

# BTI 2008 | Oman Country Report

<b>Status Index</b>	1-10	<b>5.30</b>	# 75 of 125
Democracy	1-10	3.63	# 105 of 125
Market Economy	1-10	6.96	# 30 of 125
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scale: 1 (lowest) to 10 (highest)    score    rank

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Please cite as follows: Bertelsmann Stiftung, *BTI 2008 – Oman Country Report*. Gütersloh: Bertelsmann Stiftung, 2007.

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## Key Indicators

Population	mn.	2.6	HDI	0.81	GDP p.c. <sup>3</sup>	\$	13.881
Pop. growth <sup>1</sup>	% p.a.	1.3	HDI rank of 177	56	Gini Index		-
Life expectancy	years	75	UN Education Index	0.77	Poverty <sup>4</sup>	%	-
Urban population	%	71.5	Gender equality <sup>2</sup>	-	Aid per capita	\$	-2.0

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Data for 2004. (4) Percentage of population living on less than \$2 a day.

## Executive Summary

Oman has continued along a path of steady, careful and gradual development and modernization under Sultan Qaboos, who took over power from his father in 1970. Elected by universal suffrage in 2003, Oman's representative body, the Majlis al-Shura has been active during the period under review, creating specialized committees and calling in several ministers for questioning and live debate on television. Preparations are under way for elections in October 2007 and the government has proposed introducing an electronic voting system to increase and expand voter participation. Despite all of this, efforts to encourage greater public participation and interest in the election to the Majlis al-Shura in 2007 have been largely unsuccessful, primarily because the Majlis has no real legislative power. In a bid to improve efficiency and good governance, four female ministers were appointed in 2004 and there have been a number of high-level changes since then made in the government. However, the government announced no major initiative or policy during the period under observation. Increasing oil prices have continued to feed growth, which reached unprecedented levels during this period. The government reported a record nominal GDP growth of 21.7% between 2005 and 2006. Job creation for Omani citizens (the so-called "Omanization" process) remains a significant challenge as many young people are unemployed. In March 2005, Oman signed a free trade agreement with the United States, which was expected to positively affect further economic reforms, transparency and the well-being of the Omani economy in general. In 2006, Oman decided to opt out of the planned Gulf Cooperation Council (GCC) monetary union aimed for 2010. Years of careful economic planning and progressive liberalization have continued to pay off. Oman's seventh five-year plan, which began in January 2006, highlights recurrent goals of finding alternate sources of revenue to replace the dwindling oil reserves. By the end of 2006, some political reforms had been introduced, though the fact remains that the country is still ruled by the sultan who enjoys absolute power in governance. In contrast, ongoing economic reforms show more success.

## History and Characteristics of Transformation

On 23 July 1970, Oman's present ruler, Sultan Qaboos, ousted his unpopular father Said bin Taimur from power, marking a turning point in Oman's modern history. Sultan Qaboos has ruled since then. The vision articulated by the new sultan for his people and his country promised change, development and popular participation. One of the sultan's first measures was to abolish many of his father's harsh restrictions on various personal freedoms, which had prompted thousands of Omanis to either rebel or leave the country, and to offer amnesty to opponents of the previous regime, many of whom took this opportunity to return to Oman.

Confronted with an insurgency in a country plagued by endemic poverty and illiteracy, Sultan Qaboos expanded and re-equipped the armed forces and security apparatus, carefully integrated the country into the international system, embarked on political and economic reforms, and launched major development programs. He also sought international support for his policies, and promised an extensive modernization program. Finally, Sultan Qaboos established a modern government structure, and in an effort to break with the past, declared a new flag and name for the country, changing it from "The Sultanate of Muscat and Oman" to simply "The Sultanate of Oman."

As noted above, Oman is a hereditary monarchy headed by Sultan Qaboos, who rules through royal decrees. The fact that Sultan Qaboos has no apparent heir has raised many questions regarding succession and Oman's stability. Since his accession to power, he has endeavored to reflect the country's diverse tribal, regional, and ethnic interests by creating a balance of these groups in the membership of the council of ministers, which is directly appointed by the sultan and functions as a cabinet headed by the sultan. The monarch is both the chief of state (the sultan), and head of government, (the prime minister), as well as the minister of defense, finance and foreign affairs. In 1981, the sultan created the State Consultative Council (SCC), a fully appointed body that has a purely informal role. Such reforms exhibit his professed commitment to gradualism in reform. On 6 November 1996, Sultan Qaboos issued a royal decree promulgating the basic law, which is considered to be a constitution that, among other things, clarifies the royal succession, provides for a prime minister, bars ministers from holding interests in public companies or doing business with the government, establishes a bicameral legislature, and guarantees basic civil liberties for Omani citizens. The Basic law provides for a bicameral Majlis, the latter of which consists of an upper chamber, the Majlis al-Dawla (58 seats; members appointed by the sultan), which has advisory powers only, and a lower chamber, the Oman Consultative Council (OCC or Majlis al-Shura), which replaced the SCC in 1991. The Majlis al-Shura is a member of the Arab Inter-Parliamentary Union (AIPU) and it has some limited power to propose legislation. In 2004, the Majlis' membership increased to 83

members (including two women) elected by universal suffrage for four-year terms (extended from three years by a royal decree in October 2003), which may be renewed once. The government has urged the public to complete registration formalities by the end of April 2007 so they can vote in the Majlis al-Shura sixth-term elections to be held later in 2007.

