Country Profile on Employment and Decent Work

Oman

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## Contents

1. Introduction ......................................................... 3  
2. Population trends and Demographic analysis .................. 3  
3. Labor Force Participation ......................................... 6  
4. Employment and Unemployment .................................. 7  
5. Education and its impact on the labor market .................. 9  
6. Informal employment ............................................ 10  
7. Child labor ....................................................... 10  
8. Output growth and productivity ................................... 11  
9. Labor productivity ................................................ 13  
10. Employment and sector transformation ....................... 14  
11. Public Sector employment ....................................... 15  
12. Social insurance and safety nets ................................ 16  
13. Expected jobs required by 2030 ............................... 16  
14. Main policy challenges ......................................... 17
Tables
Table 1. Dependency ratio 1970 -2016 ................................................................. 5
Table 2. Economic Dependency Rate – 1991 -2016 .............................................. 5
Table 3. Employment and output share per economic sector (2014) ...................... 14

Figures
Figure 1. Oman demographic indicators 1967 -2015 ........................................... 4
Figure 2. Pyramid of ages 1970, 2000, 2016 .......................................................... 4
Figure 3. Labor force participation rates: total and youth, 1991-2016 ....................... 6
Figure 4. Labor market indicators, total .................................................................. 7
Figure 5. Labor market indicators by sex (%) ......................................................... 8
Figure 6. Labor market indicators 15 to 24 years by sex (%) ................................... 9
Figure 7. Output growth 2000-2015 .................................................................... 11
1. Introduction

Sustainable Development Goal 8 aims to promote inclusive and sustainable economic growth, full and productive employment, and decent work for all. Several targets underlie these aims: sustained economic growth (8.1), high levels of economic productivity (8.2), promotion of productive activities (8.3), full productive employment and decent work for all (8.5), reduced number of youth not in employment, education or training (8.6), the eradication of forced labor, human trafficking and the worst forms of child labor (8.7). The purpose of this country profile is to provide a general overview of the labor market and productivity in Oman and provide policy guidance to achieve the goals set by the 2030 Agenda for Sustainable Development. This country profile presents recent labor market trends and productivity. Topics such as population growth, labor force participation, employment, unemployment, informality, child labor are addressed. These issues are analyzed in light of recent economic growth, sector transformation and productivity changes for the sultanate. This profile primarily uses statistics and definitions from the World Bank and the International Labor Organization. However, in cases where specific disaggregation were not available from international sources, national statistics data were used. This profile and other country profiles are expected to be a first step in triggering a policy debate on how to achieve decent employment in the Arab region and to form an informative basis for future research.

2. Population trends and Demographic analysis

In the 1970s, high oil prices enable the Sultanate of Oman to introduce a modernization program that was translated into better wellbeing indicators. In the early 1970’s the Human Development Index (HDI) was equal to 0.39 corresponding to a low human development score. This figure doubled in 40 years achieving a score of 0.796 in 2015, and placing the country in the high human development group, thanks to the significant increase in per-capita income. In 2015, Oman had a life expectancy of 77 years old, the expected years of schooling and the mean years of schooling are respectively, 13.7 and 8.1 years, while the gross national income (GNI) was equal to US$34,402. Compared to other Arab countries, Oman experienced one of the highest average annual HDI growth between 2000 and 2010 (1.25%), only surpassed by Morocco (1.47%).

Compared to other countries, Oman is better ranked in terms of income per capita. The Sultanate is considered a high-income economy; however, it has similar demographic patterns characteristics compared to others countries in the region that belong to the lower-middle-income economies group such as Morocco, Tunisia, Egypt and Jordan. It is notable that Oman has conducted population census in 1993, 2003 and 2010. Before 1993, partial demographic and socioeconomic data were collected and population estimates during the inter-censal periods (1994-2002 and 2003-2010).
2009) were based on the last census available. However, some inconsistencies appeared between the previous estimations and the post 1993 census\(^6\).

Up until the 1990s, fertility rate was above seven births per woman, however, it reached below three births in 2005 and was equal to 2.74 in 2015. This trend was observed in the evolution of birth rates that went below twenty births per 1,000 individuals in 2015, less than half if we compare it to 1970 (48 per 1000 individual). This figure converged in line with other countries such as the trends observed in Morocco (20.3\(\%\)) and in Tunisia (18.6\(\%\)) and is below the rate in Egypt (27.2\(\%\)), also considered below the middle-income countries’ average (29.1\(\%\)).

