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TOWARDS A NATIONAL JOBS STRATEGY IN KUWAIT

OVERVIEW



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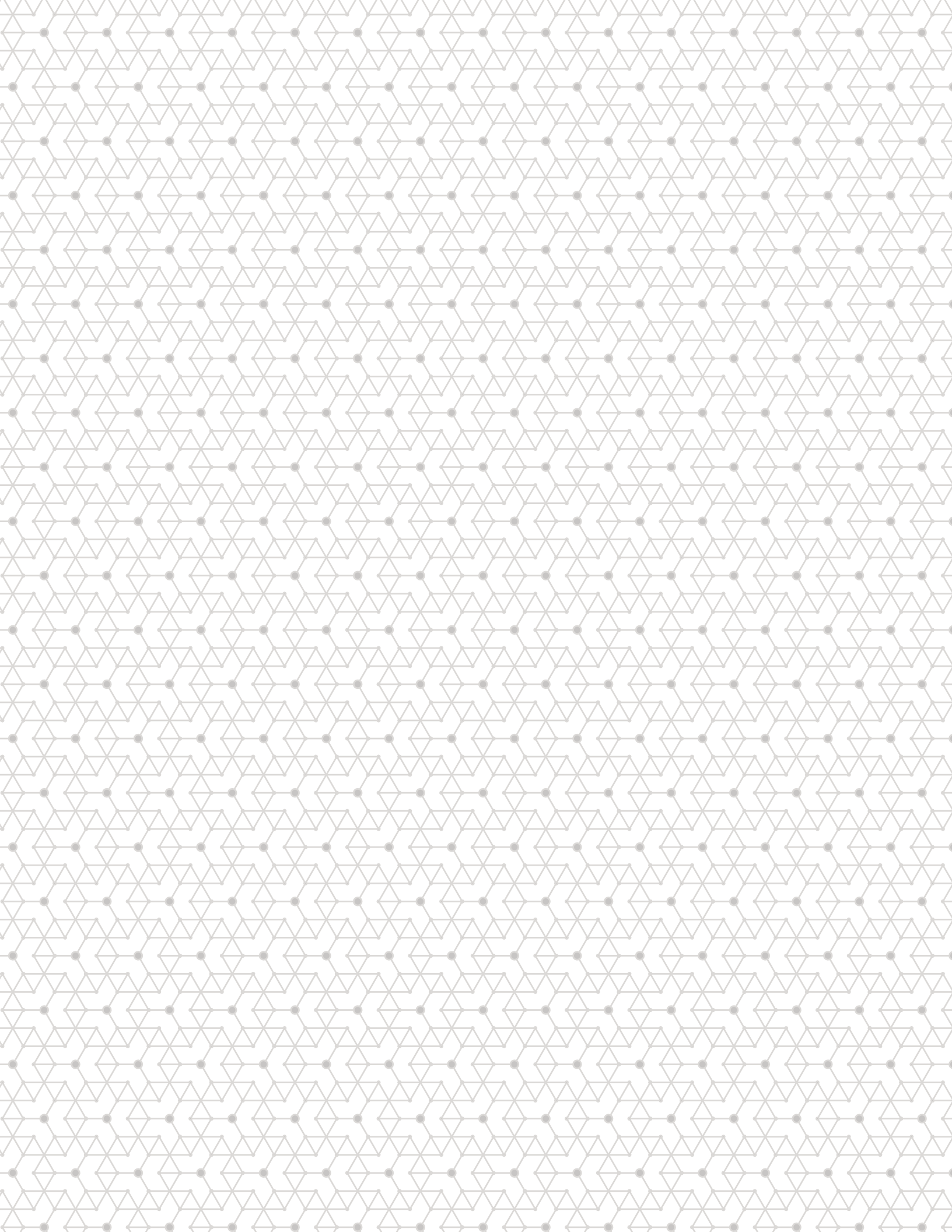
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This report is one of the main deliverables outlined in the legal arrangement of September 10, 2019 between the Kuwait General Secretariat of the Supreme Council for Planning and Development (GS-SCPD) and the World Bank. The World Bank Team was led by Mohamed Ihsan Ajwad (Task Team Leader and Senior Economist), Johannes Koettl (Co-Task Team Leader and Senior Economist), and Zeina Afif (Co-Task Team Leader and Senior Social Scientist). Ekaterina Pankratova (Senior Program Coordinator for the GCC Social Protection and Jobs Engagement) coordinated the work program.

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Abbreviations and Acronyms

BQA	Education and Training Authority	PAAET	Public Authority for Applied Education and Training
CSC	Civil Service Commission	PAM	Public Authority for Manpower
ECD	Early Childhood Development	PIC	Petroleum Industries Company
EIA	Energy Information Agency	PISA	Programme for International Student Assessment
EU	European Union	SDGs	Sustainable Development Goals
FDI	Foreign Direct Investment	SEZ	Special Economic Zone
FGF	Future Generations Fund	SME	Small and Medium Enterprises
FLFP	Female Labor Force Participation	SOE	State-owned Enterprise
GCC	Gulf Cooperation Council	STEM	Science, Technology, Engineering and Mathematics
GDP	Gross Domestic Product	TFP	Total Factor Productivity
GDPPC	GDP per Capita	TIMSS	Trends in Mathematics and Science Study
GFCF	Gross Fixed Capital Formation	TVET	Technical and Vocational Education and Training
GVA	Gross Value Added	UAE	United Arab Emirates
IAP	Individual Action Plan	UK	United Kingdom
ICT	Information and Communications Technology	UNCTAD	United Nations Conference on Trade and Development
ILO	International Labor Organization	UNESCO	United Nations Educational, Scientific and Cultural Organization
IMF	International Monetary Fund	US	United States
KWD	Kuwaiti Dinar	VA	Value Added
KSA	Kingdom of Saudi Arabia	WB	World Bank
LFS	Labor Force Survey	WDI	World Development Indicators
LMIS	Labor Market Information System	WEF	World Economic Forum
MENA	Middle East and North Africa	WGI	Worldwide Governance Indicators
MoH	Ministry of Health	WITS	World Bank Integrated Trade Solutions
MOSA	Ministry of Social Affairs		
NEET	Not in Employment, Education or Training		
NQF	National Quality Framework		
OECD	Organization for Economic Co-operation and Development		

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TOWARDS A NATIONAL JOBS STRATEGY IN KUWAIT

EXECUTIVE SUMMARY



This is an Executive Summary of a longer report “Towards a National Jobs Strategy in Kuwait: Main Report.” The report was one of the main deliverables outlined in the legal arrangement of September 10, 2019 between the Kuwait General Secretariat of the Supreme Council for Planning and Development (GS-SCPD) and the World Bank.

The social contract in Kuwait is at risk. Kuwaiti citizens are used to the state providing public sector jobs, free education, free healthcare, and subsidized fuel to all citizens. These benefits have been bought and paid for using Kuwait’s oil revenues, however, the sustainability of the social contract has been questioned by three mutually reinforcing challenges. First, oil demand is projected to steadily decline the next few decades. This decline is partly the result of changing consumer preferences away from carbon-based fuel sources, and partly the result of increasingly cost-effective alternative energy sources becoming available. Second, with mounting fiscal deficits, the size of the wage bill for the government is a growing concern. Third, the needs in the labor market will continue to grow as Kuwait’s population is young and growing.

As the effect of the COVID-19 pandemic began to be felt, mostly in 2020, and Kuwait’s additional emergency spending depleted the government’s main fiscal liquidity buffer, the General Reserve Fund (GRF), calls to improve fiscal sustainability have become more forceful. The March 2020 IMF Article IV report concluded that “without a course correction, fiscal and financing challenges will intensify.”¹ In September 2020, in response to the government’s “increased liquidity risks” Moody’s downgraded Kuwait’s sovereign credit rating. Similarly, in July 2020, S&P Global Ratings revised Kuwait’s outlook from stable to negative, pointing to risks posed by the depletion of the GRF. A move that was followed by Fitch Ratings in February 2021. “Kuwait has yet to put in place a long-term, sustainable funding policy,” S&P Global Ratings noted. More alarming is the concern raised in the S&P Research Update of January 2021: “broader reform momentum remains slow and complicated by the confrontational relationship between the government and parliament.”

The alarms bells are not only being rung by outsiders, but by insiders as well. In November 2020, 29 Kuwaiti scholars specialized in economics and business published a document that began with the declaration: “The current state of the Kuwaiti economy is unsustainable.”² Shortly thereafter the Kuwaiti private sector published a similar analysis through the chamber of commerce.

Central to these structural challenges are challenges to Kuwait’s labor market. A growing number of young Kuwaitis are entering the labor market with high expectations of well-paid, secure, public sector jobs. In the private sector, employers are dependent on low-cost and largely unskilled foreign workers. The COVID-19 global pandemic, which has led to an oil price crisis and a global economic slowdown, has intensified the debate surrounding jobs challenges in Kuwait.

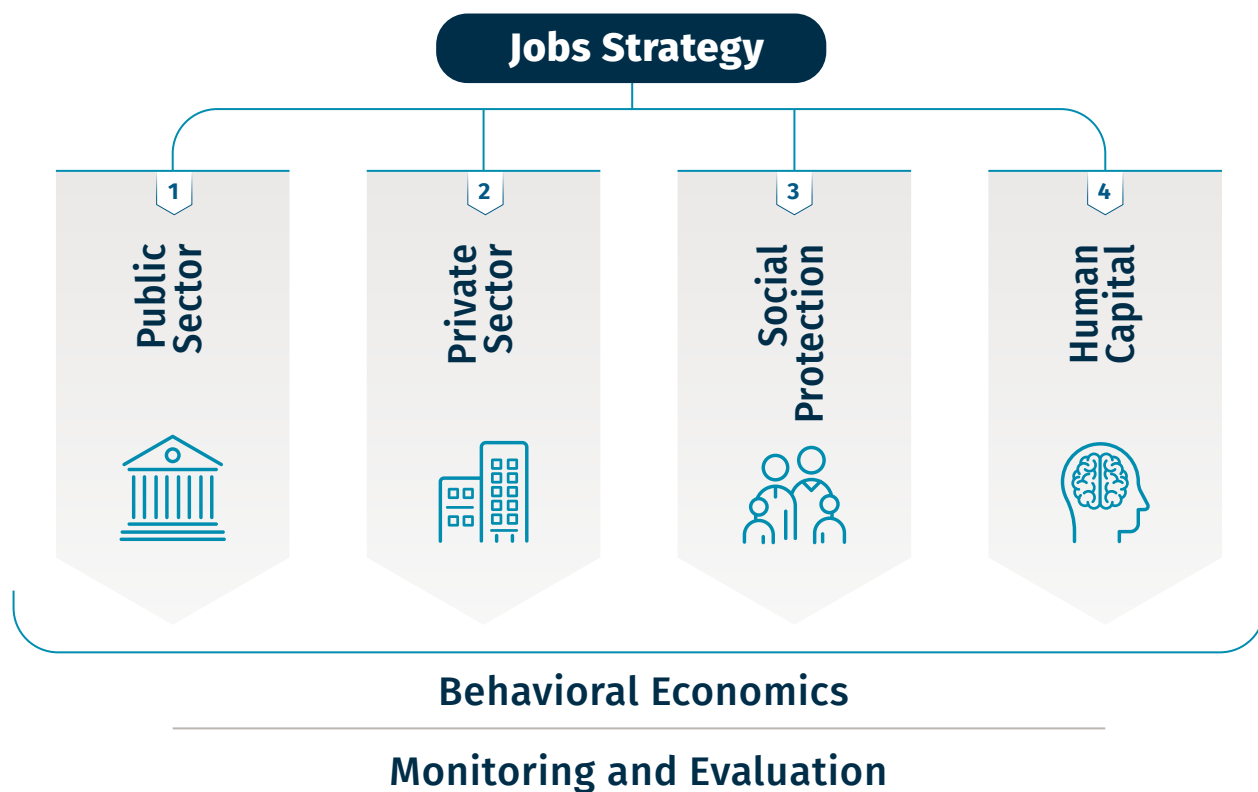
1 IMF (2020) “Kuwait: 2020 Article IV Consultation – Press Release; Staff Report; and Staff Supplement” IMF Country Report No. 20/89, Washington, DC.

2 “BEFORE IT’S TOO LATE: A Vision to Reform the Kuwaiti Economy.” Kuwaitimpakt.com.

These jobs challenges need to be addressed urgently to ensure the sustainability of the economic growth model and to avoid major social disruption. The government has asked for assistance from the World Bank to formulate a National Jobs Strategy to help confront these challenges, based on international evidence and best practices. Reforms are recommended in four areas, or pillars: making the public sector more sustainable, supporting private sector growth, building a system of social protection, and improving human capital (Figure 1). In addition, the Jobs Strategy covers two cross-cutting themes: behavioral economics, and monitoring and evaluation. Both cross-cutting themes are embedded in the four pillars. This introduction briefly explains the critical challenges facing Kuwait that require substantial policy changes. The subsequent sections analyze the major issues surrounding each of these four topics, along with recommendations for changes in policies to improve sustainability and enhance incomes.

FIGURE 1

The four pillars of the Jobs Strategy



About 90 percent of Kuwaiti workers are employed by the public sector at generous salaries, while more than 95 percent of private sector employment is made up of (mostly low-wage) foreign workers. Although it has been providing a decent living for Kuwaitis, this system has resulted in unsustainable levels of fiscal deficits (Figure 2, left panel) and encouraged the use of production techniques intensive in low-skilled labor. The growth model has led Kuwait to depend heavy on hydrocarbons and not diversify its economy (Figure 2, right panel) and to fall short when competing with foreign firms relying on capital- and technology-intensive production.

