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ASSESSING THE EASE OF DOING BUSINESS IN SULTANATE OF OMAN-A COMPARATIVE STUDY WITH RESPECT TO OTHER COUNTRIES OF GCC

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ABSTRACT

The Economic Environment of a country plays a very important role in the setting up and running of any venture in a country. The Economic Environment is shaped by the various policies and procedures adopted by the government.

The nations of Gulf Cooperation Council (GCC) are six, namely: Bahrain, Sultanate of Oman, Kuwait, Qatar, Kingdom of Saudi Arabia (KSA) and United Arab Emirates (UAE). Besides geographical location, they are bond to each other by commonalities of oil based economies, culture and religion.

All the countries of GCC are making strides in diversifying their economies to industrialized economies from the present oil based economies. So, these nations have adopted policies and procedures to realize their goals of economic development and provide an amicable economic environment to the businesses - as such making it easier for the businesses to do business in these countries.

Like other GCC Countries, Oman is also making strides in this direction to provide amicable environment for businesses to operate in the country.

The present paper aims to study the position of Oman with respect to ease of doing business in Oman as compared with the other GCC countries over the recent past.

As the nature of paper suggests, the data resources shall be drawn from the reports and data published by multilateral agencies like the World Bank. An in-depth analysis of the data gathered will help realize the goals of the study and thus assess the comparative position of Oman with respect to GCC countries for doing business.

KEYWORDS: Bahrain, Doing Business, Kingdom of Saudi Arabia(KSA), Kuwait, Qatar, Sultanate of Oman, and United Arab Emirates(UAE)

INTRODUCTION

A business firm does not operate in a vacuum; instead it operates in an environment and is bound to be affected by it. The environment is anything outside the organization which may affect its present or future activities (John Kew, 2005).The business environment is an aggregate of all conditions, events and influences that surround and have bearing on the businesses (Fernando, 2011). The business environment consists of internal and external environment. While the internal environment refers to all factors within an organization which contribute to success or failure of an organization. The external environment includes factors outside the firm which can lead to opportunities for or threat to the business firm(Shaikh, 2006).It provides the general background in which the business firms operate (Pergamon Flexible Learning, 2005). The most important components of external environment are economic, governmental, legal, technological, geographical and social. The legal and economic environment consists of the various laws and policy procedures adopted by the government to promote businesses and to protect the interests of the various stakeholders involved. The policies, measures and laws adopted by the various governments may create business opportunities or otherwise ruin the existing businesses. As such, the survival, success and doing business depends largely on the legal and political aspects which make up the regulatory environment in the economy

The Association of Gulf Cooperation Council (AGCC)

The Association of Gulf Cooperation Council (AGCC)(hereafter referred as GCC) was established in 1981 to bring together the six countries of Arabian Gulf, namely United Arab Emirates(UAE), State of Bahrain(hereafter referred as Bahrain), Kingdom of Saudi Arabia(KSA), Sultanate of Oman(hereafter referred as Oman), State of Qatar (hereafter referred as Qatar) and State of Kuwait(hereafter referred as Kuwait). The basic objective of the Association being to build a cooperative framework joining the six states to effect coordination, integration and inter-connection, in all fields in order to achieve unity(The Cooperation Council for the Arab States of the Gulf, 2014). Besides being bound by the geographical location these countries are bound by similar relations, customs and qualities bound in their common faith in the religion of Islam.

The members of GCC have been the leading producers of oil and have been the founding members of the Organization of Petroleum Exporting Countries(OPEC).Oil has been the foundation for development of these economies for the past four decades, contributing to more than half of their GDP and almost three-fourths of the government revenue and exports. Accounting for close to half of the proven world oil reserves, GCC countries have been important beneficiaries of the oil booms and shocks of the last decades, particularly the two oil shocks of 70s and the recent commodity boom of the 2000s(Ndiame' Diop, 2012).