Oman is a middle-income economy by Middle Eastern standards. As with other Gulf nations, oil is the mainstay of the economy, providing a large proportion of GDP and state revenue. Compared to its neighbors, however, Oman is a modest producer with fast-disappearing oil reserves, a fact which poses a major challenge to the state's ability to meet its developmental needs. As such, the government has prioritized the development and diversification of the country's natural resources like oil and gas, promoting agriculture and fishing as well as tourism and industry. Oman has been a pioneer in the region in terms of privatization and encouraging the private sector to play a role in the country's development. There is no serious domestic political dissent in Oman, reforms have come mainly from above. The country's main challenge is balancing its increasing demographic needs with its economic resources.

## Transformation Status

### I. Democracy

Political reform in Oman aims to help the sultan achieve popular input and participatory advice as well as to provide checks and balances to the executive. The name given to the elected body, Majlis al-Shura, encapsulates this function, as the Arabic word “Shura” means consultation and advice. Because he does not aim to establish a full-fledged democratic system, however, Sultan Qaboos’ reforms focus on good governance, rule of law, accountability, transparency, pluralism and participation with no provision for ultimate contestation of executive power.

#### 1 | Stateness

There is virtually no competition with the state’s monopoly on the use of force. The country’s security forces have complete control over the entire state territory and there are no areas in which any opposition groups or other militia infringe on that control. Given the history of irredentist insurgency and revolt, the government policy has aimed to achieve national unity and control. It has succeeded in this insofar as there are no challenges to its legitimacy and authority.

Monopoly on the use of force

In the 1970s, oppositional forces were integrated, and the rebels offered amnesty and given roles within the state bureaucracy. Omanis have generally given their full support to the state and its authority, although there remains among civil society a latent call for traditional religious leadership, the hallmark of Ibadhi tradition in Oman. There are no major opposition groups or dissent. Nationality is regulated by the law. It may not be forfeited or withdrawn except within the limits of the law. The basic law ensures that all citizens have the same civic rights under the law and the nation-state is widely accepted as legitimate.

State identity

Islam is the predominant religion among Omanis and is the religion of the state. Shari’ah law forms the basis of legislation. Although the dominant cultural group in Oman is Arab and Ibadhi/Sunni Muslim, Omani culture has been very tolerant of other groups. There are rarely any ethnic, sectarian, or linguistic conflicts in Oman, although there are tribal disputes.

No interference of religious dogmas

Oman has a basic functioning administrative system, and public security and order are well-maintained, though the large size of the state bureaucracy and lack of technical skills among bureaucrats limit the effectiveness of this system somewhat.

Basic  
administration

## 2 | Political Participation

As noted above, Oman is an absolute hereditary monarchy directly ruled by the sultan, as the head of state, and his appointed government. However, the sultan has allowed a steady and incremental increase of public participation in decision-making through the Majlis al-Shura, which acts as parliament. In 2003, the sultan granted universal suffrage to all male and female adults (over the age of 21), who, however are first required to register as voters with the electoral registry. Within limits, the elections are considered free, fair and transparent, and the government supports this policy in an effort to confer greater legitimacy on the people's representative body. The Majlis president is appointed by royal decree, while the two vice presidents are elected from among the Majlis' members. The Majlis is responsible to the sultan and the council of ministers. Its 83 seats are distributed among the 59 provinces. Provinces with a population of less than 30,000 have one representative, while those with populations over 30,000 have two representatives. The contesting candidates from each province compete on their own merits as political parties, platforms or election manifestos are outlawed. Because the general public has no formal knowledge of the candidates or their programs, candidates from larger tribes tend to gain more votes.

Free and fair  
elections

Since his accession to power in 1970 and following the defeat of the rebellions in the early 1970s, the hereditary sultan has continued to rule with very little challenge. Although there have been, at least, two minor attempts (in 1994 and 2000) by Islamist groups to organize opposition, the sultan, who is not elected, enjoys an effective and almost uncontested absolute power to govern.