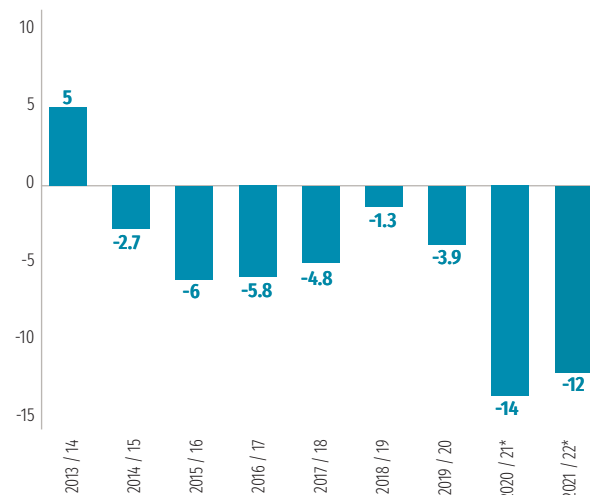
This economic model will not enable Kuwait to achieve a modern economy and is a recipe for fiscal disaster if oil market developments are disappointing. It also could lead to social disharmony if neither the public sector (due to fiscal constraints) nor the private sector (due to low wages and weak employment growth) are able to supply the jobs demanded by Kuwait's young and rapidly-growing population.

Kuwait faces large fiscal deficits, a surplus of young workers and high dependence on oil

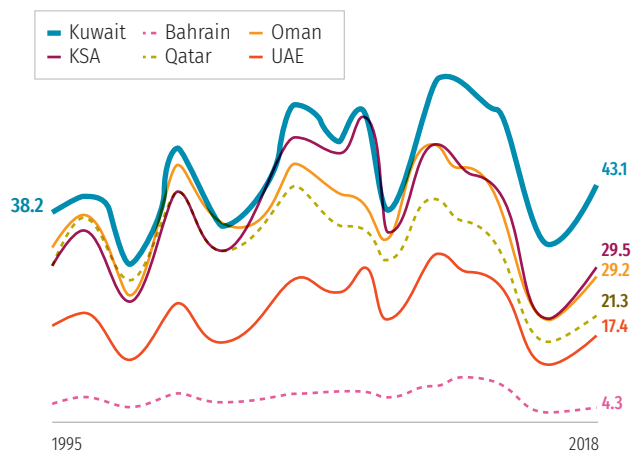
FIGURE 2

Government Fiscal Balance (left panel) and Natural Resources Rents (right panel)

Government Fiscal Balance (KWD Billions)



Natural Resources Rents (% of GDP)



Source: IMF 2017 and 2019; and World Bank World Development Indicators

Note: Natural resource rents measure the difference between the value of natural resource production (including oil, gas and minerals) at world prices and total costs of production, as per the methodology described in "The Changing Wealth of Nations: Measuring Sustainable Development in the New Millennium" (World Bank, 2011)

A more dynamic private sector is needed to address these severe challenges. Increasing the supply of high-wage private sector jobs would facilitate limits on the growth in public sector employment and help to absorb the almost 200,000 new labor market entrants expected over the next decade, and rapid private sector growth would help reduce the economy's heavy reliance on oil. The reform program can be divided into policies governing: the public sector, private sector, social protection and human capital.



Public sector

The public sector is the main economic sector in Kuwait and citizens view public sector employment as superior to private sector employment. Public sector compensation significantly exceeds private sector compensation (this includes payments made by Dam Al-Amala, the private sector in-work benefit scheme which is described below) for low-skilled workers. In addition, public sector jobs offer shorter hours and less burdensome duties, more opportunities for taking leave, and greater job security. Finally, many Kuwaitis lack reliable information on private sector work and are reluctant to assume its perceived greater risks, while public sector jobs are viewed as more prestigious.

Most doctors, nurses and teachers in the civil service are non-Kuwaitis. The supply of Kuwaiti doctors is limited by the shortage of medical schools and of appropriately educated Kuwaitis, while the salary structure creates disincentives for senior medical personnel and key specialists. Few Kuwaitis choose to become nurses, and recent progress in replacing non-Kuwaiti teachers with Kuwaitis has reduced the average experience level of teachers and increased the cost.

The wage structure in the civil service is inequitable and inefficient. In 2018-19, wages and benefits for new female recruits were 87 percent of the levels paid to men when adjusted for age and education. Low returns to education, except university, have contributed to the generally low levels of educational attainment, although increased minimum educational requirements has resulted in a general rise in education levels and improvements in educational attainment in public sector jobs. New recruit salary levels vary widely depending on the ministry, resulting in long wait times (financed by a public stipend) as applicants seek out the highest levels of remuneration.

This study recommends (Table 1) limiting the growth of the public sector wage bill, improving efficiency, strengthening the provision of services, increasing educational attainment and skills, improving the incentive structure to boost performance, promoting gender equality and adopting a plan to replace non-Kuwaiti civil servants with Kuwaitis.



Private sector

Kuwaiti private sector employment is concentrated in a few sectors with high value added (finance, transport, etc.) rates but slow growth. At current trends, growth in demand for Kuwaiti workers would fall far short of the supply of job market entrants. Firms in many large subsectors cannot afford to employ many Kuwaitis, as value added per worker is lower than the average wage earned by Kuwaitis.

The private sector lacks dynamism, as few Kuwaitis become entrepreneurs; firm entry and exit rates are low; and few young firms achieve high rates of growth. Constraints on entry and limited access to capital may be particularly binding for young firms. The economy needs to undergo a significant transformation over the coming decades, supporting the entry and growth of young and small firms is important to this goal.

Despite recent improvements, the business environment is poor. Too much time is required to start a business or to resolve an insolvent business. Exporting and importing involve lengthy and time-consuming procedures. Barriers to foreign investment impede exports and diversification, with virtually all foreign direct investment (FDI) focused on serving the domestic market. Many businesses face stringent obstacles to obtaining credit or purchasing land. Finally, product markets appear to be less competitive than comparators, perhaps because the dominance of large firms limits firm entry and expansion.

Kuwaitization quotas are increasing the hiring of Kuwaitis in some sectors, although the use of 'ghost workers' or parallel hires of Kuwaitis to meet official quotas may be raising firms' costs. In any case, Kuwaiti employment remains extremely low in many sectors, as most firms cannot afford Kuwaiti-level wages (value added per worker is well below the average Kuwaiti wage); furthermore, a reduction in the wage gap between Kuwaiti and non-Kuwaiti workers may not increase demand for Kuwaitis, as analysis shows virtually no substitutability between Kuwaitis and non-Kuwaitis in the average firm. Thus, increasing Kuwaiti employment will require increasing private sector productivity so that firms can afford more Kuwaiti workers.

This study recommends (Table 1) taking steps to strengthen labor market competition and to provide incentives to facilitate the expansion of those sectors that pay sufficiently high wages to support Kuwaiti employment. It also recommends supporting entrepreneurship and improving the business climate; providing incentives and undertaking legal reform to encourage greater employment of Kuwaitis, including providing equal opportunities for Kuwaiti women. Finally, capital deepening and new opportunities for exports should be promoted.



Social protection

Kuwait implements a comprehensive social protection system that provides support at each stage of a citizen's life; expenditure on labor market programs and transfers is less than on public sector employment and regressive subsidies for fuel, electricity, and water.

There are design aspects of the social protection system that may discourage work, for example, the job search allowance is less than the level of social assistance benefits, there are many opportunities for early retirement; pensions tend to be generous (financed in part by large government transfers), as are survivorship pensions to working-age women. In addition, safety net assistance is not tied to government support for finding work.

Targeting safety net assistance to categories of individuals means that most benefits go to people (mainly women) who may not come from low-income households. There is a lack of systematic data analysis and follow-up mechanisms to assess the impact of assistance.

The Dam Al-Amala program, a private sector in-work benefit, has eliminated the wage premium for working in the public sector for many workers, but there is still a significant public sector wage premium for low-paid workers.

The Public Authority for Manpower (PAM) provides a stipend and counseling services to Kuwaitis seeking employment, but only a fraction of job seekers rely on PAM to look for a job; furthermore, efforts to support workers with job search are impaired by the lack of an effective labor market information system. Improved targeting, perhaps with statistical modeling, could focus benefits on individuals at higher risk of unemployment or of dropping out of the labor market.

This study recommends (Table 1) reforming Dam Al-Amala targeting to allow higher payments to be channeled to low-skilled workers. Reforms will also need to build on PAM capacity to make job search assistance more effective and better target those most at risk of labor market exclusion. It further recommends revising social protection policies to improve incentives to work, and targeting safety net benefits to those most in need of assistance.



Human capital

Increasing Kuwaiti employment in high productivity jobs and enabling Kuwait to compete in a modern, knowledge-based, global economy will require improving Kuwaiti workers' skills.

Per student expenditure and educational attainment are comparable to countries with similar income levels, but Kuwait's learning outcomes are more like those in some low-income countries. Pre-school coverage is low, despite being an important stage when children build strong foundational skills for learning, and Kuwaiti pupils score poorly in international assessments of reading, mathematics, and science proficiency. Time and resources devoted to computer instruction is low, contrasting with the time given to religious instruction, which may also have the unintended consequence of limiting the time spent on technical education. Within learning, excessive emphasis is placed on obedience and memorization, rather than creativity and imagination.

Participation in science, technology, engineering, and mathematics (STEM) subjects in university appears to be much lower than in most OECD countries. And even though girls perform better than boys on math and science tests at the 8th grade, a smaller share of girls than boys pursue STEM fields at university.

Simulations show that improvements in educational quality to raise the average cognitive skills of children to the theoretical frontier on the Programme for International Student Assessment (PISA) scale would raise the annual growth in output per worker by close to one percentage point during 2030-2050.

The combination of poor-quality education and the availability of foreign workers with low educational attainment results in an overall low-skilled workforce. The low levels of education among the workforce is consistent with the dominance of routine tasks in most jobs and the low share of jobs that require stronger cognitive skills, this subsequently limits the potential to shift to a more productive, knowledge-based economy.

Individuals with low levels of educational attainment are at greater risk of being unemployed for a year or longer or of being excluded from the labor market, in contrast, employment rates are significantly higher for tertiary-educated adults, particularly those who studied one of the STEM fields; employment rates for graduates in Arts and Humanities are lower. The share of youths who are not in employment, education, or training (NEET) is higher than in most OECD countries, particularly for women, this is likely to be a result of unfavorable attitudes towards women being educated and working.

This study recommends (Table 1) a focus on improving learning outcomes and education quality, including increasing access to early childhood development programs, and strengthening links between the education system and the world of work. Emphasis needs to be placed on STEM and on more creative and interactive means of learning. The salary structure within schools should allow for higher pay for teachers with higher technical skills; within schools there needs to be more effective monitoring, evaluation and feedback mechanisms, and improved coordination across stakeholders.

TABLE 1
The Jobs Strategy recommendations

			
Public Sector	Private Sector	Social Protection	Human Capital
<p>1 REFORM AREA 1 Improve public sector wage bill sustainability</p> <p>2 REFORM AREA 2 Align public sector wages and private sector wages</p> <p>3 REFORM AREA 3 Improve public sector performance</p> <p>4 REFORM AREA 4 Generate a strategic plan to replace non-Kuwaitis with Kuwaitis in the public sector</p>	<p>5 REFORM AREA 5 Address market distortions and other barriers for an efficient allocation of labor</p> <p>6 REFORM AREA 6 Address market distortions and other barriers for an efficient allocation of capital</p> <p>7 REFORM AREA 7 Support entrepreneurship and reform the business climate to expand private sector employment</p>	<p>8 REFORM AREA 8 Reform Dam Al-Amala design to reduce public sector preference among low-wage earners</p> <p>9 REFORM AREA 9 Build capacity of Public Authority for Manpower to better target job seekers and employment services</p> <p>10 REFORM AREA 10 Revise social insurance policies to incentivize Kuwaitis to work longer</p> <p>11 REFORM AREA 11 Improve efficiency of the social safety net system</p>	<p>12 REFORM AREA 12 Improve learning outcomes and the quality of education</p> <p>13 REFORM AREA 13 Strengthen links between the education system and the world of work</p> <p>14 REFORM AREA 14 Implement system level changes to enhance efficiency of the education system</p>

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SUMMARY



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Central to these structural challenges are challenges to Kuwait’s labor market. A growing number of young Kuwaitis are entering the labor market with high expectations for secure, well-paid (and largely public sector) jobs. About 90 percent of Kuwaiti workers are employed by the public sector, while more than 95 percent of private sector employment is made up of (mostly low-wage and low-skilled) foreign workers.