![Figure 1. Oman demographic indicators 1967 -2015](image)

The age pyramid in 1970 shows a very broad base as a consequence of high fertility rates (Figure 2). The share of individuals between 0 to 9 years old, represented almost one third of the total population. The situation did not change drastically in the early 2000s. For example, in 2000, the base of the pyramid is still broad, with the same age group (below 9 years old) representing one quarter of the total population, however, the older cohorts became more numerous compared to previous decades. In 2016, the generations that were born in the 1970 and 1980 are now in their thirties and forties years old (20\(\%\) of the total population), and exerts an increasing pressure on the labor market. Another salient fact is the higher share of men compared to women which represented, respectively, 65\(\%\) and 35\(\%\) in 2016, against 49\(\%\) and 51\(\%\), respectively in 1970. This change can be explained by migration flows and migration policies that conduce to more arrival of men than women. For example, in the 2010 census, 816,143 expatriates were counted, out of which more than 88\(\%\) were originally from the Indian subcontinent, which are predominantly men (4 men for every women for all Asian migrants and the ratio goes up to 10 men for every women in the case of Bangladeshi migrants). Besides, migration policies only allowed family reunification after a certain income level.

![Figure 2. Pyramid of ages 1970, 2000, 2016](image)

\(^6\) For instance, the 2010 census estimated 816,143 expatriates against 1,162,000 according to intercensal yearly estimates. According to De Bel-Air (2015), three differences explain these inconsistencies: “the 2003 and 2010 censuses underestimated population numbers; intercensal estimates inflated the figures of Omanis, and mostly, of foreign residents; a sizeable number of the latter left Oman the years the censuses took place”.

Source: World Development Indicators
The dependency ratio (proportion of individuals between the age of 0-14 and over 65 year old to those between 15 to 64 years old) reflect the trends mentioned earlier. Up until the 1990s the dependency ratio for the total population was higher than 90%. This is explained by the high number of individuals below 14 years old. After 1990 a downward trend was observed, as a result of the combination of population aging and increased migration. In 2016, there were only 3 dependents per working age individual and the youth dependency ratio went down to 29% (Table 1).

### Table 1. Dependency ratio 1970–2016

<table>
<thead>
<tr>
<th>Years</th>
<th>Youth</th>
<th>Elderly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>92%</td>
<td>6%</td>
<td>98%</td>
</tr>
<tr>
<td>1980</td>
<td>86%</td>
<td>5%</td>
<td>92%</td>
</tr>
<tr>
<td>1990</td>
<td>86%</td>
<td>4%</td>
<td>91%</td>
</tr>
<tr>
<td>2000</td>
<td>61%</td>
<td>4%</td>
<td>65%</td>
</tr>
<tr>
<td>2010</td>
<td>36%</td>
<td>4%</td>
<td>40%</td>
</tr>
<tr>
<td>2016</td>
<td>29%</td>
<td>3%</td>
<td>32%</td>
</tr>
</tbody>
</table>

The Economic Dependency Rate (EDR) corresponds to the number of dependents (the unemployed, inactive individuals, young and the elderly) per employed person, was on average equal to 2.14 between 1991 and 2016. In that period, the employed population grew annually by 5.8%, 2pp more than the total number of dependents. The EDR is similar to the one observed in Tunisia and Morocco (2.2) but lower compared to Jordan, where there are more than 4 dependents per person employed. During the 1990s the EDR increased up to 2.55 and went down to 1.93 between 2000 and 2016, meaning that the number of economic dependents per employed worker was higher in the first period compared to the second one. In the second period, employed workers increased 6.9% compared to 3.1% in the 1990s (Table 2). The lower economic dependence observed is linked to the favorable economic growth during the last decade, which is translated into employment creation. As we will discuss later, high oil prices stimulated the economy and induced more development but not more inclusiveness.