Oil has played an important role in the development of these GCC countries, which were tracts of deserts inhabited by the small Bedouin tribes a few decades ago. The countries have transformed from subsistence economies in 1960’s to wealthy economies of today. The life expectancy at birth has increased by almost 10 years to 74 years between 1980 and 2000, while the literacy rates have increased by 20 percentage points to about 80% in the same period (Ashutosh Sharma & Weir, 2012). In 2011, these economies had a combined GDP (at current prices) of US$ 1.4 trillion and an average GDP per capita(at current prices) of US$29, 869(The Cooperation Council for the Arab States of the Gulf, 2012).

Diversification in the GCC Countries

It is true that oil sector dominates the economies of GCC countries and is a unique source of wealth for them. Equally true is the fact that, the resources of oil are finite and there are considerable fluctuations in the prices and demand for oil. The increasing work force cannot be effectively absorbed by the oil sector which is capital intensive and not labor intensive. These realizations along with other considerations have led to increased efforts towards economic diversification in these countries. Though the process of diversification in these countries in not new-it dates back to the era of 70s when notable projects like aluminum smelting in Bahrain, the industrial cities of Yanbu and Jubail in KSA, and the ports in Dubai were established with the specific aim of diversifying the economies by means of investing oil money in productive assets (Hvidt, 2013).

Currently, all the GCC counties have formulated strategies to develop their own areas of diversification and promote non-oil sector based growth. Largely, the emerging areas of diversification include intensive energy based manufacturing (like Aluminum and Iron and Steel), aviation, tourism & hospitality, mining and mineral based industries, trade and logistics, financial services and infrastructure. Each of these countries is following a different strategy for diversification based on its geographical location, natural endowments and resource base.

To promote and enhance the process of diversification, the countries in GCC have adopted various measures for restructuring and privatization of utility services, attracting Foreign Direct Investment (FDI), banking and financial sector reforms to name a few. The existing policies of open trade system, convertible currencies with fixed nominal exchange rates, free movement of capital and large of inflow of skilled and unskilled labor (Deepak Dasgupta, 2003) have also helped tremendously towards the achievement of diversification.

The joint efforts of the government and private sector have resulted in change in structures and export composition of these economies. In addition to promoting large scale industries for diversification, these countries are also progressively working towards the promotion and development of small and medium scale domestic industries.

To promote diversification, the country governments are adopting policies and measures to build and promote amicable regulatory business environment.

The present paper aims to provide an inter country comparison of Ease of Doing Business[1]in these countries of GCC for 2014.

Doing Business Index

Doing Business (DB) Index is an index developed jointly by the World Bank (WB) and International Finance Corporation (IFC) to provide objective measures of business regulations for local firms in 189 economies using 11 indicators. The Doing Business project measures the efficiency and strength of laws, regulations and institutions that are relevant to domestic small and medium-sized companies throughout their life cycle (World Bank,IFC, 2013). The Doing Business Report 2014 presents results for 2 aggregate measures: the aggregate ranking on the Ease of DB and the distance to frontier measure. The Ease of DB ranking compares economies with one another, while the distance to frontier measure benchmarks economies to the frontier in regulatory practice, measuring the absolute distance to the best performance on each indicator.

The index captures several important dimensions of the regulatory environment as they apply to local firms. It provides quantitative measures of regulations for the following:

- **Starting a Business:** This indicator measures the ease of starting a business in an economy by recording all procedures officially required or commonly done in practice by an entrepreneur to start up and formally operate an industrial or commercial business—as well as the time and cost required to complete these procedures. It also records the paid-in minimum capital that companies must deposit before registration (World Bank and IFC, 2013)
- **Dealing with Construction Permits**: This measure tracks the procedures, time and cost to build a warehouse – including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections.

[1]The data used for this comparison is based on various Doing Business country reports of the World Bank for the year 2014.