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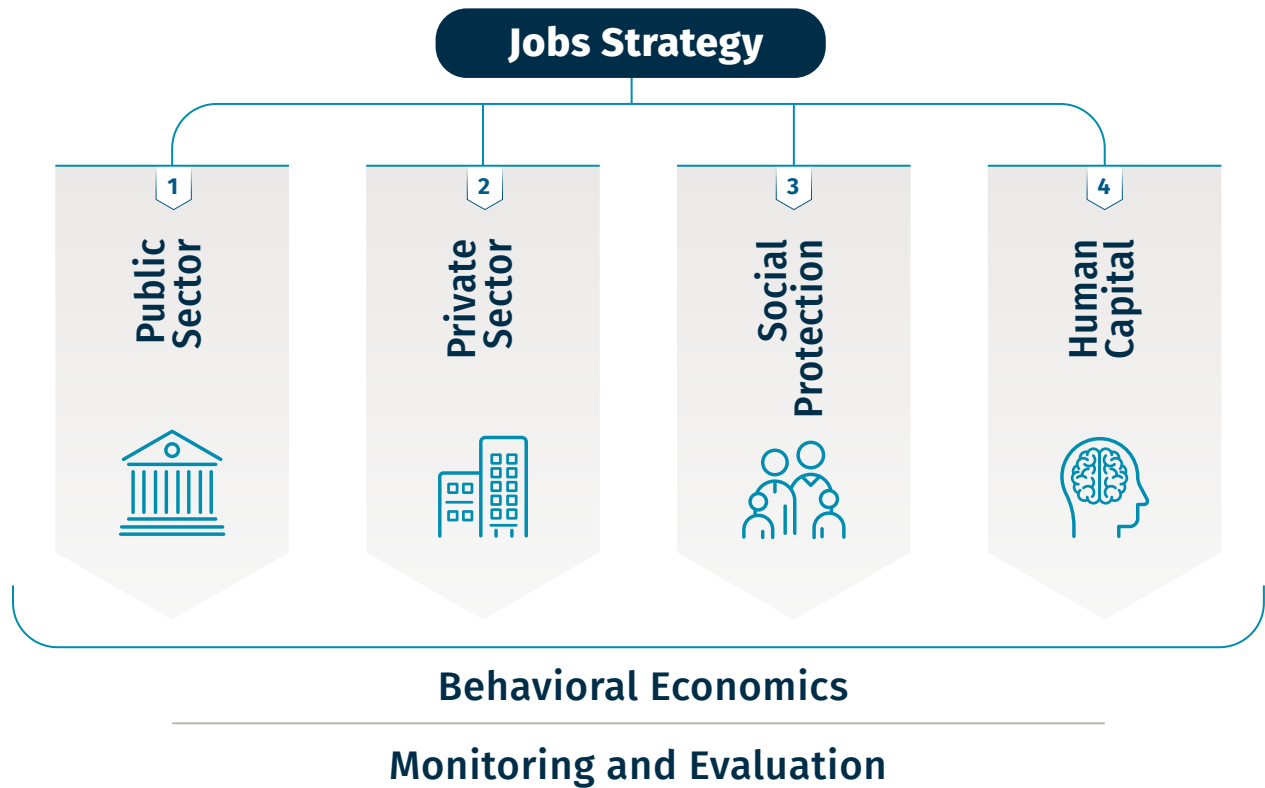
These arrangements have provided decent salaries for Kuwaitis and have reduced the costs of services, while supporting firms' profits. They also, however, have failed to meet, or have exacerbated, emerging challenges to the sustainability of Kuwait's economic model and the social order (Figure 2 above):

- > The ready availability of low-skilled non-Kuwaiti workers has encouraged the use of production techniques that limit productivity gains. Productivity declined significantly from 2000 to 2017, and slow growth will make it more difficult to absorb the almost 200,000 new labor market entrants expected over the next decade as population growth remains high, and to cope with the rise in dependency ratios expected over the next quarter century.
- > Low productivity growth has made it even more difficult for Kuwait to compete in tradable goods and services, increasing Kuwait's heavy reliance on oil exports, where the prospects for demand are highly uncertain. Today, Kuwait's natural resource rents equal about 40 percent of GDP, significantly higher than in the other GCC countries.
- > While the Dam Al-Amala program has eliminated the public sector premium for many workers, preferences for public sector employment remain strong. Growth in public sector employment has boosted the wage bill, contributing to the large fiscal deficits that threaten to exhaust Kuwait's financial resources.

Limiting public sector employment to achieve a sustainable fiscal position, absorbing new entrants into the labor force, and diversifying the economy can only be achieved by increasing employment and growth in the private sector. Higher productivity would enable more private firms to offer higher salaries to Kuwaitis, thus increasing living standards and reducing the pressure to expand public sector employment; it would also facilitate increased economic diversification. These changes would require a series of complementary reforms in four areas (Figure 3), referred to as pillars of the strategy:

- > Limits on public sector wages and employment, coupled with reforms to improve government efficiency;
- > Increases in competition to improve the allocation of labor and capital, provision of incentives to boost investment and the use of technology, and the removal of barriers to productivity growth;
- > Reforms to social assistance and pension programs to increase incentives to work; focus social assistance and job search support on those most vulnerable to unemployment; and
- > Investments in education and training to provide the highly-productive workers needed by a more dynamic private sector.

FIGURE 3

The four pillars of the Jobs Strategy

All these reforms need to be pursued at the same time, for example, it would be difficult, and perhaps unwise, to limit public sector employment if low private sector productivity does not provide jobs with high-enough wages to support Kuwaitis' lifestyles. Additionally, private sector productivity growth will remain limited without an increase in the number of high-skilled workers emerging from an improved education and training system. Disruption to any one of these four pillars is likely to mean the failure of the strategy.

Public sector

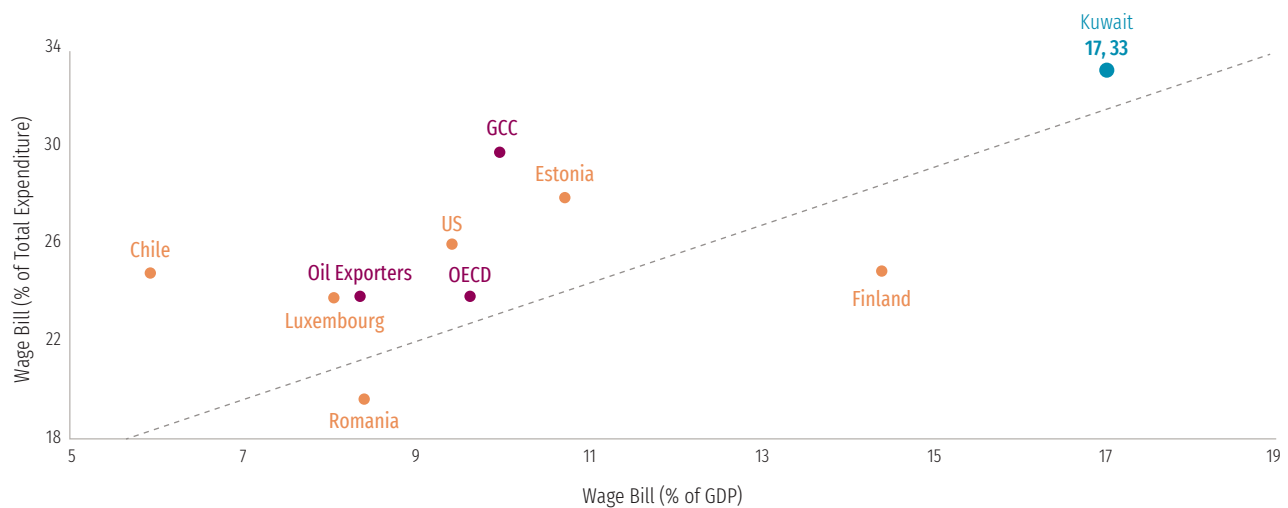
Public sector reform is urgently needed to ensure the sustainability of government finances, support economic growth and maintain social peace. In conjunction with efforts to rein in public sector employment growth, improvements in efficiency and equity in the public sector are necessary to strengthen public services provision.

The public sector wage bill

The government guarantee of employment has resulted in a large increase in public sector employment; the total number of civil servants doubled in the last decade. Coupled with increases in public sector salaries, this has greatly inflated the wage bill, which makes up a third of public expenditures and 17 percent of GDP, the highest ratios in the GCC and well above OECD averages (see Figure 4). By contrast, government revenues have followed developments in the oil market. As a result, revenue increases have often fallen short of wage bill increases.

The size of the government wage bill is high

FIGURE 4
Wage bill, 2016



Source: World Bank World Development and Bureaucracy Indicators 2018; and Fitch Solutions 2019

Preferences for public sector employment

Kuwaitis prefer jobs in the public sector over private sector jobs. The Dam Al-Amala program has greatly reduced the average difference between wage levels in the public and private sectors, however, lower-income civil servants still enjoy a substantial wage premium over workers with similar characteristics in the private sector (see section on social protection). Public sector workers benefit from early retirement provisions and 3-months maternity leave (compared to 1 month in the private sector).

Working conditions in the public sector are more favorable. Kuwaiti civil servants are required to work 35 hours a week, lower than in most high-income countries, while private sector hours are typically much longer. Overstaffing in most ministries and agencies, means that work for most civil servants is not onerous or overly time-consuming. Civil servants enjoy opportunities for automatic career advancement and overall job security that are not so prevalent in private sector jobs. Finally, high levels of absenteeism indicate that some civil servants are attracted by the ability to take unannounced days off.

An overview of the Kuwaiti public sector

The public sector consists of the central ministries, public authorities and agencies, as well as public enterprises and the military and security forces. The analysis presented here focuses on the central ministries and authorities, which make up 72 percent of the public sector.

More than 60 percent of staff in the central ministries are female, whose average educational attainment is higher than that of men. Despite this, women remain underrepresented at all higher levels in the public administration. Female new hires are paid 87 percent of their male counterparts' wages when adjusted for age and education, this pay gap is close to the OECD average and smaller than regional comparators.⁵ Almost two thirds of the 20,845 new entrants into public administration in fiscal year 2019 were young, aged 24 to 28.

Centralized recruitment under the Civil Service Commission (CSC) matches applicant profiles to ministry and public agency demand for new recruits. Officials in the Civil Service Commission report that most ministries (excluding health and education, see below) are fully staffed and can meet their service delivery requirements within current staffing levels. However, the demand for public sector jobs (see above) means that there is tremendous pressure on ministries to maintain high levels of public employment.

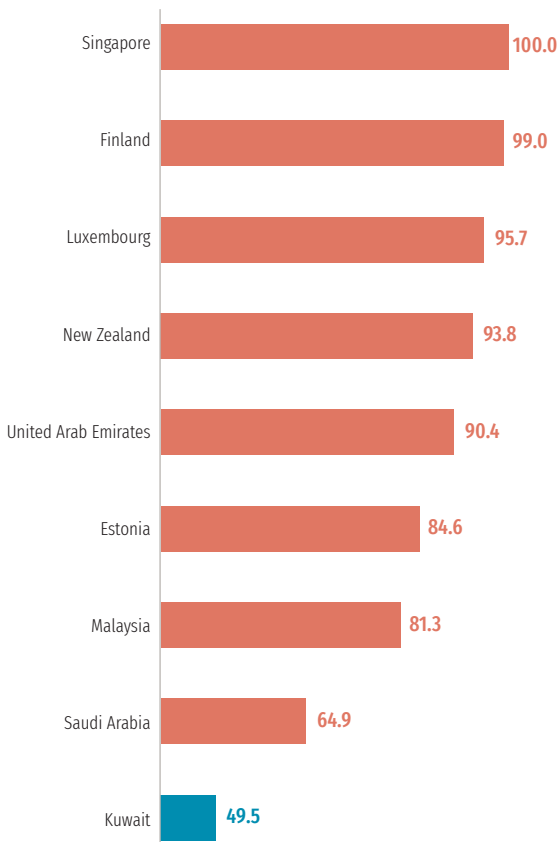
Despite the considerable size of civil service and high levels of public spending, government effectiveness is low and the ease of doing business is poor (Figure 5).

⁵ The gender pay gap in the public sector may largely result from payment of the housing bonus to married Kuwaiti men, as the system assumes that they are the de facto heads of the household.

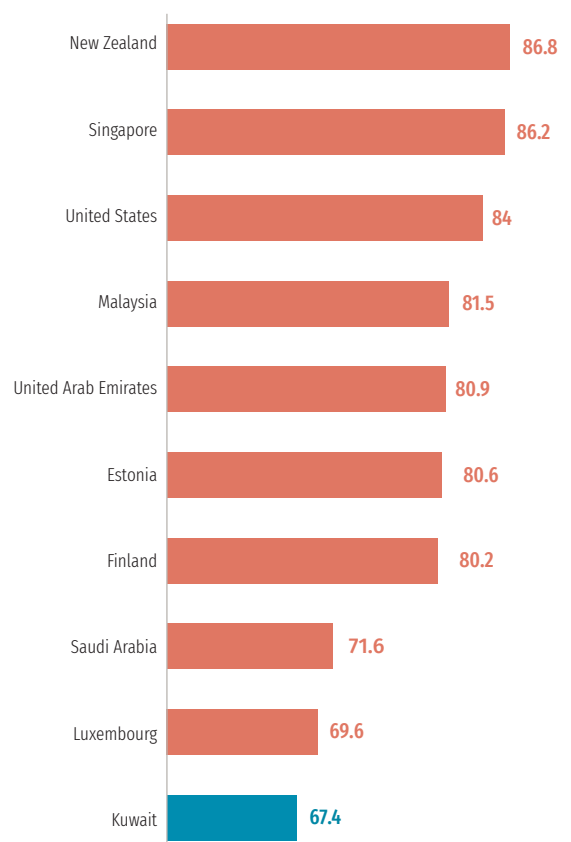
Government effectiveness and ease of doing business remains low

FIGURE 5
Score on Government Effectiveness Index 2018 and Ease of Doing Business 2020

Government Effectiveness, 2018



Ease of Doing Business, 2020



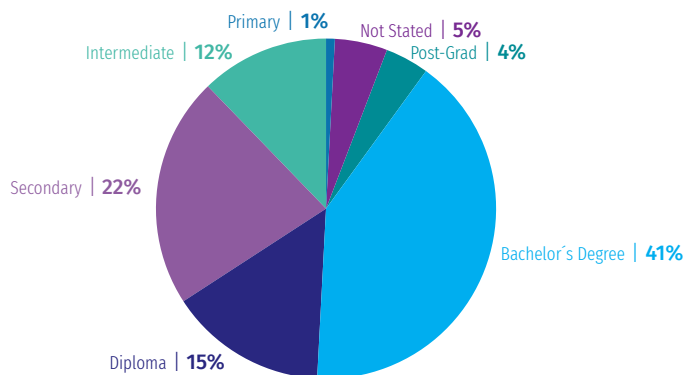
Source: Worldwide Governance Indicators and Doing Business 2020

Educational levels in the public sector

Most public sector employees have completed high school education or less (Figure 6). In part, this reflects Kuwait's low levels of education before independence, as well as limited returns to increased education below university level. The average civil service salary for those without a high school diploma does not differ much between those who have completed primary school or middle school; for high school graduates the average salary is only marginally higher. The salaries of new recruits show a similar pattern.