### Table 2. Economic Dependency Rate – 1991–2016

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EDR</td>
<td>2.14</td>
<td>2.55</td>
<td>1.93</td>
</tr>
<tr>
<td>Unemployed, total</td>
<td>5.6%</td>
<td>4.1%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Inactive, total</td>
<td>3.4%</td>
<td>3.7%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Population ages 0-14</td>
<td>0.6%</td>
<td>0.1%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Population ages 65 and above</td>
<td>3.6%</td>
<td>3.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Employed workers</td>
<td>5.8%</td>
<td>3.1%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Dependents</td>
<td>2.3%</td>
<td>1.7%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

Source: World Development Indicators
3. Labor Force Participation

The labor force participation is the proportion of the working-age population that engages actively in the labor market: it corresponds to the ratio between the active population and the working-age population. An upward trend of labor force participation is observed since the 1990s. However, before 2010, the rate was below 60% for total population. After 2010, working age population has been increasingly entering the labor market, leading to a participation rate of almost 70% in 2016 (Figure 3). This rate is very high, compared to regional standards: Tunisia 47%, Saudi Arabia 54%, Jordan 40%, Palestine 43%, Morocco and Egypt (49%). In the particular case of Oman, the relatively high participation rate and the recent increase since 2007 can be explained by the share of expatriated unskilled workers. 7

Figure 3. Labor force participation rates: total and youth, 1991-2016

Women’s participation in the labor market was equal to 30% in 2016 compared to 85% in the case of men. However, in the former case there has been a more pronounced increase compared to men: 13pp since 1991 against 5pp. According to the 2010 census, 50% of working aged women were outside the labor market undertaking household work (70% in 1993), 20 % were full time student and 5% were unable or unwilling to work (Figure 3). The described trend is explained by a noticeable increase in education level, and to the positive change in cultural practices related to their entrance into the labor market. Despite the increasing participation of national women, a withdrawal from the labor market after the age of 29 years can be also observed. This phenomenon is attributed to the discouragement resulting from the long period of job search and also to responsibilities related to giving birth and maintaining the family as part of the Omani culture. The fact that women prefer to work in a female friendly environment, like the education sector, is another contributing factor. Moreover, public and private sector are concentrated in Muscat, so employment opportunities for

7 The labor force grew from 917 thousand to 2.25 million between 2007 and 2016. In that period of time the national labor force increased 68% while foreign labor grew by 176%.
women are limited in other Governorates. The work environment and the pattern and nature of available jobs are other challenges that Omani women face. In the Manpower survey of 2008, 26% of females searching for work expressed their un-wiliness to work in the private sector, compared to 10% of males. Men’s only justification was the low wages, while women’s justifications were low wages, unsuitability of employment in the private sector with the social status, field work away from residency, traditions and social norms and long working hours. In 2008, 47% of females looking for a job had attended short vocational training to improve their employment chances, compared to 30% males. However, given their insufficient effect on female employment, these courses requires improvement in order to provide self-promoting skills. Women’s participation rate could be higher through the replacement of expatriate workers in the positions that could be Omanized, pertinent employment procedure, and through the formulation of appropriate programs and policies directed to women. Equally, young individuals (15 to 24 years old) have lower participation rates compared to the rest of the population: 46% in 2016. Since 2010, youth participation grew in more than 6pp, 2pp lower than for the total population (Figure 3).

4. Employment and Unemployment

Unemployment, (defined as the share of active individuals that lack employment, looking for one and available to start working) has fluctuated around 15% and 20% between 1991 and 2016. If we look at the pre global recession era (between 2000 and 2008) the proportion of unemployed stabilized around 19%. However, starting 2009 unemployment went down progressively reaching 17.5% in 2016. This rate is among the highest in the region, only surpassed by Libya (19.2%) and Palestine (25%) and far from the level found in Morocco (9.9%), Egypt (12%) and Jordan (13%).

Labor force participation and employment to population ratio also experienced positive growth, reaching 69% and 57% in 2016, respectively. This shows that, even if unemployment level remains high, since 2008 the economy has been able to create more jobs in a context were more individuals participate in the labor market, but not enough to reduce unemployment significantly.

Figure 4. Labor market indicators, total

Source: World Development Indicators

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9 Employment to population ratio is the proportion of a country’s population that is employed.
The government has tried to reduce unemployment through the process called “Omanization” that started in 1988 consisting on the re-appropriation of jobs performed by expatriates to similarly qualified Omani, in order to accommodate the growing Omani skilled workforce10.