- **Getting Electricity**: This measure analyzes the procedures, time and cost required for a business to obtain a permanent electricity connection for a newly constructed warehouse.
- **Registering Property**: This **e**xamines the steps, time and cost involved in registering property, assuming a standardized case of an entrepreneur who wants to purchase land and a building that is already registered.
- **Getting Credit:** This explores two sets of issues—credit information registries and the effectiveness of collateral and bankruptcy laws in facilitating lending. This measure assesses the sharing of credit information and the legal rights of borrowers and lenders with respect to secured transactions through 2 sets of indicators. The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through a public credit registry or a private credit bureau. The strength of legal rights index measures whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws.
- **Protecting Investors**: Measures the strength of legal protections of minority investors against the misuse of corporate assets by company directors for their personal gain. It measures the strength of minority shareholder protections against directors' use of corporate assets for personal gain—or self-dealing. The indicators distinguish 3 dimensions of investor protections: transparency of related-party transactions (extent of disclosure index), liability for self-dealing (extent of director liability index) and shareholders' ability to sue officers and directors for misconduct (ease of shareholder suits index).
- **Paying Taxes**: Addresses the taxes and mandatory contributions that a medium-sized company must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes.
- **Trading Across Borders**: This measure looks at the procedural requirements for exporting and importing a standardized cargo of goods. It measures the time and cost (excluding tariffs and the time and cost for sea transport) associated with exporting and importing a standard shipment of goods by sea transport, and the number of documents necessary to complete the transaction. The indicators cover procedural requirements such as documentation requirements and procedures at customs and other regulatory agencies as well as at the port. They also cover trade logistics, including the time and cost of inland transport to the largest business city.
- **Enforcing Contracts**: Assesses the efficiency of the judicial system by following the evolution of a commercial sale dispute over the quality of goods and tracking the time, cost and number of procedures involved from the moment the plaintiff files the lawsuit until payment is received.
- **Resolving insolvency:** Identifies weaknesses in existing bankruptcy law and the main procedural and administrative bottlenecks in the bankruptcy process.
- **Employing workers**: This measures the regulation of employment, specifically as it affects the hiring and layoff of workers and the rigidity of working hours.

The Ease of DB Index of 2014 measures regulations that measure these 11 areas of business activity[2].

A high ranking on the Ease of DB Index means the regulatory environment is more conducive to the starting and operation of a local firm (World Bank, 2013).Globally Singapore leads the ranking and Chad stands the last in ranking of

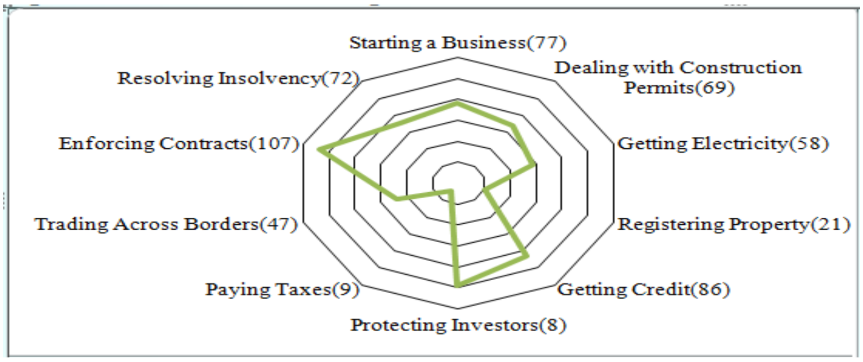
[2] The 11th aspect employing workers is not included in the rankings. Therefore effectively the Ease of DB rankings are comprised of 10 indicators only.

189 countries. (World Bank and IFC, 2013).

The following section presents the DB ranking of Oman and other GCC Countries with respect to Ease of DB.

Overall Ease of DB Rankings for 2014 for Oman and GCC Countries

The DB Report 2014 shows the overall ranking of Oman at 47 which is the same as the DB 2013 ranking. The overall DB ranking of Oman inclusive of the sub-indices is as shown in Figure 1.