Educational attainment is low among public sector employees

FIGURE 6
Kuwaiti public sector employees by educational level



Source: Kuwait LMIS 2019 and National Center for Education Statistics

Educational attainment levels among Kuwaitis in the civil service are improving as a result of an increase in the minimum educational requirements, this has coincided with an increase in the technical demands of civil service jobs (see human capital section); and most new entrants now have a bachelor's degree.

Education and health jobs are filled by foreign workers

The civil service is heavily dependent on non-Kuwaitis for health and education professionals. About 70 percent of Kuwait's 7,000 doctors and about 95 percent of the 25,000 nurses employed by the Ministry of Health are non-Kuwaitis. This reliance on foreign medical professionals is not unusual in high income countries, however the large numbers of foreign teachers is unusual. Efforts by the Kuwaiti authorities to replace expat teachers with Kuwaiti staff has helped young Kuwaitis get teaching jobs, but this also has increased the education wage bill and reduced levels of education and experience among teachers.

The supply of Kuwaiti doctors is limited by inadequate educational facilities and a shortage of well-educated Kuwaitis. Kuwait University's Faculty of Medicine currently has 655 students, at the same time, around 7,000 doctors are employed by the Ministry of Health.⁶ The shortage of Kuwaitis in senior medical positions and in some key specialties (e.g., accident and emergency) is also driven by salary limits for senior doctors and the absence of pay differentials depending on the relative scarcity of different specialties (e.g., GPs and surgeons are paid the same). Few Kuwaitis want to become nurses: less than 2 percent of the country's nurses are Kuwaiti citizens, the nursing school recently closed due to lack of demand, and there are currently more than 2,000 job opportunities for graduate nurses, for which there have been no Kuwaiti applicants. This lack of interest in nursing may reflect the difficulties that night and weekend shifts present for married women and the similar pay scales for nurses and teachers.

Salaries of new hires varies

The starting salary for new recruits varies widely.⁷ This variation holds even when differences in education and age (as a proxy for experience) are considered. Such a wide variation in starting salaries is often seen in GCC administrations as the result of a fragmented system in which the civil service ministry does not have authority to set salaries in line ministries and agencies.

This disparity may encourage civil service applicants to turn down offers from lower-paying ministries while they wait for offers from higher-paying ministries. Anecdotally it appears that the average wait time is about 18 months. These long wait times may diminish worker enthusiasm, and to make the matter more challenging, applicants receive a stipend during the wait period and rarely engage in productive activities.

Policy recommendations

Reducing wages where compensation is out of line with qualifications; setting ceilings on wage levels, except in a few occupations where shortages prevail; eliminating the indexation of allowances; and reducing bonuses could help limit the growth in wage levels. Allowances, which are paid in addition to salaries, could be harmonized with levels provided in the private sector. Increasing public sector working hours may also help to increase output.

There need to be limits on the number of times an individual can refuse a civil service position to eliminate the wait times for better-paying positions and to help streamline the hiring process. Establishing a merit-based employment selection and promotion process, with compensation linked to performance, could improve worker motivation. More general improvements could include conducting payroll audits and building comprehensive databases of public employment and compensation.

6 Kuwait Health Science Center 2020.

7 Kuwait Civil Service Commission database 2019.

Controlling wages could be accompanied by efforts to reduce public sector employment through hiring freezes, caps on hiring for some positions, cuts in some areas, and attrition.

The sustainability of the public sector pension system could be supported by introducing a defined contribution pension plan.

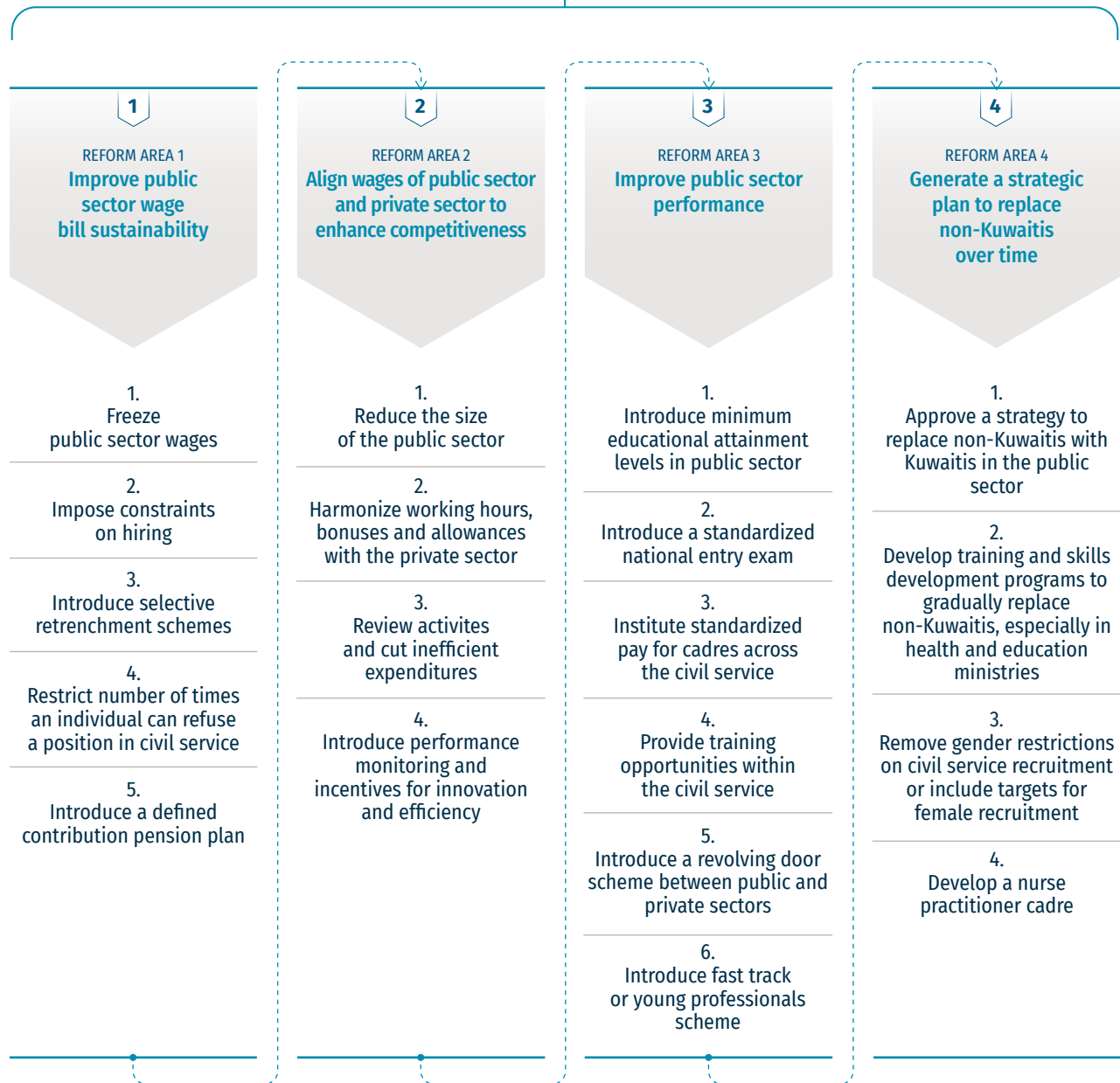
These policies will require an effective communications strategy so that all stakeholders understand why the program is essential.

The quality of new hires could be raised by employing non-university graduates in areas where less formal education is required (e.g., clerical work); adopting a standardized national entry exam; and introducing new schemes to attract talented youth to the civil service. There needs to be an overall redefinition of work streams, tasks, and required skills, as well as services that can be effectively outsourced. The goal would be to move to an elite, smaller scale public sector administration, where the demand for specific skills is well-known, and where precise recruitment needs and levels of funding are clear.

Current civil service performance could be improved by providing employees with additional opportunities to study; this could be done by instituting a revolving door scheme between the public and private sectors, introducing a standardized pay scale for all civil servants (to encourage mobility), and establishing performance monitoring and incentives for innovation and efficiency. A selective retrenchment scheme could be used to terminate non-performers. More gender-based policies need to be established by appropriately trained and specialized staff to support women managers and to understand how best to reduce the gender wage gap in the public sector.

The development and expansion of training programs for Kuwaitis, particularly in medicine and education, would encourage Kuwaiti participation in Health and Education Ministries, which currently account for most foreign civil servants. Development of a nurse practitioner cadre and raising nurses' pay could also encourage more Kuwaitis to pursue careers in nursing.

Summary of policy recommendations for the public sector



Private sector

Fiscal and social sustainability will require rapid growth in Kuwaiti jobs in the private sector. Yet, Kuwaitis have strong preferences for public sector employment, and the ready availability of foreign workers tends to shift investments into low-productivity sectors, where firms pay lower wages than that demanded by Kuwaitis. Private sector growth and productivity need to improve so that firms can hire more Kuwaitis and pay them acceptable wages.

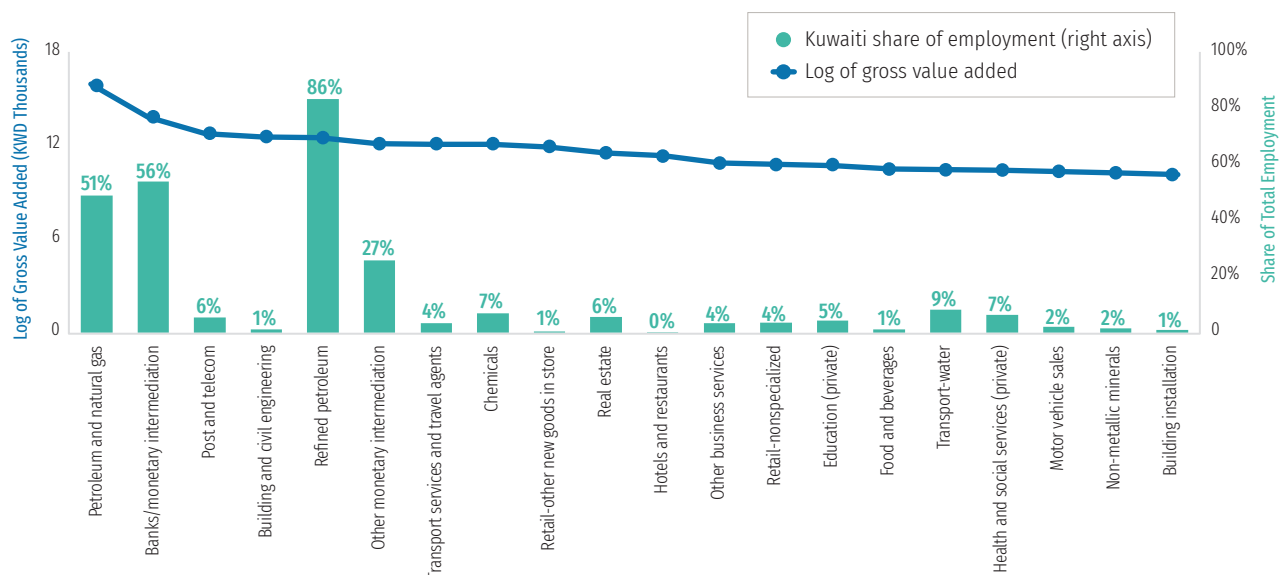
The major challenge, however, is the concentration of Kuwaitis in just a few, slowly growing sectors with levels of labor productivity high enough to pay the salaries demanded by Kuwaiti workers, all in a private sector that is characterized by low dynamism.

Kuwaitis work in a few subsectors

Kuwaiti workers are most active in oil and financial services, which have relatively low levels of overall employment, they are also more strongly represented in public- or foreign-owned firms. Many large subsectors, such as transportation, chemicals, retail, have very low shares of Kuwaiti employment (Figure 7).

Kuwaiti share of employment is very low in some large subsectors

FIGURE 7
Kuwaiti share of total employment in top 20 subsectors by total value added, 2017



Source: CSB (2017a), Annual Survey of Establishments, Central Bureau of Statistics, State of Kuwait

Worker productivity in most sectors is not reflective of the high cost of Kuwaiti labor. Three-quarters of the subsectors (49 out of 65) have levels of value added per worker that are below the average Kuwaiti wage. In 2017, these sectors employed nearly 750,000 non-Kuwaiti workers and just 13,000 Kuwaitis. Kuwaiti employment at the subsectoral level is strongly correlated with productivity and wages, which means that good jobs for Kuwaitis are likely to be in high productivity and more capital-intensive sectors, such as oil and chemicals, banking and financial services, travel and transport services, education and health services, ICT services, and recreation and cultural services. However, several of the largest employment subsectors for Kuwaitis have failed to generate growth and employment in recent years. With some exceptions, the subsectors that experienced significant value added and employment growth are those where Kuwaiti shares of employment are low.