Women mainly work in the public administration, defense and social insurance sectors, education sector, wholesale, retail and vehicle repair activities, and social work sector11. Men are less affected by unemployment compared to women (14% against 36% in 2016). However, while men’s unemployment rate has remained fluctuating around 14% and 15% since the year 2000, women have benefited from a progressive decrease of 4pp in the same period12. In both genders, participation and employment has been increasing in recent years, but this trend has been more pronounced for women, whose employment rate went up from 13.8% to 19% between 2000 and 2016 and participation rate from 23% to 30%.

The average time searching for jobs are close for both sexes in 2008: 41 months for males and 43 months for females. However, women searching for work are better qualified than their male counterpart: around 91% of them hold General Diploma or higher, compared to 68% of males searching for a job. The better qualification of women compared to men is also observed among the Omanis who are already employed: 77.5% of women hold General Diploma or higher, against 58% of males13.

The articulation of the most famous reform strategies began is 1999, with the “Oman 2020: Vision for Oman’s Economy” which is a roadmap aiming at diversifying the national economy and moving away from the rentier system. Besides, the government has been more aggressive about directly targeting unemployment since 2011.

12 In the Arab countries, women’s unemployment rate varies between 16% and 17%, and between 9% and 10% for men. Nermeen Waheeb Gerges Tawadrous (2014) Education and Development in the Arab Region, Old Problems and New Challenges. The Case of Egypt and Oman.
Compared to the rest of the population, youth are more unemployed, and have lower employment and participation rates. Important differences are observed between young men and women: there is a 30pp gap in terms of participation rate, 27pp in the case of employment and a 40pp difference in unemployment. In particular, young men have experienced a sharp increase in terms of participation in the labor market, however unemployment had also an upward trend.

Other determinants behind the growing participation of youth in labor market are linked to microeconomic changes: the government has been encouraging Omani entrepreneurship, through the establishment of financial support (al-Rafd fund) and the provision of technical assistance for business development. Growing participation of youth in labor market is also explained by the creation of 50,000 government jobs, mainly in the security sector, also by Omanis’ quality of life improvement through the raise of the minimum wage in the public and private sectors, and through the establishment of stipends for students and of a second public university.14

5. Education and its impact on the labor market

Since 1970, Oman has placed great importance on primary and secondary education with over 15% of government civil expenditures are dedicated to education. By 2013, over 1,500 schools have been providing education at primary, preparatory and secondary levels and 69% were run by the government. However, the quality remains a challenge given low school-teachers’ qualifications. The Oman 2020 plan emphasizes the need for upgrading the level of education by improving basic education and technical and vocational training. In 2013, the country had only one public university and 27 higher education private institutions, all subsidized by the government. Over the last decade, numerous technical institutes have been created; however, there is a lack of practice-oriented vocational training. As a consequence, there is an important gap between youth’s skills and private sector needs. This gap lead to high unemployment among young Omanis, while at the same time the foreign technical labor force is growing.15

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Gas and oil, insurance, commercial banks, hotels, and communications are the main economic sectors in the Sultanate. If skills for these private sector industries are not well distributed among the Omani population, government’s efforts to promote the private sector will not be effective. There is currently a skills mismatch between the supply and the demand for labor. Indeed, the private sector needs in particular employees with technical abilities in information technology, engineering, and medicine that can be acquired at the tertiary education level. However, among the most popular degrees in the Sultanate are Humanities, and Religious Studies and Philosophy, that only few companies require such degrees as an academic background. The production of skills that are not in high demand may be caused by three main factors in the Sultanate: imperfect information in the education system, lack of access to the kind of education necessary in other jobs and individuals’ preferences. The government is taking some education-related initiatives in order to reduce youth unemployment, such as providing scholarships according the Ministry of Education’s analysis of the labor market needs. Scholarships are provided for both undergraduate and graduate degree programs, in or outside Oman, prioritizing women and also students in the following careers: languages and media, the sciences, engineering, business, and information technology. Besides, the government established an accreditation body in 2010, the Oman Academic Accreditation Authority, to evaluate the quality of the education and ensure that it meets international standards.

6. Informal employment

Informality refers on the one hand to productive units’ characteristics. According to the ILO, firms below 10 employees belong to the informal sector. This definition is based on low productivity rate, the lack of registration and the absence of bookkeeping, vulnerability and the absence of social benefits to employees. A second approach refers to employment characteristics. Those employees or independent workers not registered or without contributing records to social security are considered as being part of informal employment.