Effective power  
to govern

The basic law provides for only a circumscribed freedom of assembly "within the limits of the law." In practice, the government restricts this already circumscribed freedom. With rare exceptions, such as demonstrations by teachers protesting the lack of promotions and expatriate workers protesting non-payment of back wages, prior government approval is a must for all public gatherings. The basic law provides for freedom of association "for legitimate objectives and in a proper manner." However, it mainly provides for the formation of associations providing services to women, children, the disabled and the elderly. There are also a number of trade and professional associations. Some of the government-approved associations and registered charities receive limited government funding or in-kind support, while others are self-funded. Associations whose activities are deemed to be "inimical to the social order" are prohibited by law. The

Association /  
assembly rights

government uses licensing to control the political environment, such that the Ministry of Social Development must approve the establishment of all organizations and their by-laws. The formal registration of associations of expatriates is limited to a maximum of one association per nationality. As part of the bilateral negotiations with the United States for a free trade agreement (FTA), the government of Oman made several commitments to the United States to enact additional labor law reforms by October, 2006, and thus had to amend its labor laws. Among these reforms was the royal decree of 9 July 2006 that changed the terms of reference for workers' organizations to "unions" (formerly "representative committee") and "federations" (formerly "main representative committees"). Following these changes, the Ministry of Manpower in article 18 of the ministerial decision no. 294/2006 gave workers the right to conduct collective bargaining and peaceful strikes at their places of employment in the event of disagreement over working conditions. It also raised penalties for child labor violations, including fines and imprisonment. Nonetheless, associational rights are underdeveloped.

Although the basic law provides for freedom of speech and freedom of the press, there are still some restrictions of these rights in practice. Despite limitations, the authorities have grown increasingly tolerant of criticism of government officials and agencies, though more so on the Internet than in the media. Criticism of the sultan in any form or medium is prohibited and journalists and writers generally exercise self-censorship to avoid government harassment. The press and publication law authorizes the government to censor all domestic and imported publications and the Ministry of Information may take legal action against any material regarded as politically, culturally, or sexually offensive. Editorials are generally consistent with the government's views, although the authorities tolerate some criticism regarding foreign policy issues. The government tends to discourage in-depth reporting on controversial domestic issues and seeks to influence privately-owned dailies and periodicals by subsidizing their operating costs. There are five daily newspapers, three in Arabic and two in English, as well as 32 magazines published in the Sultanate. The government itself owns four local radio stations and two local television stations, both of which generally do not air any politically controversial material. During the period under observation, state television was allowed to publicly broadcast question and answer sessions between ministers and the Majlis al-Shura. The government has passed a law to allow the establishment of privately-owned radio and television companies; however, none have been established yet. The availability of satellite dishes has made foreign broadcast information accessible to those with the sufficient financial resources.

Freedom of  
expression

### 3 | Rule of Law

There is no effective system of checks and balances, as there is no clear separation of powers between the executive, the legislature and the judiciary. However, the executive tries to exercise its powers in a legitimate fashion, as reflected by provisions such as article 9 of the basic law, which states that “[r]ule in the Sultanate shall be based on justice, Shura consultation and equality. Citizens shall have the right to take part in public affairs - in accordance with this basic law and the conditions and circumstances defined in the Law.” Moreover, article 59 states that “the sovereignty of the law is the basis of governance in the State. Rights and freedoms are guaranteed by the dignity of the judiciary and the probity and impartiality of the judges.”

Separation of powers

The legal system in Oman is based primarily on the Shari’ah traditions of the Ibadhi school of Islam. Since 1996, royal decrees have tried to codify the body of laws implicit in this tradition and bring the judiciary into line with the basic law. The basic law provides for an independent judiciary. While articles 60 and 61 of the 1996 basic law guarantee the independence of the judiciary, it is strongly influenced by the executive branch. Judicial matters are administered by the Ministry of Legal Affairs, which was established in 1994. The sultan makes all judicial appointments and presides over the Supreme Judicial Council which, in turn, is charged with overseeing the judiciary and formulating judicial policy.

Independent judiciary

As the country has developed, tolerance for misuse or abuse of office has lessened. During the period under review, several high-ranking government officials were investigated, fired, prosecuted and some served jail sentences for abuses of office. The government has repeatedly made it clear that malpractice and abuse of powers by officials are punishable by law and will not be tolerated. Corruption is also vigorously fought, and several people including acting and former government officials, businessmen, and high-ranking officers were investigated and prosecuted during the period under review.

Prosecution of office abuse

While civil liberties and personal freedoms are theoretically protected by law, in practice the country cannot be considered free as both civil liberties and personal freedoms are regularly ignored by the sultan and his regime.

Civil rights

### 4 | Stability of Democratic Institutions

Generally speaking, the executive branch in Oman, similar to many countries in the region, is more or less free to manage the country with very limited democratic input. Although the Majlis al-Shura’s powers have increased, it still remains limited to providing consultation and advice in a very limited number of

Performance of democratic institutions

areas. It is not empowered to critically address important issues such as national security, foreign relations or the political system. The matters it is allowed address include economic and social issues, investment promotion and administrative reform. But even in these areas, the Majlis cannot initiate legislation; it is limited to commenting on and proposing amendments to laws submitted for its consideration by the sultan's cabinet. The sultan, assisted by other bodies like the bicameral Majlis and the security apparatus, keeps a check on the functioning of ministries. In particular, ministries catering to public services receive more scrutiny from the sultan and the security apparatus than others. The Majlis al-Shura, too, has greater powers in this regard and can scrutinize ministers and question them. In contrast, the public has limited access to such information through the media, but does keep the executive under a certain degree of unofficial scrutiny via the Internet. The justice system is generally capable of performing relatively independently of government intervention, except in security-related cases or other sensitive areas. It seems that most of the political stakeholders agree on the need for good governance, although not necessarily through democratic institutions.