Source: Doing Business 2014 Report of Oman

Figure 1: Overall DB Ranking for Oman for 2014

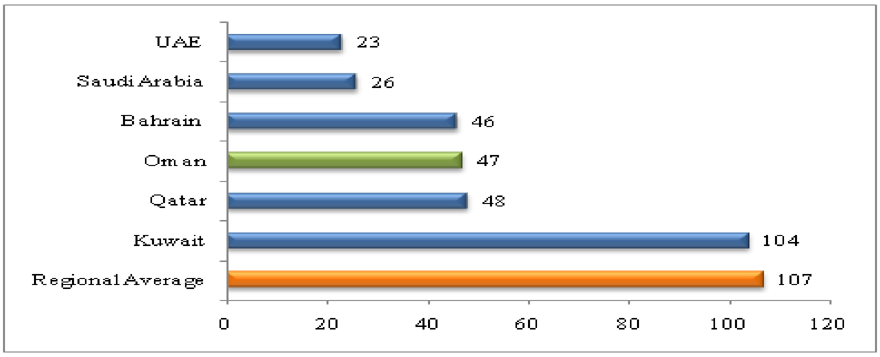
The current paper deals with a comparative assessment of overall DB rankings for the GCC countries. The overall DB Ranking for these GCC Countries is as shown in the following Table 1.

Table 1: Overall Ranking of Ease of DB Ranking 2014 for GCC Countries

Country	Ease of Doing Business Rank
United Arab Emirates	23
KSA	26
Bahrain	46
Oman	47
Qatar	48
Kuwait	104

Source: Doing Business 2014 Reports of Bahrain, Kuwait, Oman, Qatar, KSA, United Arab Emirates

For the purpose of comparison the above rankings along with the regional average ranking for MENA have been shown in Figure 2.



Source: Doing Business 2014 Reports of Bahrain, Kuwait, Oman, Qatar, KSA, United Arab Emirates

Figure 2: Overall Ranking of Ease of DB Ranking 2014 for GCC Countries

As is evident from the above table 2 and figure 2, UAE ranks the highest in the overall Ease of DB in the GCC, while Kuwait ranks the lowest in this ranking. All the countries of GCC are faring better than the countries of Middle East and North Africa(MENA)[3], where the regional average of DB is 107(World Bank and IFC, 2013).

A comparison with the rankings of 2013 for these GCC countries reveals differences as shown in Table 3.

Table 3: Changes in Overall DB Ranking 2014 with Respect to 2013

Country	DB 14	DB 13	Change
UAE	23	26	3
KSA	26	22	-4
Bahrain	46	42	-4
Oman	47	47	0
Qatar	48	40	-8
Kuwait	104	82	-22

Source: Doing Business 2014 Reports of Bahrain, Kuwait, Oman, Qatar, KSA, United Arab Emirates

As can be seen from the above Table 3, only UAE has shown improvement in its rankings from 2013 indicating reforms in their processes, while KSA, Bahrain, Qatar and Kuwait have slipped down (either due to inadequate pace or due to surpassing by better economies).Oman has shown no change in ranking in 2014 as compared to 2013, retaining the ranking at 47.

To understand the DB ranking of the GCC countries, details for each of the sub-indices is required. Table 4 presents in detail the composition of DB ranking for GCC countries on the 10 measures.

Table 4: Details of Overall DB Ranking 2014 for GCC countries

Country	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
KSA	84	17	15	14	55	22	3	69	127	106
UAE	37	5	4	4	86	98	1	4	100	101
Qatar	112	23	27	43	130	128	2	67	93	36
Bahrain	99	4	52	32	130	115	7	81	122	27
Oman	77	69	58	21	86	98	9	47	107	72
Kuwait	152	133	59	90	130	80	11	112	119	94
Regional Average	112	108	77	93	133	113	64	89	118	105

Source: Doing Business 2014 Reports of Bahrain, Kuwait, Oman, Qatar, KSA, United Arab Emirates

Analysis

Oman with an overall ranking of 47 stands at 4th position among the GCC countries which are led by UAE, KSA and Bahrain. An in-depth analysis of the overall ranking of Oman and other GCC countries for 2014, with respect to the 10 measures can be summed up as under:

Starting a Business: Except Kuwait with a ranking of 152, all countries of GCC are doing better than the regional average of MENA with a ranking of 112.Oman with a ranking of 77 stands 2nd in the tally after UAE with a ranking of 37.