There no available statistics in English on the informal employment in Oman. However, some segments in which workers are more likely to be employed informally are handicrafts and traditional industries (mainly women), production and trading (with migrants mainly from Pakistan and India), expatriates in the commercial sector in retail businesses, as well as farms. Little information is available about in this regard.

7. Child labor

Child labor refers to those activities that damage children’s physical and mental development, that deprives them of their childhood, their potential and their dignity, and that interferes with their schooling. Every kind of children’s or adolescents’ participation in work is not regarded as child labor: helping their parents, assisting in a family business or earning pocket money outside school.

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17 Fanack (2009) Oman - Economy
hours. These activities provide them with skills and experience and that is why they can be considered as something positive.\(^\text{18}\)

In Oman, children are involved in family businesses and in informal occupations such as agriculture and fishing. The participation of 7 years old children is reported in competitive camel races, which is part of the Bedouin cultural heritage. It is difficult to know about child prostitution, pornography, and trafficking given the lack of data, but it is possible that trafficked children may be among the large number of migrant workers entering the Sultanate each year. The UN Committee on the Rights of the Child recommended the need to conduct in-depth studies on the possible commercial trafficking and sexual exploitation of children. In the Sultanate, the minimum age for admission to work is 15 years and 18 years for some hazardous occupations. No statistics are available regarding the proportion of Omani children estimated at work. Children working in family businesses are not subject to this minimum age provision and other child labor laws. Minors 15 to 18 years are only permitted to work between the hours of 6 a.m. and 6 p.m., 6 hours per day, and no more than 4 consecutive hours without a break, and may not work overtime or on rest days. The law also prohibits forced labor by children. The minimum age for voluntary military recruitment is 18 years. Inciting a minor into prostitution is punishable by 5 years of imprisonment and the production, possession or distribution of child pornographic material is punishable by up to 1 year of imprisonment. However, child pornography is not explicitly outlawed. Engaging a minor under 18 years in illicit activities linked with narcotic drugs or trafficking is punishable by the death penalty\(^\text{19}\).

### 8. Output growth and productivity

The Omani economy grew at an annual average of 3.13% over 2000-2009. After the economic downturn following the global financial crisis in 2009 and the political turmoil in 2011, the economy registered an increase of 9% of GDP, explained by high oil revenues, the production of the liquefied natural gas and growth in the non-oil sector. However, as a consequence of the fall of commodities’ prices in the eve of 2015 economic performance was affected given that oil and natural gas sectors represent 45% of the GDP and 86% of government revenues\(^\text{20}\).

![Figure 7. Output growth 2000-2015](image)

\(^{18}\) International Labor Organization (ND) What is child labor.


From figure 7, in 2013 the economy grew by 4.3% and went down to 2.5% in 2014. A short economic recovery was observed in 2015 with an annual growth of 5.6%. Different factors explain the recent slow-down: the decline of public spending affected private investment and consumption, besides, non-hydrocarbon GDP growth dropped from 7% in 2015 to 2% in 2016 and hydrocarbon GDP growth fell from 4.2% in 2015 to 2.4% in 2016. As a consequence fiscal deficit increased from 16.5% of GDP in 2015 to 20.3% in 2016, financed mainly by foreign borrowing and reserves. In the coming years as a result of the recovery of oil prices, the economy is expected to recover gradually reaching around 3%, which will encourage private sector investment.21

Depending on the institutional setting of a given country, the relation between economic growth and unemployment varies. However, a negative relation, known as the Okun’s law, that supposes an inverse relation between those two variables. Between 1991 and 2015, the relation is almost equal two zero, meaning economic growth did not translate into lower unemployment rates. While in the 1990 the coefficient was negative as expected, in the following decades the relation became positive which is counter intuitive indicating that growth is not inclusive. The disconnection is explained by the role played by the hydrocarbon economy that has low productive linkages with other economic sectors and its capital intensity compared to other sectors. In 2014, this sector represented almost 40% of total output, but only absorbed 2.6% of total employment.22

Table 3. Unemployment and output growth: 1991 – 2015

<table>
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<th></th>
</tr>
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<tbody>
<tr>
<td>Correlation</td>
<td>0.07</td>
<td>-0.61</td>
<td>0.58</td>
<td>0.18</td>
</tr>
</tbody>
</table>