There is wide public support for the Majlis al-Shura and the expansion of its role and power. The sultan and the executive also support the Majlis as it confers more legitimacy upon the government, in addition to providing input, consultation and advice.

Commitment to democratic institutions

## 5 | Political and Social Integration

Political parties and politically-motivated societies and associations are not allowed in the country. Societal interests are articulated and channeled informally through friendships, patronage, family and tribal clans, and connections with government dignitaries and public figures. Formally, these interests are expressed by way of the elected Majlis al-Shura members from the relevant constituency, through the local sheikh and tribal representatives, the chambers of commerce, and the local wali (district governor) and even directly to the sultan himself, especially through his annual "meet the people" tour through the country.

Party system

Omani society is best described as a traditionally tribal or post-tribal society. Civil society in Oman, although it has retained some tribal features, is also highly fragmented, especially at the organizational level. There is no culture of cooperative associations or interest groups to mediate between society and the political system. Oman's structuring as a rentier welfare state has not produced conditions conducive to organized societal demands and pressures. Rather, established family kinship and tribal networks continue to function alongside some nascent civil society organizations, like the chambers of commerce, women and other welfare societies and some newly-approved trade and professional

Interest groups

associations. These formal and informal channels tend to mediate between society and the political system.

Because democratic trends, as well as the Majlis, are new features in Oman, there is no public opinion poll to assess the popularity of the current system. However, it is widely believed that the idea of greater political participation is welcomed by the citizens, yet there appears to be a general feeling of apathy among the public that the process of democratization is slow and that the Majlis al-Shura is less powerful than many had hoped. There are doubts that the current electoral system will bring capable and experienced people to the Majlis. Given these considerations, it is not surprising that the voter registration and turnout in the 2004 election were rather low.

Consent to democratic norms

Despite the polarization of society, the general political culture of an authoritarian and patriarchal leader still dominates thinking and there is a general acceptance among the population that the government is omnipotent. The public is generally despondent about and reluctant to organize itself in any politically meaningful manner.

Associational activities

## II. Market Economy

Oman is a middle-income economy by Middle Eastern standards and is one of the few developing countries that has succeeded in realizing a considerable level of economic growth in a short period of time. Government spending continues to be the driving force in the Omani economy, and it is directly linked to declining oil revenues. Bolstering the market economy remains the main focus of the government's "Vision 2020" strategy, which is based on free market principles of competition, free markets and price mechanisms. Given the country's relatively limited natural resource endowment, the state encourages and supports private sector enterprises to stimulate trade and investment activities through various policies and incentives. According to the Heritage Foundation Index of Economic Freedom for 2007, Oman's economy is 63.9% free, which makes it the world's 54th freest economy. It is ranked fourth in economic freedom among the 17 countries in the Middle East/North Africa region, and its overall score is higher than the regional average. The Fraser Institute rated Oman as the overall top performer among all Arab nations in economic freedom.

## 6 | Level of Socioeconomic Development

There is a declared and deliberate government policy to widen the scope of socioeconomic development, especially in remote areas, that is partially in an attempt to win the allegiance of those living in border towns and remote villages. Although in practice not always successful in doing so, the government tends to compensate and favor these remote regions by awarding senior public positions and by directing both public and private investments there. Although poverty is rare, Omanis are generally not rich in comparison with other states in the region. Oman ranks 50th worldwide in the Human Poverty Index and has been successful in empowering women, who generally have the same opportunities as men in public and private jobs. Oman ranked 60th in the Gender Development Index (GDI) with a value of 0.759. That said, however, women tend to be awarded fewer places than men at Sultan Qaboos University and receive fewer scholarships to study abroad. This can be attributed to the widely-held belief that women tend not to join the labor force after graduation anyway, rather than discriminatory policies against women. The country generally follows a deliberate policy of inclusiveness regarding all segments of the population and there is no apparent exclusion on the basis of factors like social class, income, gender, education, religion and ethnicity.