Dealing with Construction Permits: Bahrain with a ranking of 4 leads the rally for GCC countries, while Oman

[3]The DB2014 Middle East and North Africa report includes 19 countries in MENA region namely, Saudi Arabia,UAE,Qatar,Bahrain,Oman,Tunisia,Kuwait,Morocco,Malta,Jordan,Egypt,lebanaon,Yemen,West Bank and Gaza, Syria, Iran, Algeria, Iraq and Djibouti

with a ranking of 69 stands second from last. Kuwait with a ranking of 133 lags behind the regional MENA average of 108.

Getting Electricity: For this measure, UAE with a ranking of 4 leads the GCC countries, while Oman with a ranking of 58 stands second from last; ahead of Kuwait with a ranking of 59.All countries of GCC are doing better than the MENA regional average of 77.

Registering Property: Oman with a ranking of 21, stands 3rd amongst the GCC countries led by UAE and KSA. All the countries of GCC have a ranking better than the MENA regional average of 93.

Getting Credit: The MENA regional average ranking for this measure is 133 and all the selected GCC countries cross this level. While KSA with a ranking of 55 leads the tally, Oman stands alongside UAE, both with a ranking of 86. Qatar, Kuwait and Bahrain occupy 130th rank globally.

Protecting Investors: Except for Qatar and Bahrain all the selected countries of GCC are doing better than the regional MENA average of 113.While KSA leads in this aspect with a global ranking of 55, Oman and UAE are tied with 98 ranking at the 3rd position.

Paying Taxes: UAE with a ranking of 1, leads the rally for GCC countries, while Oman with a ranking of 9 stands second from the last ranking of Kuwait at 11.All the countries of GCC are well above the regional MENA average of 108.

Trading Across Borders: Oman with a ranking of 47, stands to second to UAE with a ranking of 4. Except Kuwait with a ranking of 112, all the selected countries of GCC are above the regional MENA average of 89.

Enforcing Contracts: Qatar with a ranking of 93 leads the rally for GCC countries on this measure. Except for UAE and Oman with rankings of 100 and 107 respectively, all the other countries perform below the regional MENA average of 118.

Resolving Insolvency: Oman with a ranking of 72, stands third to Bahrain and Qatar with rankings of 27 and 36 respectively. Except KSA with a ranking of 106, all the selected countries of GCC are above the regional MENA average of 105.

CONCLUSIONS

In order to diversify productively, the countries of GCC have promoted the large scale and small and medium scale enterprises. These countries have adopted laws and measures to promote these enterprises as well as to ensure protection to the investors and other stakeholders involved.

The World Bank’s Ease of Doing Business Index examines the ranking of countries with respect to measures adopted to promote the interests of parties involved in the small and medium scale domestic enterprises.

As is evident from the above analysis, Oman has an overall ranking of 47 lagging behind all other GCC countries except those of Qatar and Kuwait. The highest ranking for Oman is for paying taxes while the lowest is for enforcing contracts. On the 10 parameters listed above, Oman is fairly doing well on measures like starting a business, registering a property, getting credit, protecting investors, trading across borders, enforcing contracts and resolving insolvency. The ranking performance on parameters like dealing with construction permits, getting electricity and paying taxes is very low-which calls for improvement.

Though the Ease of DB ranking is just an indicator-it is an important one showing the areas needing improvement to promote the regulatory environment. Restructuring and simplification of procedures in Oman will reduce the time and complexities involved which cause a delay in performance and results in a lower ranking. The country government is expected and it should take positive measures to promote survival and success of the businesses in the country. The positive measures shall go a long way in building an amicable regulatory environment and promoting sustainable diversification of the economy of Sultanate of Oman.

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