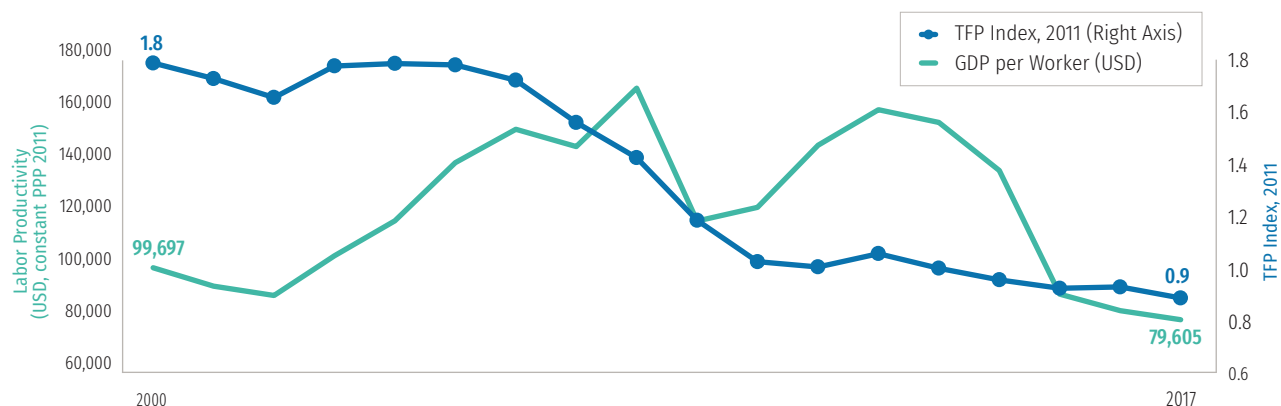
As a result, a continuation of output and employment trends from 2012-2017 and no change in the Kuwaiti share of employment or in output per worker would not generate enough new employment opportunities for Kuwaitis. This suggests that about 2,800 new private sector jobs for Kuwaitis would be generated each year, enough to absorb just one in eight new Kuwaiti entrants to the labor market each year.

Despite weak domestic conditions, as GDP per capita has fallen over the past decade, firms continue to rely on local consumption and government contracts rather than exploiting export markets. Only around 12 percent of non-oil (goods sector) output is exported, and oil has accounted for 90 percent of goods exports and 85 percent of total exports in recent years.

Kuwait's economy-wide productivity performance has been weak over the last two decades. Output per worker in Kuwait was 20 percent lower in 2017 than in 2000 (Figure 8). Poor productivity growth was observed during this period in countries heavily dependent on oil, and even though output per worker in other GCC countries was stagnant or in decline, productivity performance was far worse in Kuwait. In comparison, Saudi Arabia's output per worker was 50 percent higher in 2017 than it was in 2000. While output per worker in the overall economy has fluctuated along with oil prices, total factor productivity (TFP) has been in steady decline since approximately 2005, suggesting deeper structural factors are at play.

FIGURE 8

Labor productivity and TFP in Kuwait



Source: Penn World Tables 9.0

Although productivity gains reflect firms operating more efficiently, these could partly stem from distorting subsidies. At the firm level, markets appear to be operating efficiently in Kuwait and leading to a more efficient allocation of resources. Reallocation of resources had a positive impact on overall productivity in each main sector between 2013-2017 (i.e., positive allocative efficiency). At the same time, firms' technical efficiency was distorted by subsidies. Subsidized inputs and protected domestic markets significantly influence firms' choice of production functions (the relative use of low-skill labor, high-skill labor and capital). Consequently, these biased production functions affect the markets that firms intend to service, they also affect the nature of the products or services they deliver. Firm-level cost structure analysis hints at possible distortions in low-skill labor costs, low energy costs, and low service inputs.

Entrepreneurship and firm growth

Globally, SMEs are important sources of job creation and are critical sources of dynamism for the economy. This is particularly important in an economy like Kuwait's, which needs to undergo significant transformation in the coming decades. SMEs generally tend to be less productive than larger firms, however, productivity growth in the SME sector, most importantly the positive allocative effects of firm entry and exit, is vital to aggregate national productivity growth.

Kuwait's private sector is segmented between very small and very large firms, with employment highly concentrated in large firms. Businesses with less than 50 employees account for a quarter of employment, compared to almost half for OECD countries and 40 percent in Saudi Arabia.

Entrepreneurs make up less than 1.5 percent of the working-age population in Kuwait compared to 10.7 percent in OECD countries.⁸ Behavioral barriers hinder entrepreneurship among Kuwaitis (see discussion in section on public sector). Typical behavioral constraints on entrepreneurship, such as risk aversion, may be exacerbated in the Kuwaiti context as a result of the strong social bias toward public sector employment. This may prevent nascent entrepreneurs from taking the step to move fully out of their public sector jobs and/or limit willingness to seek rapid growth in their business. Biases against entrepreneurship, and particularly against female entrepreneurs, may also constrain opportunities to access bank financing, the SME Fund, or other sources of financial support.

New firm entry and exit rates were less than 0.7 percent over the period 2014-2017, much lower than among OECD comparators.⁹ While young firms are showing some promise in terms of expanding Kuwaiti employment, they remain too small a share of the private sector to have an appreciable impact on overall productivity. Moreover, while young firms are typically the biggest source of firms with high growth, in Kuwait the young firm cohort is underrepresented in this group. Regression analysis shows that across all sectors (except financial services), high growth is positively associated with the initial level of employment. This suggests that there may be important constraints to growth that are particularly binding for young firms, for example constraints on entry and limited access to capital.

⁸ The data on Kuwait is from the Labor Force Survey (2016/2017) and on OECD from the World Development Indicators database.

⁹ That is, from the total number of private establishments, firm entry rates represent newly created firms as a proportion of the total. Similarly, firm exit rates represent the share of firms that left the market (i.e., closed businesses) from the total number of establishments currently operating in a given period.

The business environment

Establishing a business in Kuwait takes longer than in all comparator countries

Entrepreneurs in Kuwait face several constraints when starting and growing businesses:

- Despite recent improvements, it still takes longer to establish a business in Kuwait than in all comparator countries, and more than twice as long as the GCC average. Similarly, it takes more than four years to resolve an insolvent business in Kuwait, compared to about 2.5 years for the GCC average.
- Kuwait scores poorly on measures of trade facilitation, for example the time required to secure certificates of origin or delays in import/export. Ongoing regional political and trade conflicts further impede opportunities for regional trade, they also impede attracting FDI into services sectors.
- Barriers to foreign investment act as a further constraint to exporting and diversification. Globally, foreign investors play a leading role in the export sector, while in Kuwait virtually all FDI has been focused on serving the domestic market.
- Many businesses in Kuwait face severe obstacles to obtaining credit. Kuwait is ranked well below the GCC average on the degree of support provided to SMEs by financial markets, but well below that of OECD countries, on the strength of the financial system (based on the World Economic Forum's Global Competitiveness Index). Female entrepreneurs face significant difficulties in accessing finance, including legal barriers.
- Limited availability and high cost of land are significant constraints on industrial development in Kuwait. Various plans are in place for industrial parks and SEZs, but they do not appear to meet the needs of investors.
- Product markets are less competitive in Kuwait than in comparator countries. Kuwait's score on the World Economic Forum's product market index is more than 10 percent below that of the GCC average and 16 percent below that of the US, which particularly affects the prospects for SMEs and especially for young firms.
- Significant trade and investment barriers protect some domestic players but raise costs for all.
- The lack of competition in the provision of infrastructure sectors (especially transportation), which are dominated by the public sector, raises firms' costs and lowers the scope and quality of services.

Replacement of foreign workers

The “Kuwaitization” quotas and the payment of subsidies to Kuwaiti private sector workers are designed to entice Kuwaitis to work in the private sector and firms to hire them. Data from the Establishment Survey suggests that employers are complying with Kuwaitization quotas in most sectors, and regression analysis indicates that high quotas (more than 50 percent) are one of the very few factors significantly associated with Kuwaiti employment across firms. However, the data also shows that employers mostly hire Kuwaiti workers when they reach the point at which the quota requires a Kuwaiti hire. In addition, anecdotal evidence suggests the significant use of ‘ghost workers’ or of parallel hires of Kuwaitis simply to meet quotas, which ultimately increases the cost of doing business.

The systematic replacement of large numbers of non-Kuwaiti workers will be a bigger challenge than the enforcement of quotas at current levels. Three-quarters of private sector firms employ no Kuwaitis, and in the 25 percent of firms that do hire Kuwaitis, the average share of Kuwaiti employment is only 13 percent.

Non-Kuwaiti workers remain a more competitive option for employers in most sectors and occupations. Even with Dam Al-Amala subsidizing Kuwaiti private sector wages, there is a significant gap in wage demands by Kuwaiti versus non-Kuwaiti workers. The wage premium paid by employers to Kuwaitis (excluding Dam Al-Amala) rises along the distribution, and only reverses slightly for the top 5 percent of the distribution as per the Labor Force Survey (2017). Finally, data from the Establishment Survey (2013-2017) indicates that non-Kuwaiti wages are quite low: the average monthly wage for non-Kuwaiti workers in the median firm was just KWD 215, while the average monthly wage for non-Kuwaitis at the 97th percentile was less than KWD 1,000.

Even with a narrower wage gap, employers are not likely to substitute foreign workers for Kuwaitis, owing to differences in skills, quality, and productivity (as well as employers’ beliefs and perceptions). Analysis of the relationship between wages and labor demand shows virtually no substitutability between Kuwaitis and non-Kuwaitis in the average firm. Thus, the potential for firms to replace non-Kuwaiti workers with Kuwaiti workers due to a decline in the wage gap is extremely limited (cross-wage elasticities are mostly insignificant).

Instead, substitution in key sectors is feasible if labor demand shifts to higher skills. Some sectors in Kuwait remain highly dependent on low-skilled labor, with the share of high-skilled workers falling way behind that of EU28 countries. There is an opportunity to change the mix of production in these sectors by using more capital and high-skilled workers to be on par with EU28 countries. Sectors such as ICT, manufacturing, and transport can absorb more Kuwaitis if their production functions become more capital- and technology-intensive.

Employer perceptions of Kuwaiti workers’ behavior also matters. Behavioral science analysis shows that employers differentiate between two types of Kuwaiti workers.¹⁰ Some Kuwaiti workers are viewed as having little ambition to grow in the private sector, as having a back-up plan for working in the public sector or the availability of safety net support reduces their perceived necessity to work hard. However, focus group interviews have revealed

10 Based on interviews with HR managers and focus groups.

that many Kuwaitis that studied outside Kuwait or at private universities tend to be seen as more dynamic and driven; the Kuwaiti educational system does not prepare Kuwaitis to work in the private sector. In addition, young Kuwaitis are seen as impatient in terms of promotion (they expect to be promoted after one year). Managers often prefer non-Kuwaitis who “would be willing to keep the boat floating” for a fraction of the cost.

Policy recommendations

Allowing non-Kuwaiti workers to change jobs freely would enable workers to seek more productive jobs and drive a more efficient allocation of new investment. Once this has led to a new wage equilibrium, raising the minimum wage in high-priority sectors would support an increase in the cost of non-Kuwaiti labor and force employers to consider adopting more capital- and technology-intensive production functions.

The introduction of incentives for firms to invest in human capital could improve productivity, facilitate firms’ adoption of more capital- and technology-intensive production functions, and address the lack of essential skills in some areas. The introduction of a high-skills visa program would help to close skills gaps and promote knowledge spillovers in the short term, pending improvements in Kuwaiti education.

Targeted subsidies, the broadening of financial instruments that support investment by small firms, and the promotion of deep free trade agreements with a focus on services and investment could promote capital deepening and diversification. Capital subsidies that are now directed to start-ups should be rebalanced to support efforts by SMEs to expand. Targeting will be difficult, however, since linking benefits to size would discourage firm growth.

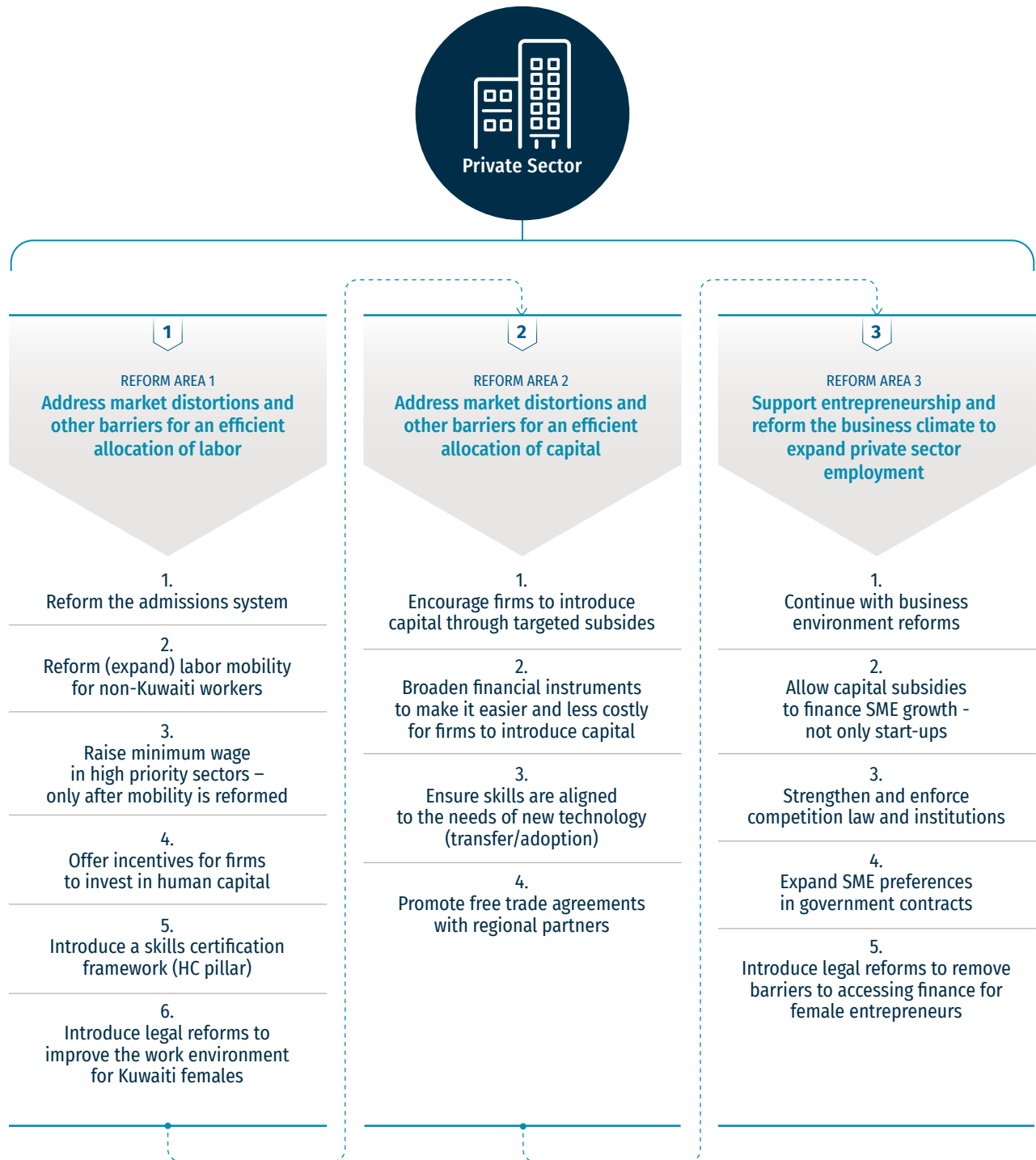
The government’s program to improve the business environment could continue, with a focus on reforms for starting a business, obtaining land, undertaking construction, and insolvency. Strengthening competition law and institutions (to ensure effective enforcement) would open markets for young firms to enter and expand.