Socioeconomic  
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	20,310	21,593	24,284	-
Growth of GDP	%	1.8	1.3	3.1	-
Inflation (CPI)	%	-0.7	-0.4	0.4	<b>1.2</b>
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	0.5	2.3	0.8	-
Export growth	%	-3.1	4.7	14.1	-
Import growth	%	4.5	11.5	27.4	-
Current account balance	\$ mn.	1941.2	1483.2	569.1	<b>4716.8</b>
Public debt	\$ mn.	2,048.7	1,558.1	1,207.0	<b>842.4</b>
External debt	\$ mn.	4,708.3	3,963.3	3,869.9	<b>3,472.5</b>
External debt service	% of GNI	8.9	6.2	4.3	-

		2002	2003	2004	2005
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	23.1	23.5	22.8	-
Public expnd. on edu.	% of GDP	4.3	3.9	4.1	<b>3.6</b>
Public expnd. on health	% of GDP	2.7	2.7	2.4	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	12.2	12.1	12.0	<b>11.9</b>

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

## 7 | Organization of the Market and Competition

The foundations of a free and competitive market economy are by and large assured. Oman, in fact, has a good track record of maintaining a liberal and open trade policy. Over time, the government has incrementally introduced laws to ensure a free and fair market, and it has changed and amended earlier rules that seemed to interfere with market based-competition, especially in the process of its entry into the WTO and the signing of the free trade agreement with the United States. There are normally no price controls, subsidies or restrictions on free trade and market competition. Similarly, laws have been initiated to encourage and facilitate foreign investment, and to offer incentives for both private and foreign investors. However, despite its status as a regional leader in privatization, there are a number of wholly or partially owned state enterprises that continue to exist in Oman. Moreover, some family-owned enterprises managed to create a monopolist position before the agency law of November 1996 was passed.

Market-based competition

Anti-cartel and anti-monopoly legislation is not well-developed. On preparing for entry into the WTO, the sultan introduced Royal Decree No.38/\_2000, which promulgated the law of trademarks, indications and secrets and protection from unfair competition.

Anti-monopoly policy

Oman's economy is generally liberalized and free of state intervention. Foreign trade has been liberalized and extensively deregulated. After accession to the WTO in 2000, the government shifted further toward a free market system, encouraged foreign trade and investment, and introduced industrial regulations and labor laws. The agreement on the Gulf Cooperation Council (GCC) and custom union in 2003, the move towards a GCC common market and the signing

Liberalization of foreign trade

of the FTA with the United States in 2004 suggest that there development in this area will continue.

The Omani financial sector has been considerably strengthened and transformed in recent years, producing a modern financial system. Likewise, financial services have been liberalized within the framework of the WTO. The financial sector in Oman is supervised by the Central Bank of Oman (CBO), which was established in 1974 to act as the central bank and the depository agency for the government. Oman's banking law was amended in 2002. Oman has also made significant progress in implementing the new capital adequacy criteria laid down in the Basel-II Accord. The Muscat Securities Market (MSM) was established in 1989. Initially established as one body comprising both the exchange and the regulatory authority, the MSM was the first Gulf stock market to establish a separate regulatory body, named the Capital Market Authority (CMA) in 1988. In January 1999, the new capital market law came into effect, which enabled the CMA to oversee both the MSM, where all listed shares are traded, as well as the Muscat Depository and Registration of Securities Company (MDRSC).

Banking system

## 8 | Currency and Price Stability

The riyal has been pegged to the U.S. dollar since 1986. In practice, this means that domestic interest rates have been following those in the United States. Although key interest rates increased in 2006 in line with U.S. rates, commercial rates have been slow to follow, in part because of the high levels of domestic liquidity. Moreover, Oman's external accounts and foreign exchange asset levels are sufficiently robust to ensure that no liquidity pressures will emerge to threaten the central bank's ability to defend the peg. Oman has historically had extremely low inflation, averaging -0.2% in the ten years to 2005. However, inflation began to pick up in late 2005, partly because of the weakness of the U.S. dollar (and, by extension, the Omani riyal) against the currencies of Oman's main import suppliers (particularly the EU and the United Arab Emirates). As a result, government figures show an increase of 3% on average consumer prices over the first half of 2006 compared to the previous year. The weakening of the dollar, particularly in 2005 and 2006, coupled with sustained growth in domestic demand, are likely to maintain upward pressure on consumer prices.

Anti-inflation /  
forex policy

Oman's macroeconomic performance remained strong during 2005 and 2006. Real GDP growth was over 6% in 2006 due to high oil revenues, the effects of the new liquefied natural gas facility, and growth in the non-oil sector. Fiscal policy has been prudent throughout the period of investigation, resulting in budgetary surpluses. The government has devoted budgetary surpluses to accumulating foreign assets and to lowering debt. The reserves are invested in the State General Reserve Fund (SGRF), which acts both as a stabilization fund as

Macrostability

well as a means of saving excess oil export revenues for future generations. However, Oman's macroeconomic stability continues to be hostage to the country's over-reliance on oil revenues, the fluctuation of the value of oil prices and that of the dollar.

## 9 | Private Property

Property rights and private property ownerships are well-defined and article 11 of the basic law states that private property is protected and no-one shall be prevented from disposing of his property within the limits of the law. Nor shall anyone's property be expropriated or confiscated, unless done so in compliance with the law and upon the condition that the person whose property is expropriated receives just compensation. In government distribution of land, women seem to be discriminated against. Non-citizens gained the right to own real estate in February 2006, albeit only in designated tourism area projects.

