreign investment and create a competitive investment environment in the Sultanate.
- Benefit from the transfer of knowledge, technology and management experience.
- Stimulate private ownership and investment to encourage entrepreneur's spirit in the Omani community.

**Methods of Privatization:**

Privatization in the Sultanate is carried out via various methods with special consideration given to the diversity of Oman's economy, social context and the idiosyncratic nature of each project. The major privatization projects in the Sultanate are:

**Firstly: Projects already privatized:**

Manah Power Project:

In 1996 the Manah power project was commissioned as the first privatization project of power generation in the Sultanate. The project was implemented on the model of build - own - operate and transfer (BOOT). In 1999 another 190 mw were added to the existing station taking up the generation capacity to 280 mw. The Manah project company was awarded a twenty-year concession.

Salalah Power System:

The successful implementation of Manah power project gave great impetus to privatization of similar activities in electricity generation and distribution sector. On 12 /3/2001, concession agreements were executed paving the way for the private sector to invest in Salalah power system in the Governorate of Dhofar. The project involves construction of 240 mw gas station, development, operation and maintenance of the existing gas station as well as transmission lines. The project is expected to commence commercial operations in March 2003.

Kamil Power Project:

The contract of Kamil power project privatization was signed between the government and Kamil Power Company on 17/7/2001. The project will be implemented on the model of build - own and operate (BOO). It involves building, operating and owning a 270-mw gas-based power station. The project is anticipated to start commercial operations in 2003.

Barka Desalination and Power Plant Project:

Contract of phase one of this project was concluded on 26/11/2000. It involves building, operating and owning (BOO) a natural gas- based water desalination and power generation plant in Barka with production capacity of 20 million gallons of desalinated water per day and 427 mw generated electricity. The terms and conditions of the contract stipulate that the company offer 35% of its capital share for public subscription after four years from the formation of the company, and employ Omanis in all managerial and technical levels. The project shall commence commercial operations in April 2003.

Seeb and Salalah Airports:

The management of Seeb international airport and Salalah airport was privatized to gain from international experience in airport management, upgrade efficiency and competitiveness and setting up of a new passengers hall at Seeb airport in accordance to the latest international standards. The project contract was signed on 17/10/2001 and it was awarded to a group of investors including foreign investors (40%), Omani investors (35%), Oman Aviation Services Company (5%) and the government retained (20%).

**Secondly: Projects under Privatization:**

Preparation of a strategy for the divestiture of existing public assets in the electricity and water sector:

In view of the magnitude and the significance of the electricity and water sector in the privatization process, the Ministry of National Economy, in collaboration with the Ministry of Housing, Electricity and Water, prepared a strategy for the privatization of this sector. The strategy is geared towards the restructuring of the electricity and water sector via the splitting of its major operations represented in generation, transmission and distribution. Under certain conditions these operations could be amalgamated. The strategy lays down an effective and autonomous regulatory regime. The strategy was ratified by the Council of Ministers on 21/12/1999.

The salient features of the electricity and water sector restructuring strategy are:

1.The separation of generation, transmission and distribution activities.

2. The separation of electricity generation from water desalination, and to start with the privatization of generation (Rusayl, Ghubra and Wadi Jizzi) through the:
   - Establishment of three companies for distribution and supplies to be privatized in phases.
   - Establishment of a company for power transmission and control to be privatized in phases.
   - Establishment of a power and water procurer , to be wholly state - owned for a period of time, the concerns of the establishment will include preparation of power and water demand projections, planning of volumes of supplied required, provision of power by producers and contracting with the producers of power and water.
   - Establishment of state -owned company for generation, transmission and distribution of power to those areas not connected to the national power network.
   - Establishment of a state - owned holding company to be concerned with the management of the whole companies stated above.

3. Establishment of an independent body to regulate the water & electricity sector to be supported by propitious legal framework to govern and organize relationships between various parties concerned.
4. Urge on the drafting a law for the electricity sector, which is forthcoming soon.

**Water Sector:**

An international consultancy firm is currently being commissioned in coordination with the Ministry of Housing, Electricity and Water and the Ministry of Regional Municipalities, Environment and Water Resources, to prepare a strategy for the management of the Sultanate's water sector. The strategy shall act as a precursor of researching the appropriate mechanisms for securing the necessary investments to enhance and manage this sector in a competent manner that will ensure the continuity and quality of water supplies.