An expansion of SME preferences in government contracts, along with support for subcontracting arrangements with large firms, would strengthen competition in public contracting.

Legal reforms could also remove barriers to accessing finance for female entrepreneurs and to improving the work environment for Kuwaiti women. However, social norms also impede some women from becoming entrepreneurs or employees.

The provision of financial/fiscal incentives for the introduction of information and communications technology in production could raise productivity and increase the demand for workers with specialized skills.

Summary of policy recommendations for the private sector

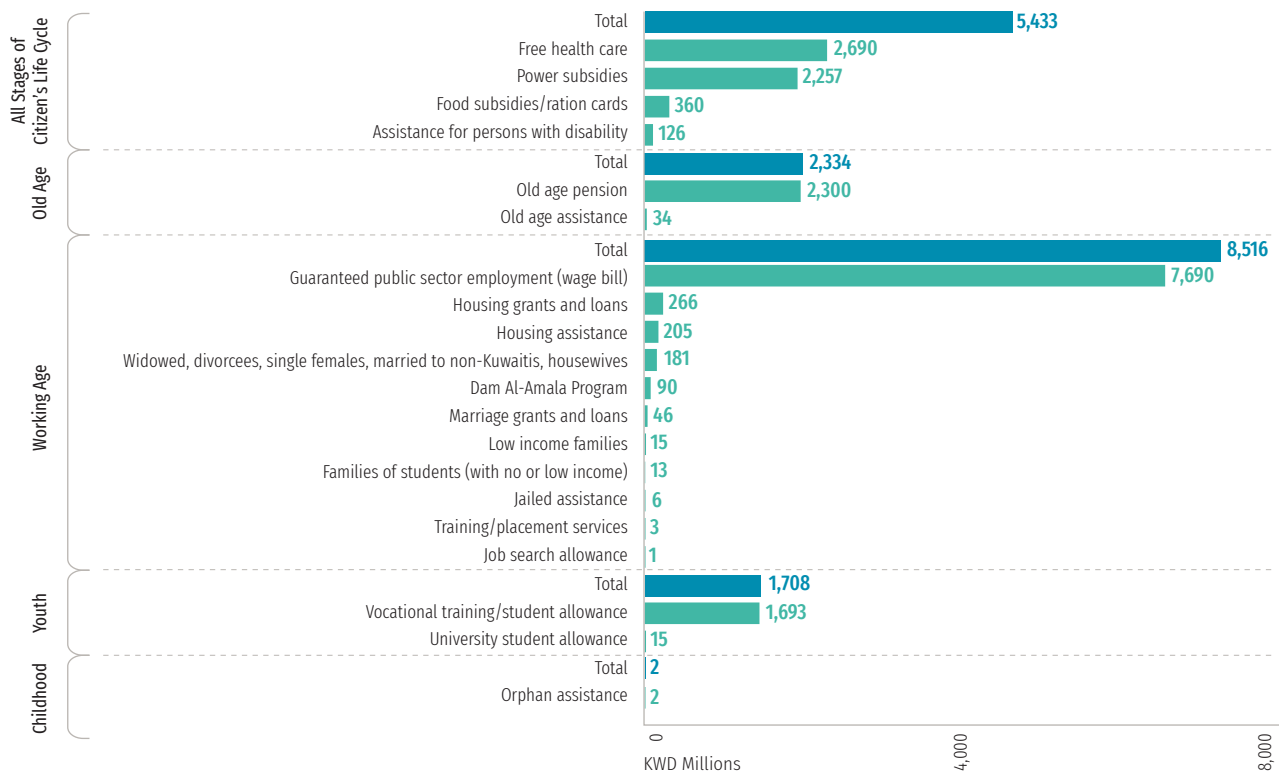


Social protection

Kuwait implements a comprehensive social protection system that provides support to all citizens, involving nutrition assistance, free health care, support for education and training, work incentives, job placement assistance, insurance against unemployment and disability, housing assistance, grants and loans for marriage, assistance to divorcees/single females/widows, old age assistance and pensions. Most importantly, Kuwait guarantees jobs to all citizens, mainly in the public sector (Figure 9).

Social protection spending is low. Most government spending is on public sector employment and subsidies

FIGURE 9
Kuwaiti government spending (nominal terms, Kuwaiti dinars (KWD) millions)



Source: Kuwait Social Safety Net Report 2018; and other reports

Note: The year for the data varies as it was collected from multiple reports (latest available)

This section explores social protection policies that would contribute to two goals, the first of which is to help Kuwaitis improve their employability. The main areas of focus include strengthening active labor market programs and transfers; improving job seeker case management and matching support; and increasing incentives to look for work among Kuwaitis who are work-capable but who are outside the labor market. The second would improve the efficiency of the social protection system by sharing wealth in a more equitable and less distortive way than the current system of guaranteed public sector jobs and generous subsidies.

The programs to be covered under this pillar include labor market transfers and programs (Dam Al-Amala program, job search allowance and active labor market programs implemented by Public Authority for Manpower - PAM), social insurance transfers (old-age pensions, survivorship benefits, and unemployment insurance), social safety net transfers and allowances (the MoSA family allowance program for low-income earners and specific categories of individuals), and energy and water subsidies.

Labor market transfers and programs

Labor market programs and transfers make up a very small share of the social protection budget. Training programs and the job seeker allowance together are equivalent to less than 0.2 percent of the amount devoted to energy subsidies, and even the Dam Al-Amala program, an in-work benefit with a significant impact on equalizing public and private sector salaries, spends only 4 percent of the amount devoted to subsidies. Overall, government spending on labor market programs equals only 0.0007 percent of GDP, a much lower share than in any OECD country.

The Dam Al-Amala program

The Dam Al-Amala program, a private sector in-work benefit, began in 2001 to narrow the wage gap between the public and private sector for Kuwaitis. The benefit is conditional on having employment in the private sector and goes directly from the government to the worker's account. Without Dam Al-Amala payments, a large share of private sector workers would earn wages that are well below the levels earned by most public sector workers. But with the benefit, the private sector pays Kuwaitis on average 6.8 percent more than the public sector. A negative average wage premium between the public and private sectors is on par with many OECD countries.¹¹

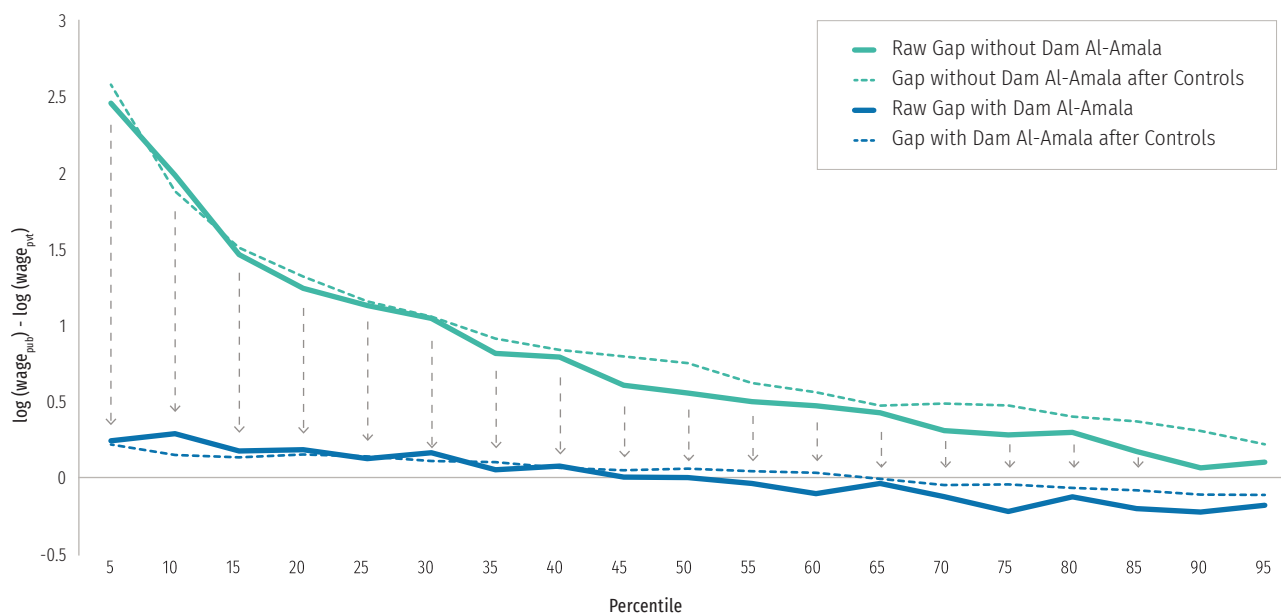
Dam Al-Amala has reduced the wage gap across the wage distribution (Figure 10). In fact, with Dam Al-Amala, the private sector now pays more than the public sector at the higher end of the wage distribution. This, in part, reflects the relatively small premium that this group of workers enjoys in the public sector when compared to lower-wage workers, but it also reflects the fact that the program provides higher payments to workers with higher education (payments are also higher for married workers than for single workers, and additional payments are provided for workers with children). A significant public sector wage premium remains for most workers in the lower half of the wage distribution. The

11 Campos et al., 2017.

difference between public and private sector wages (controlling for workers' characteristics) is 15 percent and 14 percent at the 10th and 25th percentiles of the wage distribution, respectively. Similarly, a substantial wage gap remains for younger workers and workers with low levels of educational attainment (Figure 11).

Dam Al-Amala reduced the private/public wage gap across the income distribution

FIGURE 10
Monthly salary (including benefits) differential between public and private sector

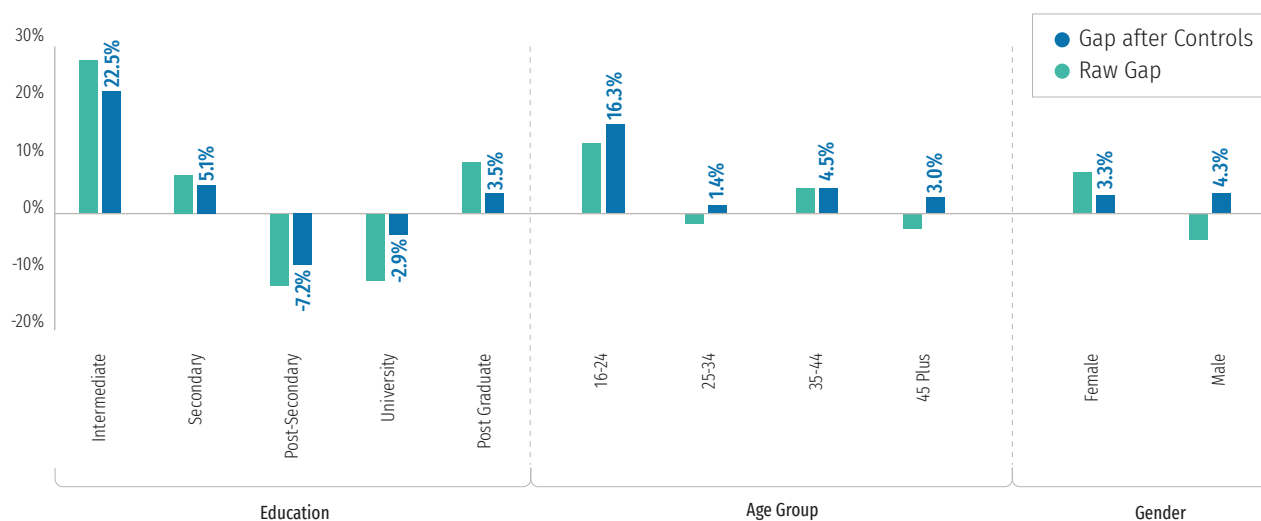


Source: Data based on Kuwait Labor Force Survey 2017

Note: Controls account for worker characteristics, such as education, age (as a proxy for work experience), marital status, gender and governorate. The y-axis is the difference in log of wages and can be read as percent difference in monthly wages between the public and private sectors. The x-axis presents different percentiles of the entire wage distribution. The method to calculate the wage gap at different percentiles of the entire wage distribution is called a recentered influence function. The gap at the 25th percentile refers to the salary of an individual at the 25th percentile of public wage distribution minus the salary of individual located at 25th percentile of the private wage distribution. The data include base salary plus benefits. Results are robust even when using hourly wages

A substantial wage gap remains for the least educated and youngest workers

FIGURE 11
Public-private wage gap with Dam Al-Amala



Source: Kuwait Labor Force Survey 2017

The Dam Al-Amala program initially generated interest in private sector employment. However, this was reversed by a series of significant public sector salary hikes in the early 2010s¹² and the impact of the global financial crisis. While private sector employment remains higher than in 2009, this may partially be due to ‘fake employment’ in order to fulfil Kuwaitization quotas by companies (see discussion of quotas in section on the private sector sector).