Property rights

There is a deliberate government policy to encourage private sector growth. Private companies are viewed by the government as the primary engines of economic growth and the government has been a regional leader in privatization of its state-owned enterprises. There are, however, still a number of oligopolies where the state is an investor.

Private  
enterprise

## 10 | Welfare Regime

As a welfare state, Oman provides its citizens with extensive social services. The Human Development Index indices have increased with respect to income, education and health, life expectancy, and education for both men and women. The Ministry of Social Affairs and Development keeps a record of the poor and needy eligible for government help and assistance. Although it is not sufficient, government assistance for the poor helps to reduce poverty at least to some degree. Children from poor families get assistance with their university education and have easier access to public jobs. Pensions and social insurance have been widened to include both the public and private sector employees. The foreign workforce is not included in the welfare schemes. Unemployment benefits and state-sponsored insurance schemes do not exist.

Social safety nets

There is no apparent discrimination between people in terms of gender, tribal, ethnic groups or social class in Oman. There are generally no restrictions for either Omani males or females in education, jobs or any other public services apart from certain specific cases, including entry into the Sultan Qaboos University (SQU) and land distribution from the government where men seemed to be favored. In addition, it is noteworthy to mention that Islamic law dictates

Equal opportunity

women's personal status. In spite of these two examples, women in Oman have achieved much success in both public and private spheres and there is a deliberate government policy for gender equality and empowerment of women.

## 11 | Economic Performance

The Omani economy maintained its upward momentum in 2005, registering an increase of 24% in its nominal GDP and reaching OMR 11.8 billion in 2005, up from 13.7% in 2004. Data for the first eight months of 2006 indicate robust revenue growth, outpacing relatively strong increases in expenditure. Data from the Ministry of National Economy have shown that the Omani economy grew by 25% in nominal terms in the first quarter of 2006. Oil and natural gas sectors combined constituted 79.8% of industrial activity in the country, and revenues constituted 49% of the country's GDP in 2005. During the same period, the non-oil sector experienced sustained growth. Overall, the economy's robust performance is a reflection of the government's sound macroeconomic policies aimed at creating an increasingly market-friendly economic environment. It is also due, in large part, to the government's focus on developing the non-oil sector, economic diversification, privatization of state-owned assets and structural reforms over the past few years. It is clear that these efforts have begun to yield tangible results. The originally projected deficit for the 2006 budget of OMR 650 million is expected to be reduced as a result of higher-than-expected oil revenues. The government was very cautious when it calculated with an estimated oil price of \$23 per barrel and thus planned for a budget deficit of approximately OMR 540 million in 2005. Given actual oil prices, the year ended with a budget surplus of OMR 303 million. The 2006 budget had been calculated on the basis of a per-barrel price of \$32, while the actual average price was over \$50 during 2005. Based on this assumption, the government expects a deficit of OMR 650 million which, in turn, is to be financed by net borrowings of OMR 120 million from domestic and external markets and OMR 530 million from the State General Reserve Fund. Recent years have witnessed a substantial increase in Oman's gross capital formation, which increased by 36% and 34% respectively in 2005 and 2006. The seventh five-year development plan (2006 – 2010) seeks to increase the investment rate in the country from 16% to about 24%, with the aim of using domestic savings to increase capital formation in the country.

Output strength

## 12 | Sustainability

Oman faces environmental challenges common to many Middle Eastern countries, that is, water scarcity, a shortage of freshwater resources and periodic droughts. Marine and coastal pollution are of particular concern because Oman borders the Strait of Hormuz and is thus vulnerable to oil spills and subsequent

Environmental  
policy

damages to marine resources and beaches. Saline intrusion of aquifers is common in the north-western Batinah coastal region due to irrigation-intensive agriculture. Overgrazing and desertification are becoming a growing problem in the south. In principle, Oman is dedicated to the protection of the environment and the sultan has demonstrated a personal commitment to both environmental protection and preservation of rare and endangered species. The Ministry of Regional Municipalities, Environment and Water Resources (MRMEWR) is the primary body responsible for environmental regulation and enforcement. The country has a sound record of environmental law enforcement, including tough penalties such as fines and imprisonment. Oman hosts the Middle East Desalination Research Centre (MEDRC), which aims to conduct, facilitate, promote, coordinate and support basic and applied research in water desalination technology. In 2004, the Environmental Society of Oman (ESO) became the first officially registered environmental NGO in Oman, which is dedicated to environmental research and protection.