Productivity growth has generally been unsatisfactory over the past 20 years in the GCC as a result of a growth model in which the non-oil sector has been the result of the availability of low-cost foreign labor and capital investment. Between 1990 and 2012, both capital and labor have been the drivers of non-oil sector growth, however, the total factor productivity (TFP), which measures the efficiency of capital and labor of the production function, has experienced a downward trend. In Oman, non-oil sector growth was equal to 5.8% in the 1990, the TFP contributed 1.8pp, capital 2.5pp and labor 1.6pp. The following decade the TFP had a negative contribution (-2.3pp), while capital and labor contributed equally by 4.8pp. The negative TFP growth can be explained by the low impact of investment, low technological use and innovation in production and low quality of public spending to facilitate production.

Omani nationals have a higher preference for public sector jobs as it provides higher wages than in the private sector that employs mostly low-skilled and cheaper foreign workers. In general, GCC non-oil private-sector growth has been allowed by fiscal spending, with national development plans focused on infrastructure development (construction, wholesale and retail trade, transportation).

22 Almukhtar S. Al-Abri (2017) Improved labor productivity is imperative for Oman’s economic diversification.
Besides, financial services and manufacturing (mainly petrochemicals) have also contributed to growth, with limited impact in high-skilled workers’ employment in Bahrain, Oman, Qatar, and Saudi Arabia. Employment of nationals has been supported by growth in government services and the hydrocarbon sector.

Over the past decades, the GCC growth model with access to foreign labor has permitted a rapid growth in the non-oil sector and price stability in the region, and has considerably improved living standards, quality of the infrastructure, through the creation of spillovers for production and the attraction of foreign direct investment.

9. Labor productivity

Between 2010 and 2014, the Mining and quarrying sector had the highest average labor productivity (ALP) compared to the remaining seven sectors. As a capital intensive industry, Mining and quarrying has an ALP ten times higher than the average of other sectors. Only manufacturing, transport, storage and communication, and financial intermediation had and ALP above the mean. While manufacturing is the largest non-oil sector, construction (with an ALP below the mean) employs more than 50% of foreign labor. Between 2010 and 2011, labor productivity in the private sector increased, given the creation of public employment opportunities in that period. Between 2011 and 2014, productivity declined, given that the increase of oil prices increased public spending and the number of low skilled migrant workers.

The obstacles to productivity improvement lay in three major factors: poor management practices, employee job dissatisfaction, and poor human resource management practices. Another obstacle to productivity improvement is also the Omani economic structure with a dominating public sector that constitutes an important channel for employment and income distribution. Besides, there is a low transmission of spillover effects between firms affecting negatively labor mobility. This economic structure affects private sector’s attractiveness to domestic investment. The weak institutional structure and the little support that the government provides to private sector companies affect their already low absorptive capacity. As a consequence, public and private sectors have different sizes and productive capacities. With the exception of Saudi Arabia and Kuwait, in the majority of GCC countries, labor productivity, estimated as non-oil output per worker, has also decreased which is partly linked to the development strategy of large investments in infrastructure, relied on temporary and low-skilled foreign workers. The following actions could improve productivity: managers should have good leadership skills; improve employees’ job satisfaction,

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24 Manufacturing, Construction, Wholesale and Retail Trade, Hotels and Restaurants, Transport, Storage, and Communication, Financial Intermediation, Real estate, Renting, and Business Activities
25 Almukhtar S. Al-Abri (2017) Improved labor productivity is imperative for Oman’s economic diversification.
through pay, benefits, other tangible advantages, satisfaction of the need for involvement, recognition, control and freedom; train and implement good incentive and reward system.  

10. Employment and sector transformation

In 1990, the Sultan addressed the Oman Chamber of Commerce highlighting the need for change in the country’s economic structure, through the diversification of the economy and the expansion of the private sector. Some fragmentary reforms and the provision of pension to permanent private sector workers were also implemented. However, these reforms have been implemented and then abandoned due to limited effectiveness, the lack of political will and interest by the private sector, and to insufficient incentives for Omani labor force. In 2014, the largest employment sectors are construction (42%), followed by wholesale and retail (13.6%) and manufacturing (11.8%). The proportion of Omanis working in these activities is low compared to the share of expatriates. Only finance, utilities and minerals have more nationals in their ranks. On the other hand, even if these three sectors are important contributors to total employment, they represent a relative low share of total output. (Table 5).