The job seeker allowance program

Depending on education and marital status, the job seeker allowance program provides an allowance of between 75 and 200 KWD for a maximum of one year. The benefit is conditional on searching for a job and is terminated if the beneficiary on three occasions either refuses a job offer or an opportunity to participate in training. The importance of support for job seekers is underlined by the fact that about 45 percent of job seekers are unemployed for a year or more, a significantly higher share than in most OECD countries. The program is relatively small: total spending was about KWD 1 million in 2015/2016 and is not frequently utilized. According to a survey conducted with students, less than 10 percent of respondents

12 Source: <https://www.reuters.com/article/kuwait-wages/kuwait-hikes-state-wages-to-act-vs-inflation-idUSL5E8ED0PN20120313>.

reported relying on PAM to look for a job. However, the job search allowance is below the social assistance benefit offered by MoSA, incentivizing some work-capable beneficiaries to not look for work.

The job seeker allowance program could improve its targeting for the right groups. The program provides higher benefits to, and primarily serves, more educated Kuwaitis, however, workers with low levels of education tend to have longer spells of unemployment. There is concern among policy markers with regards to the excess supply of highly educated workers looking for private sector jobs, but labor market programs and transfers are unlikely to be the right tools to address this concern. Instead, policies to improve job creation and productivity in the private sector are key to absorbing high educated Kuwaitis.

In Kuwait, job seekers do not have access to a frequently updated labor market information system. While the information exists, the challenge in Kuwait is to integrate existing information with data in the labor market information system and to make the data more widely available in an easily digestible form. The information could include:

- > Employment growth areas;
- > Job vacancies by education and skill requirements; and
- > Earnings and wages.

Social insurance transfers

Social insurance transfers are designed to support Kuwaitis during retirement and spells of unemployment. The old-age pension provides generous net replacement rates, much higher (on average) than in the average OECD country. Despite annual government contributions of 4.6 percent of GDP, as well as large one-off injections of capital beyond the statutory public contributions, the pension agency has been accumulating a large actuarial deficit in recent years and currently is only about 60 to 70 percent funded (Hertog, 2019).

The pension system reduces work incentives, including the recent provision allowing workers to retire five years earlier than the already low age of 55 for men and 50 for women with a lower pension (the age for early retirement in Kuwait is one of the lowest in the world); the provision of survivorship benefits to daughters at all ages unless they find a job (incentivizing female survivorship beneficiaries not to seek work); and the permanent provision of survivorship benefits to a widowed wife, even if she is of working age. High levels of unemployment insurance may also discourage working. However, the take-up of insurance payments has been low, possibly due to low labor mobility among Kuwaitis.

Social safety net transfers

The MoSA Family Allowance Program provides benefits to low-income households, depending on the number of people and the presence of students or trainees. It also provides benefits to individuals, including widows, orphans, divorcees, the elderly, students, former and current prisoners, the families of prisoners, and unmarried women who are below the age of 35. The number of individual beneficiaries and the amount per individual increased from 2010 to 2016. Most MoSA benefits go to individuals (mainly Kuwaiti women, who are

either housewives, divorced, or widowed) who do not necessarily fall within low-income households. A 2015 World Bank assessment based on the 2013 Household Income and Expenditure Survey finds that 50 percent of social assistance provided by the MoSA is received by the two highest wealthiest quintiles.

A survey of MoSA Family Allowance Program beneficiaries highlights the disincentive to look for work. Among beneficiaries, 84 percent were not interested in finding a job, and 9.8 percent wanted to work in the public sector only. Incentives are particularly distorted among women who receive generous cash transfers that remove the need for them to work at all. Moreover, the benefit for an individual is 2.8 times the maximum benefit under the job seeker allowance program and is not linked to a job search requirement, which might induce some work-capable beneficiaries to remain on the social assistance benefit rather than seek help for finding a job.

Energy and water subsidies

The prices of fuel, electricity, and water services for Kuwaiti citizens are set below average prices in the GCC and the US. Subsidies are an unequal and inefficient way of sharing wealth. They are regressive, as wealthier households consume more energy, and they are costly, equaling 4 percent of GDP (IMF, 2018). Moreover, they encourage excessive consumption by citizens and inefficient investment by the private sector.

Policy recommendations

Dam Al-Amala could be reformed to target workers based on their wages, with a higher payment channeled to low wage workers.

PAM's case management approach could be based on a profiling system to provide intensive support for the hard to place, and online services to complement in-person support for the relatively easier to place. PAM's coordination with the private sector could be strengthened by actively collecting data on vacancies, identifying growing occupations and skills, and re-orienting training programs toward skills that are in demand by the private sector. Many MoSA beneficiaries who are capable of work could be encouraged to join the labor market by expanding PAM's resources and capacity to do outreach, intake, registration, profiling, placements, or referrals to training services for skilling/reskilling.

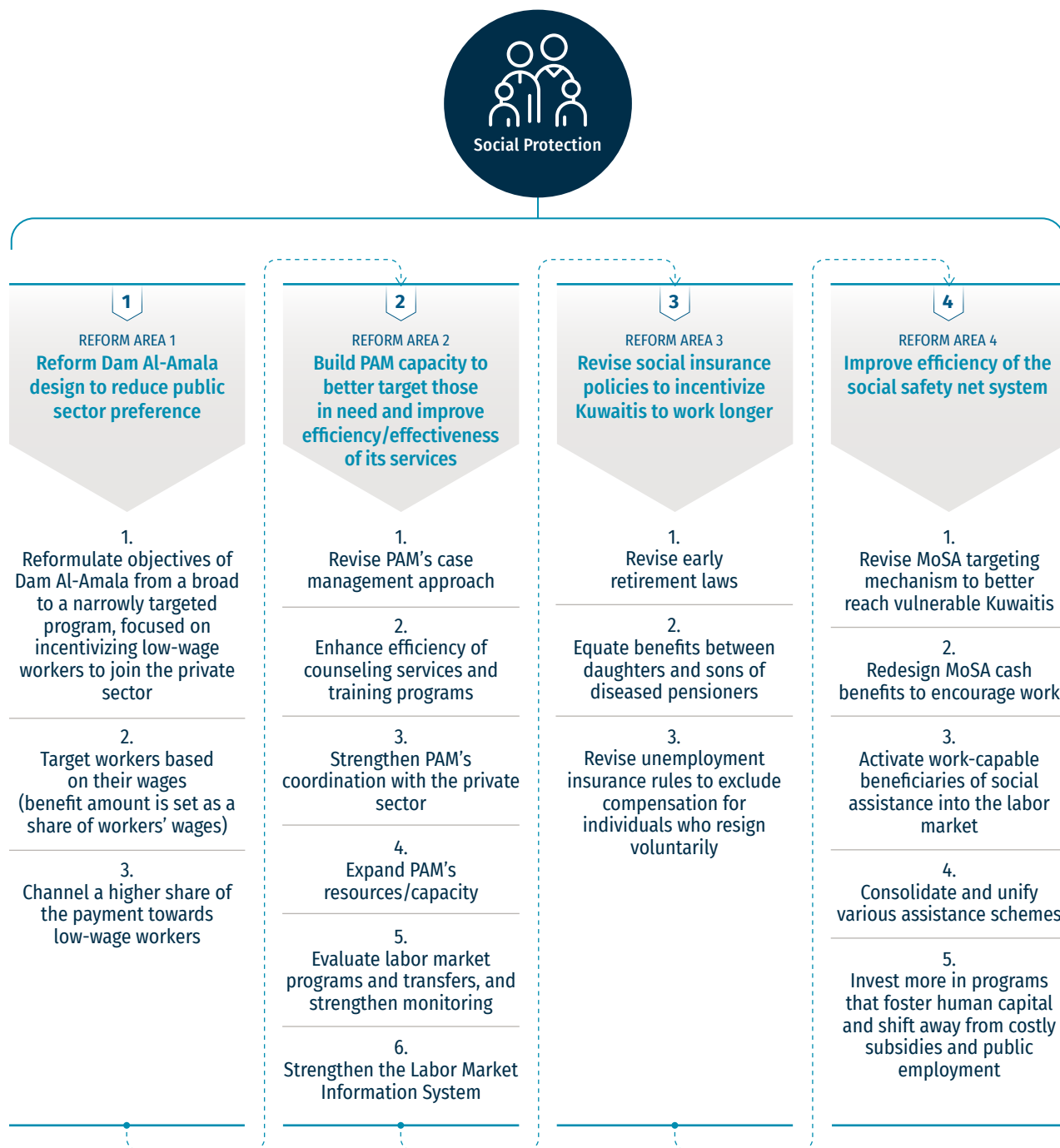
Strengthening the labor market information system, including the collection of employment data on many of PAM's beneficiaries after placement, is key to effective program evaluation.

Incentives to work could be increased in the social insurance system by significantly raising the retirement age (from 55 for men and 50 for women); restricting eligibility of survivorship pensions to dependents (both male and female) up to 21 years old, 26 if in education (with the exception of the disabled), and widows until they re-marry; and reducing unemployment benefits for workers who voluntarily leave their jobs. Work incentives in the safety net system could be increased by linking cash benefits to job search and acceptance of suitable training and job offers (for work capable beneficiaries), and for beneficiaries who find work,

reducing benefits by less than the rise in income (an earnings disregard). The amount of spending on distortive policies such as public employment and energy subsidies could be reduced. These reforms, along with basing eligibility on household welfare (rather than categorical targeting), could enable more resources to be targeted to vulnerable households.

The efficiency of the social protection system could be improved by consolidating the various assistance schemes and implementing a unified framework for targeting, assessing eligibility, and implementation.

Summary of policy recommendations for social protection





Human capital

While educational attainment is high in Kuwait, the quality of education is poor. When years of schooling are adjusted for quality of learning, the average of 12.4 years of schooling is equivalent to 7.6 years. Kuwait’s per student expenditures are comparable to levels in countries with similar incomes (for example, Finland), but learning outcomes are similar to Uganda (see Figure 12 below).

The quality of education in Kuwait is poor

FIGURE 12
Human Capital Index harmonized test score and average per-student spending per annum



Source: Human Capital Index and World Bank team calculations

Educational outcomes and quality of education

Numerous studies indicate that Kuwait’s educational system fails to adequately prepare students for their future careers (see, for example, AlBadir, 2013). A lack of general skills, motivation and weak communication skills are identified as key factors affecting the quality of graduates.

Pre-school education

Pre-school enrollment in Kuwait is low and is declining; the quality of Kuwaiti pre-school education is low by international standards. Only three-fourths of pre-school teachers in Kuwait are considered well-equipped with the necessary pedagogical skills to support the developmental needs of children in pre-school settings and trained to use teaching materials in an effective manner, below that of many comparator countries, including the UAE and several other MENA countries.

Teachers in public pre-school programs felt that they were inadequately trained on knowledge and practices and did not receive any specialist training for dealing with young children. Kuwaiti parents respond to this by showing a preference for private over public early childhood development (ECD) programs, concerned that public schools do not prepare children well (Al Shatti, 2011).¹³ More research is necessary to evaluate the quality of public schools.

Skills levels in reading, mathematics and science

Over half of Kuwaiti children age 10 test below the minimum reading proficiency level

Despite significant time devoted to reading instruction in early grades, more than half of Kuwaiti children age 10 test below the minimum reading proficiency level on international reading assessments, disproportionately more than in other high-income economies. Only 37 percent and 49 percent of 8th grade pupils reach the low international benchmark in the TIMSS mathematics and science assessments respectively, compared to the best performing countries,¹⁴ where these shares exceed 90 percent.

The gender gap in skills

In Kuwait, boys tend to fare much worse than girls in reading, math and science assessments. A negative gender gap in reading is observed in all GCC countries,¹⁵ but Kuwait's negative gender gap in reading is higher than all OECD countries. Similarly, the negative gender gap in 8th grade math and science tests is much greater than in most high-income countries.

13 It is possible that parents prefer private kindergartens because children are introduced to English, public early childhood development (ECD) programs do not offer English instruction. https://research.ncl.ac.uk/media/sites/researchwebsites/arecls/alshatti_vol8.pdf.

14 Japan, South Korea, Canada, USA are just a few examples of countries where more than 90 percent of students reach the low international benchmark of at least 625.

15 See El-Saharty, et al. (2020) and Lynn and Mikk (2009). In general, the gap is larger across a range of MENA and GCC countries compared to other countries in the PIRLS or PISA samples.

The segregation of schools by gender, for both students and teachers, is likely an important reason. Men enjoy higher salaries and wider professional opportunities outside of teaching than women, as such, girls' schools may have a stronger, better-educated pool of teachers to choose from. In addition, in most western countries, boys have higher expectations and receive more encouragement to succeed in math and science than girls, single-gender classrooms in Kuwait may create a safe space for girls to explore their interests in science.