**Oman Telecommunication Company (Omantel):**

The Royal Decree No. 46/99 issued on 18 July 1999, converted the General Telecommunication Organization to a government owned Omani closed company under the name of Oman Telecommunication Company (Omantel), as a transitional step towards the involvement of the private sector and expansion of its participation in the privatization of public enterprise. The legal framework for the communication sector was completed and the government is currently evaluating the alternative routes for privatizing Omantel in the future.

**Thirdly: Projects under study for possible privatization:**

- Privatization of Postal Services: A study is currently being conducted in cooperation with the Ministry of Transport and Communication to restructure and enhance postal services.

- Management of Massrat water basin and Sharqya Sands water basin: The constitution committee for these two projects was formed to take the action required for the establishment of two companies to manage and commercialize each of the projects in preparation for their privatization.

- Salalah Sewage System: A government company operating on commercial basis was established (Salalah Sewage Services Company). The project will be prepared for possible privatization in the future.

- Muscat Sewage System: The Ministry commissioned in cooperation with Muscat Municipality prominent consultancy firms to prepare technical and economic feasibility studies for this project. A government company operating on commercial basis was established to implement this project, which will be privatized at a later stage.

- Solid Residues Project: The Ministry of Regional Municipalities, Environment and Water Resources in coordination with the Ministry of

National Economy are studying proposals submitted by international companies for investment in these projects in the Sultanate.

- Hazardous Residues: The government is preparing plans to manage hazardous residues in all parts of the Sultanate by the private sector. The Ministry of Municipalities, Environment and Water Resources in cooperation with the Ministry of National Economy are overseeing a study to establish the technical and commercial feasibility of the project. A consultant to the national project for the management of hazardous residues has been appointed.

Muscat Securities Market (MSM) failed to respond symmetrically to replicate the improvement in the national economy in 2001. The general index fell in 2001 by 49.1 points or 24.4% to close at 152.1 points. However, MSM picked up well in the second year of the plan due to the continued improvement in the performance of the national economy and to the measures taken by the government to revive the market. Consequently, MSM general index grew by 26.2% and 39.78 point over the end of 2001 and closed at 191.86 points.
Regarding the monetary policy, the authorities concerned continue to strictly comply with approved monetary policies, which mainly focus on maintaining the exchange rate of the Omani Rial and controlling consumer expenditure. In addition, the new banking law came into force to further boost the financial sector. Two committees, the economic stability committee and the domestic and foreign debt management committee, were formed to enhance coordination between monetary and fiscal policies.

**Human Resources Development:**

Your Excellency the President
Your Excellencies

Based on the belief that man is the target and goal of economic development, the human resources development was given due weight in the Sixth Five-Year Plan in harmony with Oman Economic Vision 2020.

The main objectives of the plan targeted a number of aspects of human resources development. Key objectives targeted in the plan are, to give top priority to enhance the absorptive capacity of higher education institutions thus increasing opportunities for secondary school graduated to be enrolled in those institutions, enhancement and spread of basic education, creation of suitable employment opportunities for nationals by way of setting up economically viable, labour intensive and productive projects and accordance of due attention to culture and heritage as two of the pillars of integrated economic and social development. The plan also aims at supporting programmes that intend to increase the participation and effectiveness of youth, a pillar of the community. It calls for adoption of clear-cut population policies in line with the goal of sustainable economic development.

In addition to these key objectives, the plan targets other ancillary areas such as expansion and development of health services, accordance of due care to the physically challenged, people with special needs, beneficiaries of social security and upgrading research and development skills.
On that account, human resources development sectors receive top priority in government appropriations. Total government expenditure on these sectors amounted to R.O. 2730 million during the Fifth Five-Year Development Plan with a relative share of 48.3%. In the first year of the Sixth Five-Year Development Plan (2001), total government expenditure on these sectors amounted to R.O. 688 million which is 48.4% of total expenditure on civil ministries.