<table>
<thead>
<tr>
<th>Economic Sector</th>
<th>Share of Employment (%)</th>
<th>Share of Output (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining and Quarrying</td>
<td>2.6</td>
<td>39.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>11.8</td>
<td>9.6</td>
</tr>
<tr>
<td>Construction</td>
<td>42</td>
<td>6.2</td>
</tr>
<tr>
<td>Wholesale and Retail Trade</td>
<td>13.6</td>
<td>7.5</td>
</tr>
<tr>
<td>Hotels and Restaurants</td>
<td>5.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Transport, Storage and Communication</td>
<td>2.8</td>
<td>5.3</td>
</tr>
<tr>
<td>Financial Intermediation</td>
<td>1.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Real estate, Renting and business</td>
<td>5.2</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Source: Almukhtar S. Al-Abri (2017)

Since the first Five-Year Development Plan in 1976, Oman’s high dependence on hydrocarbon incomes and foreign labor has been a challenge for labor market and non-oil private sector development. Fossil-fuel extraction is still fundamental for the Sultanate’s economy: it represents 80% of exports and state finances, and hydrocarbon revenues incremented by more than 600% between 2000 and 2012, leading to a procyclical demand for working force in all sectors. Natural resources rents (sum of oil, natural gas, coal, mineral and forest rents) represented more than 70% of total GDP in the late 1970s. This share has decreased since then, but still represents an average of 38% for the years 2000-2015.

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The livelihood of a majority of nationals is strongly linked to the Government because only a third of the employed Omanis are in the private sector. The concept of ‘Omanization’ refers to the policy aiming at promoting Omanis’ employment in the workforce through quota systems combined with education and training opportunities, and was first introduced in 1988 for the nationalization of jobs. In the 1990s, in addition to Omanization, some initiatives were implemented in order to make the private sector more attractive to Omanis, such as minimum wage increase, but it only decreased nationals’ interest in private-sector, since foreigners are not subject to the same minimum wage requirements and also because total remuneration remains below public sector averages. These trends lead to wonder about the future of such a society dependent on a finite resource. Today, it seems that the hydrocarbon based industries (extraction, storage, refining and transport) will keep playing an important economic role at least until about 2050.31 It will be rather the changes in socio-political role of oil that will initiate a post-oil era. Taking advantage of its geographic position and of its natural attractions, the Sultanate has an ambitious diversification initiative based on logistics, multimodal transport, tourism and an unexploited special economic zone.

11. Public Sector employment

As mentioned earlier, Omani employees are concentrated in public-sector due to Omanization which was a success mainly in two sectors: 85% of employees in the public sector were nationals during the seventh Five-Year Development Plan (2006-2010), and in the banking sector, Omanis account for 85.4% for top and middle management, 99.5% for clerical staff and 100% for non-clerical staff32.

The government plays a large role in the Sultanate’s economy through many state-owned enterprises and parastatal corporations, such as industries related to oil and natural gas extraction and export, or transport and telecommunication that are less profitable industries. In 2010 the government was the majority shareholder in 103 public enterprises, less efficient compared to the private sector, because of their nature: the state determines the patterns of production and the allocation of resources, and uses these state-owned enterprises as instruments of political preemption. These enterprises could have a detrimental effect on private sector growth and development and as they dominate certain sectors of Omani economy, they create a monopoly in certain industries and limit entrepreneurship and market competition.

Oman’s dependence on oil rents has caused several obstacles to unemployment reduction: a consequence of the rentier structure is the alteration of the competitiveness of jobs in the public sector compared to private ones. Usually, public sector positions offer higher wages, near-guarantee job security, and better benefits than private sector jobs do, regardless the size of the enterprise. These differences change Omanis’ approach in their job searches: they prefer security provided by public sector jobs. The low supply but high demand for public sector jobs is thus an important

obstacle for reducing unemployment in the Sultanate, and that is why it is necessary to improve the incentives for nationals to join the private sector.

12. Social insurance and safety nets

In Oman, Public Authority for Social Insurance is responsible for providing social insurance services, according to its vision:

“To ensure social protection for individuals, families, and the society under an insurance scheme that is based on the principles of justice and social solidarity and is comprehensive and sustainable.”