The Sultanate of Oman places great importance on education and over 26% of government spending goes to education. Education and training in Oman have developed at a correspondingly impressive rate since the accession of Sultan Qaboos in 1970. By 2006, there were over 1,000 schools in Oman, 90% of which are government-run (the remainder being private), providing education at primary, preparatory and secondary levels. The education system is guided by the policy-making body of the Council for Higher Education, with the Ministries of Education and Higher Education in charge of implementing the policy. Training is entrusted to the Ministry of Labor. The first Long-Term Development Strategy (implemented during 1970 – 1995) emphasized the development of Omani human resources. This resulted in expanded education services, as well as a tangible increase in enrolment rates at various levels of education, and greater equality of education opportunities for males and females. The Oman 2020 plan strongly stresses the need to build a system that will bring about equal opportunity in education. A number of policies and strategies were formulated with the aim of upgrading the level of education by improving basic education, establishing a university, and improving technical and vocational training. There are a growing number of private as well as public education and training institutes in Oman. The government helps with funding and subsidizes all privately-owned colleges, universities and training centers. While the quality of education and training output has improved over the years, there is still a gap between education and training on the one hand and market needs on the other. Research institutes (and proper research funding) are still nonexistent, though the country has started to address this deficiency by creating a council for academic research.

Education policy  
/ R&D

## Transformation Management

### I. Level of Difficulty

Structural constraints on governance are limited. The scope of the royal family is limited and it does not seem to have a great deal of power over the sultan himself or on the government. As the government includes only a few royal family members, the sultan and his government have sufficient room for maneuver. Social and ethnic heterogeneity, as well as regional differences, provide the government with sufficient scope internally as the different societal groups try to win government approval and support for their region(s) and their claims to senior public positions. A previous lack of human resources was overcome by the return of many Omanis, who came back to participate in their country's development under the new sultan, as well as by a growing expatriate workforce.

Structural  
constraints

There is a very limited tradition of civil society in Oman. Moreover, the government's experience with rebellion and its fear that social or public associations could polarize the society or galvanize public opinion has prompted it to ban any sort of civil society organizations and associations. The government went even further in its attempts to dilute the traditional tribal structures by socially engineering them and creating smaller units within the tribe. More recently, the government has relaxed its stance on civil society organizations but continues to control them by issuing licenses only to those deemed apolitical.

Civil society  
traditions

Although Omani society is split along social, ethnic and regional lines, the country's national image and identity tend to transcend these splits. The lack of a dominant group or dominant tribe has enforced this sense of national identity. This state of affairs, coupled with the state power and its even-handed policy in creating equal opportunities to all citizens regardless of their background, has mitigated any cleavages within Omani society and thus any potential societal conflict.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

In principle, the sultan is aware of the need to increase political participation and has on occasion made some cautious reforms to address this need. Given his relatively undisputed position, there is agreement on the country's long-term plan for economic development. Developing and upgrading Omani human resources so as to better cope with technological progress and international competitors is a key priority. This goal is followed by the objective of developing a private sector capable of using human and natural resources effectively and in an environmentally sound manner. This goes hand-in-hand with the objectives of utilizing the value of Oman's geo-strategic location, optimizing the use of its natural resources, promoting economic diversification, and distributing the fruits of development equally among all regions and all citizens.

Prioritization

Thus far, the government has been quite successful in setting, maintaining and even achieving some of its long-term development objectives, particularly in economic reforms and economic liberalization. The success of economic reforms have prompted the government to initiate some measured and gradual political reforms, though this has not changed the fact that power remains heavily concentrated in the hands of Sultan Qaboos. Some senior members of the government have remained in office for a very long time, inevitably creating sluggishness and a certain degree of political malaise. This stagnation, together with the absence of an active prime minister (as the sultan formally also acts as prime minister), the government is frequently unable to set and maintain strategic priorities in a coherent manner. In fact, on occasion, ministers work against each other, and unless the sultan himself has an interest in the matter, initiatives may be stalled. As the political leadership must serve the sultan and ensure his satisfaction to guarantee their continued presence in the cabinet, these objectives are prioritized against all others.

Implementation

Given the rather delicate situation of Omani politics and the country's limited economic endowment, the government is very cautious about mistakes and failures. This explains the relatively slow and gradual nature of political development. The leadership responds quickly to mistakes and takes corrective actions and has displayed a tremendous ability to learn. Yet, due to the incompetence of some ministers and mutual jealousies, the government as a collective has shown few signs of learning from past mistakes.

Policy learning

## 15 | Resource Efficiency

While the government has been relatively successful in making efficient use of its available economic resources, the use of human resources has shown mixed results. Undoubtedly, since the 1970s, the government of Oman has adopted a wider definition of human resource development as it considers the strengthening of human resources to be the ultimate goal of the national development process. The government has tried to achieve economic equilibrium and sustainable growth, diversification of income sources as well as private sector development in order to realize its human resources objectives. However, success has been limited as many young people remain unemployed. For historical and tradition-related reasons, women's participation in the formal economic and social sectors, although gradually increasing, is still modest. However women's participation in the informal sector, such as handicrafts and traditional industries, is relatively significant.

Efficient use of assets

Government objectives and priorities are generally clear, and during the period under review, there appears to be some coherence in government policy. However, intra-government frictions, organizational competitions and personal jealousies, cleavages and differences occasionally get in the way of this. The sultan's central role and his strategy of limited cabinet reshuffling promotes continuity and allows the government to plan ahead. Coherence in policy formulation and strong cooperation among all concerned parties are strongest when the sultan expresses particular interest in a given objective.