The Sixth Five-Year Plan gives high priority to the creation of suitable employment opportunities for Omani citizens. The plan strive to achieve this goal by educating and qualifying nationals, and also by way of increasing Omanization rate in the private sector, checking disguised unemployment and upgrading productivity in the government apparatus. In addition, the plan aims at setting up a number of economically viable, labour-intensive productive projects.

In order to achieve these goals, most policies and measures adopted for the development of this sector were put in motion right from the inception of the plan. With the purpose of intensifying the engagement of both public and private sectors in providing training and employment for nationals, 17 sectoral joint committees, on various economic activities, were constituted (from the public and private sectors and Oman Chamber of Commerce and Industry). Each one of these committees conducted a study on respective labour structure, and drew up appropriate training and Omanization plan including requirements and a timetable for its implementation. The committees also studied work relationships and wage/salary scales in their respective fields. On the plan's side in the development and reform of labour legislations, the civil society circles reviewed the new labour law and the Council of Minister ratified and forwarded it to the Ministry of Legal Affairs for drafting a Royal Decree for its promulgation.

In this context, the Ministry of Manpower set up several programmes to support the process of Omanization in the private sector, for instance the private sector/government partnership programme for training of Omanis, the training programme for providing a productive employment opportunity and the self-employment programme. An executive framework was also composed for cooperation and coordination between Ministry of Manpower recruitment departments and private offices dealing in recruitment of nationals. A comprehensive database is being compiled as a manpower register has been initiated and would be directly linked to recruitment in compliance with the Royal Decree issued in this connection. The Public Authority for Social Insurance started to take necessary actions for inclusion of those who work as freelances, tradesmen and tradeswomen under the social insurance umbrella.

To protect the interests of nationals employed by privatized sectors, the parties concerned coordinated efforts to lay down regulations that would ensure protection of their rights and jobs.

During the first year of the plan, concerted efforts were exerted to expedite Omanization in the private sector and to implement the recommendations made by the national manpower employment symposium which, include encouragement of individual initiatives and provision of loans to small businesses by Sanad programme.

The education and training sectors occupy prominent place in the plan in view of their vital role in expanding the national workforce presence in the labour market, upgrading their skills and improving their standards of living and quality of life. Government bodies met their obligations towards this sector and provided it with all necessary resources as set out in the plan. As a result, educational and training services at various levels expanded substantially in terms of quality and quantity. The drop out and repetition rate decreased remarkably, the quality of the education outcomes improved tangibly and the contribution of the private sector in provision of educational services increased solidly.
The most important objective of the health sector in the Sixth Five-Year Plan (2001 - 2005) is to adopt a clear-cut population policy in line with the directions of sustainable economic development and improvement of the health conditions of Omani citizens.

The government devised policies, procedures and arrangements to attain these goals and the concerned government agencies have provided the necessary funds for their achievement. As regards the population a policy, a draft document entitled (Demographic Challenges and Visions for a population Policy in the Sultanate of Oman) has been prepared, and would be discussed by the National Committee for population Policies in preparation for its ratification.

**The Research and Development Sector:**

Your Excellency the President
Your Excellencies

The world has witnessed during the Twentieth Century unprecedented advances in the fields of science, technology, communication and information technology that contributed to exceptional developments in physical and applied science, paving the way for more inventions and innovations in all aspects of life.
In the light of the rapid advances in science and technology, knowledge has become a crucial factor of production, and production of knowledge has become a crucial activity in all societies. This relationship is even

more important in high value added productive activities that are based on knowledge density and experience accumulation for the betterment of performance and productive adequacy.

The emergence of the knowledge era led to a shift in economics paradigm of developed countries to (knowledge Based Economy). This has created a big gap in technologies and skills between developed and developing economies.

The Sultanate has since the dawn of its blessed renaissance, realized the importance of research and development in driving economic, social development and improving quality of life. Oman Economic Vision 2020 attached significant weight to the research and development sector as a pillar of sustainable economic development. Research and development sector represents a pivotal component of economic diversification strategies of the Economic Vision. The high value added, the export oriented diversification and technology transfer and naturalization strategies all depend on this sector. The Economic Vision, therefore, focuses on concentrating efforts to advance research and development sector and support it by increasing its appropriations. This focus was clearly reflected in His Majesty's speech in the 29th National Day in which he emphasized the importance of relying upon research and development to advance the Omani society.