This authority applies the provisions of Social Insurance Law: insurance against senior citizens, disability, death risks, insurance against work injuries and occupational accidents, insurance for nationals working abroad. It also provides the application of the common system of social insurance for nationals of GCC countries working in other countries in any member state, and the application of social protection system for self-employed Omani or those legally assimilated to this status.

Thanks to extensive social services provided by the Omani government, human development indices related to income, education, health, life expectancy and education have improved. In 2013, 84,000 citizens benefited from social assistance programs, and public and private sector employees have been included in pensions and social insurance. Since 2011, jobseekers registered at the Ministry of Manpower benefit a monthly allowance of 150 Omani rial ($390). Nationals working in the private sector are guaranteed a minimum monthly wage, raised in July 2013 by 62% to 325 Omani rial (about $825). These measures have relieved poverty and unemployment.

13. Expected jobs required by 2030

Assuming no significant changes in labor force participation rates, we project an employment scenario for the coming years in Oman. Figure 8 plots the current labor force, the total population of 15 to 64-year olds and total employment between 2000 and 2015, together with projections up to 2030. These projections are calculated in a way that if we plan to reduce unemployment to its natural rate of 5% (i.e. to employ 95% of the future labor force), Oman will need to create more than 4.3 million jobs between 2018 and 2030. This corresponds to an annual average increase of 330,000 jobs, which is 4 times what the economy has been creating in recent years. This is an important challenge given that Oman is experiencing the second highest rate of growth of young people (15-24) in the MENA region, and the number of job seekers entering the labor market is projected to increase by 212% in the next 20 years.

In spite of the fall of oil production and of its price, the Sultanate’s economy is expected to grow at an average annual rate of 3.3% by 2030. A growth of non-oil export industries are in competition with importations is expected. Besides, a relatively good growth of service and manufacturing sectors is expected because of the very high growth of GDP in private and public consumption. Thus, a higher demand for the following occupations is expected: sales, services, managers and investors, personal services, arts, management and commerce. On the other hand, engineering occupations, technicians, and armed forces are projected to be the lowest growing occupations, because they are mainly present in industries with low employment growth prospects, such as construction and public administration\textsuperscript{37}.

*Figure 8. Labor market projections Public employment growth and total employment share, 2007-2016*

14. **Main policy challenges**

**Improve the education system that perpetuates the unemployment problem.** Omani education system presents some deficiencies, such as non-compulsory character of school, lack of resources (establishments, books and teachers), lack of promotion of technical and vocational education, lack of absorptive capacity of high education institutions, low quality of teachers. This translates into high rates of grade failure repetition and drop-outs and to the mismatch between skills acquired and labor market demand\textsuperscript{38}.

**Economic diversification.** In order to diversify the economy, it is necessary to move away from the current economic structure based on capital intensive oil export and to increase local manufacturing and industry. It is also necessary to expand the private sector and turn it into the main driver of sustainable economic development placing public sector employment driven by oil windfalls.


Economic diversification and fiscal consolidation are priorities in the government’s policy reform agenda. Moreover, trade and investment opportunities are expected to be increased by pro-business reforms (for example the foreign ownership law and the FDI law)\(^\text{39}\).

**Boost private sector and reduce public employment.** State-owned enterprises have a prejudicial effect on private sector growth, and as they dominate certain sectors of national economy, they also create a monopoly in some industries and limit entrepreneurship and market competition\(^\text{40}\). Further, public sector employment would disincentivize private sector development especially when providing a wage premium.

**Reduce child labor.** The enforcement of child labor laws is under the responsibility of the Ministry of Manpower (MOM), which doubled its capacity for monitoring private sector labor practices, hiring around 100 new labor inspectors in 2007. However, according to USDOS, the enforcement does not often extend to some small businesses, particularly in agriculture and fishing sector.

**Increase labor productivity.** The Omani government has the role to increase the levels of productivity of local firms and to maximize spillovers effects from inward investment to the national firms, by creating public institutions and specialized bodies and implementing effective investment policies to strengthen absorptive capacity and productivity of local private firms\(^\text{41}\).

**Improve social insurance system.** Despite the services provided by the Public Authority for Social Insurance, government assistance for the poor remains insufficient, and foreign workers have no access to the welfare system\(^\text{42}\).