Policy coordination

Oman is ranked 39th in Transparency International's 2006 CPI with a score of 5.4, in contrast to the previous year in which it scored 6.3 and placed 28th, ahead of all other Arab countries. Several known cases of corruption have been dealt with in courts, yet, there are no special anti-corruption agencies or organizations within the country. Instead, corruption falls under the aegis of a number of security services like the Royal Oman Police, the Internal Security Services and the Ministry of Palace Office. In the past thirty years, Qaboos has changed or amended many relevant laws and in 2002 he issued Royal Decree No. 34 (i.e., the money laundering law) which established the National Committee for Combating Money Laundering under the chairmanship of the Under Secretary of the Ministry of National Economy for Economic Affairs. Strict rules have been stipulated and any person convicted of money laundering is to be jailed for three to ten years. Bankers who do not comply with the law are also subject to jail sentences. During the period under review, a number of senior government officials were sentenced and jailed for corruption charges.

Anti-corruption policy

## 16 | Consensus-Building

Able to balance interests and build national consensus, which in turn generated support for transformation throughout society, the sultan can be said to have consolidated a sense of national unity by 2006. In principle, all major political and social actors agree on a stable and steady move towards political participation and a market-based economy. Yet, reform has always come from above. It is noteworthy that some Islamist groups demanding more democracy were arrested in the 1980s and 1990s, and also in 2004 and 2005, though they stopped short of demanding regime change. Aside from these cases, the religious establishment and tribal leaders generally fall in line with the government policy of gradual reform.

Consensus on goals

Although authoritarian not subject to popular election, the political leadership demonstrates a degree of flexibility and willingness to respond to public demands, and a willingness to take corrective action, if needed. Apart from traditional and religious establishments, which call for reforms in accordance with the cultural values of society, there are no anti-reform veto actors to speak of. In 2005, however, an anti-reform Ibadhi sect Islamist group was arrested, publicly tried, convicted and sentenced, but quickly pardoned by the sultan – in the same year. The government has been largely successful in co-opting and using societal forces to enhance its reform plans.

Anti-democratic veto actors

There are no major cleavages and the government facilitates national unity with cabinet members coming from different regions and from diverse ethnic groups. The Sultanate of Oman is divided administratively into four governorates, Muscat, Dhofar, Musandam and Burami, and five regions, al-Batinah, al-Dhahirah, al-Dakhliyah, al-Sharqiyah and al-Wusta. These governorates and regions consist of 59 Wilayas (administrative regions). The country is fully integrated and there is no feeling of societal separation, political fragmentation or structural conflicts.

Cleavage / conflict management

The government itself does not encourage civil society organizations and associations but gives license to those deemed apolitical, and in some cases the government even supports them financially and morally.

Civil society participation

Although there was no large-scale injustice in Oman that would require major reconciliation efforts, the government has tried to both assign more seats in the government and direct more development to certain areas that were affected by past insurgency.

Reconciliation

## 17 | International Cooperation

Sultan Qaboos' government has made great efforts to fully integrate the country into the international community. Since 1970, Oman has pursued a moderate foreign policy and expanded its diplomatic relations dramatically. In 1971, Oman filed applications to join the League of Arab Nations and the United Nations, both of which were successful. In addition, it has developed close ties with its neighbors, having joined the six-member Gulf Cooperation Council (GCC) upon its establishment in 1980. Furthermore, Oman was one of the 14 founding members of the Indian Ocean Rim Association in 1997. Although Oman does not receive much international aid and assistance, it actively strives to expand its international links and generally represents a positive contributor to regional and international cooperation. The country could do more to get international aid for some specific projects but is afraid of external interference. Nonetheless, the government works closely with international organizations such as the World Bank, the International Monetary Fund, the UN and other Arab regional developmental and financial institutions.

Effective use of support

Given its history and geo-strategic considerations, Oman acts as a reliable and a credible partner in its relations with the international community. Oman's foreign policy since 1970 is based on four tenets: 1.) the development and maintenance of good relations with its neighbors; 2.) an internationalist outlook; 3.) a pragmatic approach to bilateral relations, emphasizing underlying geo-strategic realities, rather than temporary ideological positions; 4.) security through cooperation, rather than through conflict.

Credibility

Oman's political leadership is rather astute when it comes to foreign relations. The country works closely with neighboring states, particularly with the GCC member states.

Regional cooperation

## Strategic Outlook

In recent years, the country has undergone economic reform and some degree of political reform. In view of stability considerations and the gradual approach displayed thus far by the government, there are a number of strategic policy considerations the regime is likely to take into account. The government will likely continue pursuing its reform agenda, though the nature thereof and the speed of reform will remain gradual. While educational reform needs to feature high on the reform agenda, the country will continue developing its own “democratization” model with the Majlis al-Shura gradually being given more authority. The latter should imply that it will obtain greater competencies with respect to proposing initiatives and recommending legislation.