The Sixth Five-Year Plan accords great attention to research and development in full cognizance of its importance in making the economic diversification strategy a success and in making the sustainability of economic development possible. The plan aims at promoting the research and development through the building of national skills in relevant areas. The plan also attempts to evolve a flexible and effective regulatory regime to organize the sector, fund its activities from public and private sources and promote coordination and cooperation with regional and international centers of research and development.

In the context of the importance attached to this sector by the government, the National Committee for Information Technology was formed in 1999, mainly to formulate an appropriate strategy for the development of information technology sector. The Committee had drawn and approved a national strategy for the advancement of information and communication technology, introduction of electronic government and shift to knowledge based economy. The main goal of the strategy is to link most parts of the Sultanate by an electronic network, promote E Commerce and provide government services electronically E. Government. The strategy also provides for the training of human resources in information and communication technology. It calls for opening up official and unofficial communication channels between government establishments, academic institutions and private companies whose core business is in the domain of information and communication technology. The strategy outlines the policies that should be followed to develop the industry of information and communication technology and encourage its export to other countries. Oman Telecommunications Company was established in 1991, as part of these efforts and to ensure further development of the communication sector, in addition, the communication law was issued in March 2002.

Coordination is currently underway with the Committee and the Central Bank of Oman for introducing a system of electronic remittance and payments in implementation of this strategy. There is also coordination between the Committee and Omantel to expand and improve the infrastructure of the sector. In addition to that, work is under way in a number of projects for the development of the sector as set out in the comprehensive plan incorporated in the strategy.

During 2001, huge strides were taken to build up a skilled national cadre in the area of research and development. In this respect, the technical team of information technology is undertaking the responsibility of training nationals in the field of information technology through various programmes in coordination with the Ministry of Higher Education and foreign institutions. Within this context, some 50 students from the secondary school graduates were sent abroad in 2002 to study information technology in countries advanced in this discipline such as Malaysia, Singapore and Australia. Another group of 47 trainees, mostly from the graduates of industrial technical colleges, were also sent on scholarship to India for the same purpose. Furthermore, some of the big technology companies are also devising a proposal for the training of Omani citizens in the sphere of information technology. Sultan Qaboos University is also contributing to the advancement of research and development. It has recently introduced new programmes such as architecture, water engineering and in addition to the existing Masters programmes in various disciplines, it intends to introduce Ph.D. programmes.

With regard to the funding of research and development activities, allocations for this sector had increased, considering that R.O. 1.75 million has been allotted to research activities in Sultan Qaboos University from the University budget and the benevolent donation from His Majesty as well as from research contracts. This is in addition to the traditional sources of funding these activities such as the funds given regularly by PDO for scientific research.

For the purpose of technology transfer and naturalization, a complex of information technology (Oman Knowledge Oasis) was constructed in 2002 at Rusayl Industrial Estate under the sponsorship of the Public Establishment for Industrial Estates. The complex consists of a section for information technology, the Middle East College for Information Technology and a shopping centre of technology hardware and software. The complex is designed to meet the requirements of the private sector for system programmes and solutions, as well as the government. It also offers training for national manpower in the area of information technology and communication.

As regards the coordination and cooperation with regional and international research centers, Sultan Qaboos University cooperates in a variety of research areas with centers in Japan, and with the UNESCO in areas of water desalination, solar energy, oil and gas.

Your Excellency the President
Your Excellencies

I would like to conclude by thanking for listening to me with interest. I would also like to reiterate that your disposition and suggestions will be given due consideration. The Plan is not a mere set of rigid policies and estimates; on the contrary it is a flexible plan of course of action that respond and adapt to changes in circumstances. Let me also seize this opportunity to commend the efforts exerted by their Excellencies members of the esteemed Majlis in creating public awareness of the achievements and objectives of economic development and stimulating development work at the level of Willayats to bring about a balanced regional development emanating from the actual needs of each Willayat.

We pray to God to grant us success in our endeavors to best serve our beloved country Oman under the wise leadership of His Majesty Sultan Qaboos bin Said.