Drivers of low-quality education

Certain elements of the education system need to be strengthened to improve learning quality. Here we focus on: how information and communication technologies (ICTs) are used, the teacher reward structure, aspects of teaching and learning processes, and teacher and student absenteeism.

ICT usage

The use of computers in the classroom is less frequent in Kuwait than in other high-income countries. Moreover, even when computers are available, associated infrastructure is often missing,¹⁶ training in using the equipment effectively is insufficient.

Teaching and learning processes

There is a bigger emphasis on obedience and memorization in Kuwait than in many high-income countries.¹⁷ This emphasis tends to stifle the development of critical thinking skills and the ability to apply acquired knowledge to real-world problems.¹⁸

In addition, Kuwait has not adopted a student-centered approach to teaching. Teachers are expected to follow the core curriculum based on the prescribed syllabus, regardless of students' learning styles or abilities.

Absenteeism

High rates of student and teacher absenteeism impair the quality of education. Eighteen percent of fourth graders in Kuwait report missing school at least once a week, compared to only 10 percent internationally. 16 percent of grade 8 students attend schools whose principal reports that teacher absenteeism is a "serious problem," compared to only 4 percent of grade 8 students in OECD countries.¹⁹

16 Alharbi, 2012.

17 World Values Survey, 2014.

18 World Bank, 2019a.

19 Source: TIMSS 2015.

The promise of educational reform

Simulations of education reforms to raise quality were carried out to quantify the impact. If reforms are implemented by 2020 the children affected would enter the workforce by 2029. Educational reforms would increase growth, productivity and investment from 2030 to 2050 (Figure 13). Since human capital can be a key determinant of export performance and FDI, improvements in human capital also would support efforts to diversify the Kuwaiti economy.

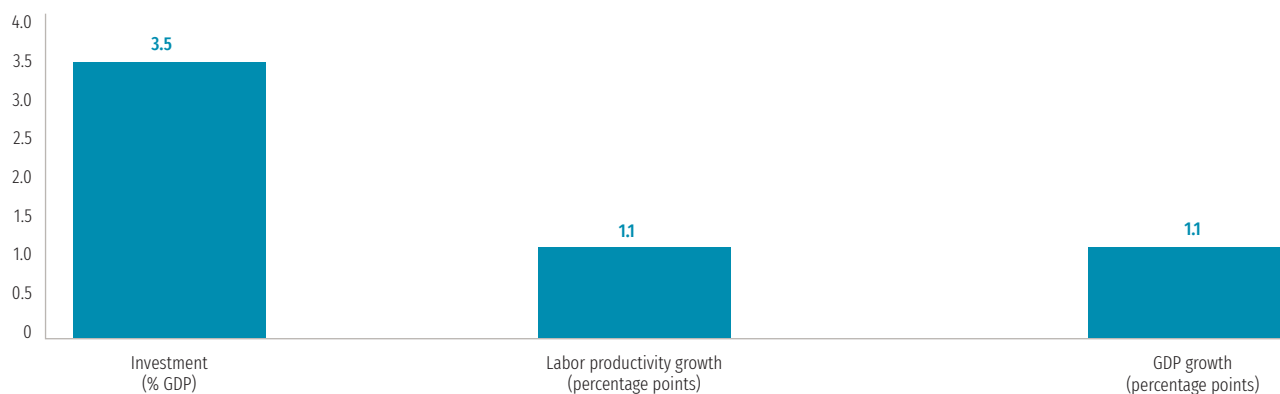
Improving learning outcomes could boost growth and investment

FIGURE 13

Projected impact of educational reform on investment, productivity and GDP

Difference from baseline

Percentage point



Source: Authors' calculations

Note: Assumes educational reform begins in 2020. Investment/GDP is in 2050; growth of labor productivity and GDP are average over 2030-2050

Maximizing human capital

To transition to a knowledge-based economy, as Kuwait aspires to do, policymakers need to confront several challenges.

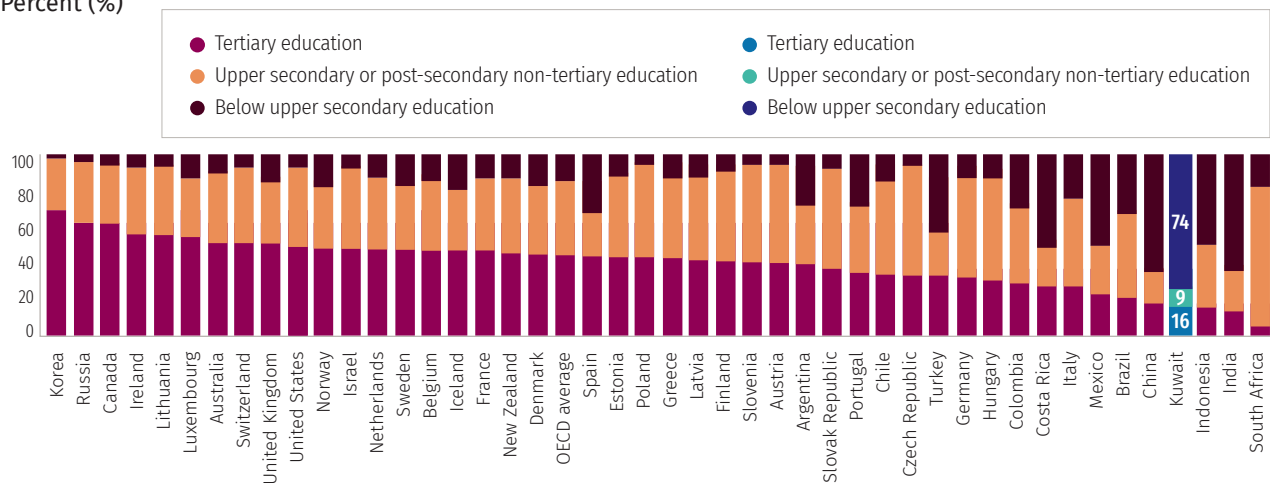
Workforce skills

The lower quality of education in Kuwait and the ready availability of foreign workers with low educational attainment inevitably results in a low-skilled workforce. Among 25-34 year-old workers, Kuwait has a smaller share of tertiary-educated people, and a greater share of people who have not completed upper-secondary education than in most high-income countries (Figure 14).

The educational attainment of workers in Kuwait is significantly lower than in most high-income countries

FIGURE 14
Educational attainment of 25-34 year-olds

Percent (%)



Source: OECD Education Statistics

Establishing a more competitive, knowledge-based economy will require reducing the reliance on routine tasks. Around 32 percent of workers in Kuwait have jobs that are classified as routine tasks, for example on assembly lines or in construction, compared to only 20 percent in the United States. By contrast, the share of Kuwaiti jobs requiring mostly cognitive skills, essential for a highly productive, knowledge-based economy, is 27 percent, lower than in many other countries at the same income level.²⁰

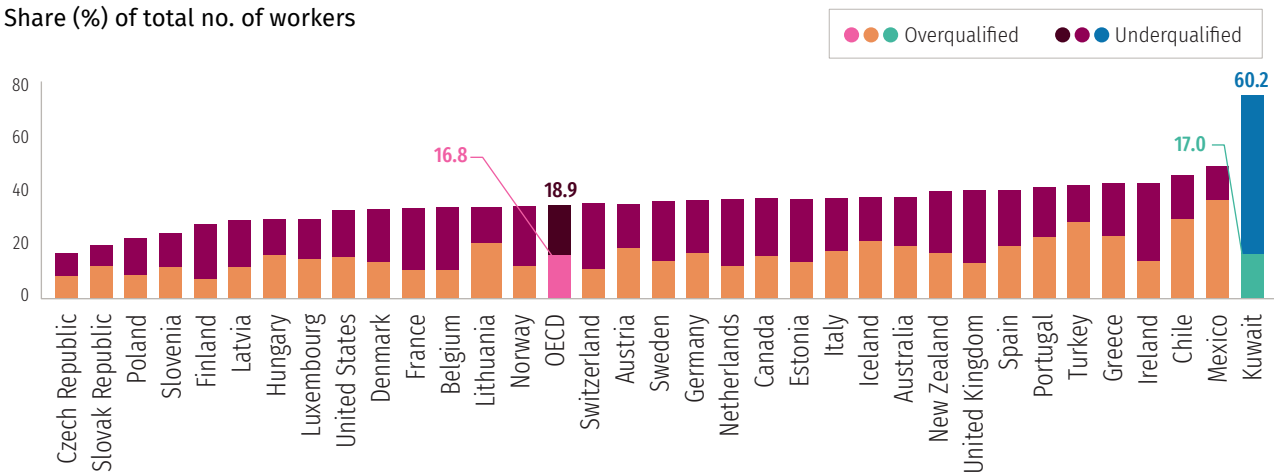
20 World Values Survey, 2014.

There is also a significant mismatch between workers’ educational attainment and the qualification required for their jobs, based on international assessments of requirements for similar jobs in other countries. If education attainment is higher than this international standard, workers are classified as over-qualified; if the opposite is true, they are classified as underqualified. By this metric, more than three-fourths of jobs in Kuwait are characterized by skills mismatches, much more than in any other high-income country, and more than twice the average level of OECD countries (Figure 15). The high level of skills mismatches is largely due to a high share of foreign workers whose educational attainment is below what is typically required for each job by international standards.

Skills mismatches are higher in Kuwait than in any other high-income country

FIGURE 15
Qualification mismatch by type

Share (%) of total no. of workers



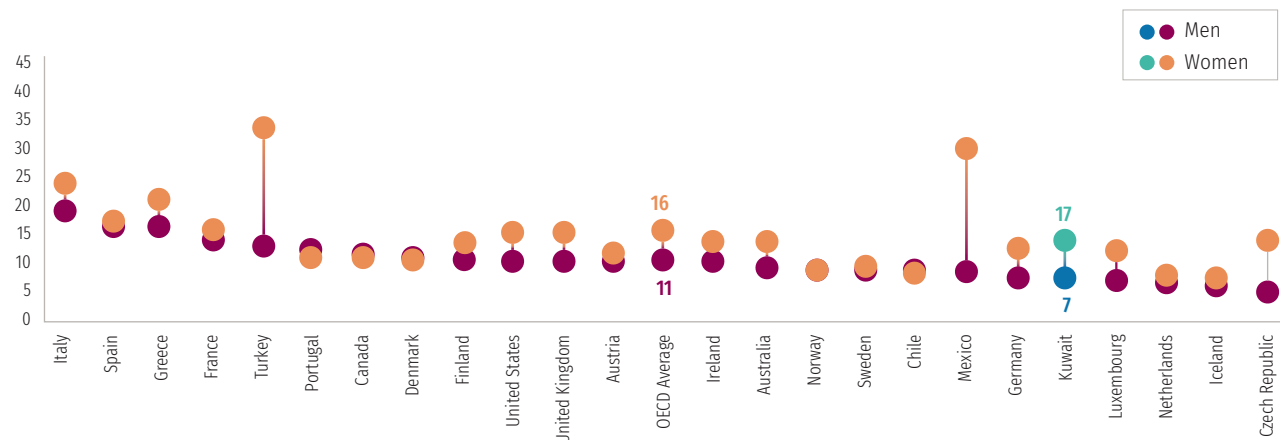
Source: Kuwait Labor Force Survey 2017; and OECD Skills for Jobs Indicators 2017

Labor market exclusion

The labor force participation rate among Kuwaitis is 40 percent, little more than half the average rate for OECD countries. Participation is higher among individuals with a university degree or higher, although employment rates differ significantly within this group. Pursuing a degree in a STEM field reduces the probability of labor market exclusion compared to studying Arts or Humanities.

Age and gender are also important correlates of labor market exclusion. The share of 15-24 year-old women not in employment, education or training (NEET) is 16.7 percent, higher than in any OECD country except Turkey and Mexico (Figure 16). Female labor force participation (FLFP) rate in Kuwait is only 31 percent, lower than in other countries in the same income range, although female educational attainment is high. Returns to education are higher for women than for men,²¹ but college-educated women earn 77 cents for every dollar earned by college-educated men. The gender pay gap is substantially larger in traditionally male fields, such as ICT.

FIGURE 16
NEET rate by gender (15-24 years old)



Source: Kuwait Labor Force Survey 2014 and OECD Education Database

Policy recommendations

The government could strengthen the focus on student learning as the central tenet of education policy. A preliminary goal could be to increase the share of students who meet minimum proficiency levels in international assessments such as TIMSS and PIRLS (and eventually PISA).

Kuwait could support a culture that promotes learning through inquiry, inquisitiveness, and experimentation - rather than being based on rote-learning. This will require well-defined learning targets, strong professional development programs and updated teaching materials for teachers.

21 Tzannatos, Diwan, Ahad, 2016; and Bilo, et al. (2021).

Expand access to quality ECD programs, with the goal of 85 percent enrolment rates in three years. This could be achieved by increasing access to education for all children, closer links with general schooling, provide training for pre-school facilitators, and strengthen planning and implementation capacities.

Teacher training programs (including the use of technology) need to be aligned with the new curriculum. Uniform admissions standards for teacher training programs could improve quality by accepting students with higher levels of secondary educational attainment.

Student assessments could be used to provide information on how best to improve learning and to help establish a culture that promotes meritocracy. Assessments need to provide a snapshot of learning, a record of performance, and a means of measuring learning over time.

The role of the Education and Training Authority (BQA) could be strengthened to allow it to have an impact across all schooling levels. The use of the National Quality Framework (NQF), which is currently confined to higher education could be extended to other educational levels, platforms, institutions, and sectors to support students at all levels and streams of education.

Improved collaboration with private and public sector employers would help make education more relevant for the world of work. The private sector could lead on the improvement of curricular content to ensure that students are being prepared for what the economy needs. Work or practical experience could be incorporated into training programs to support transition from school to work.

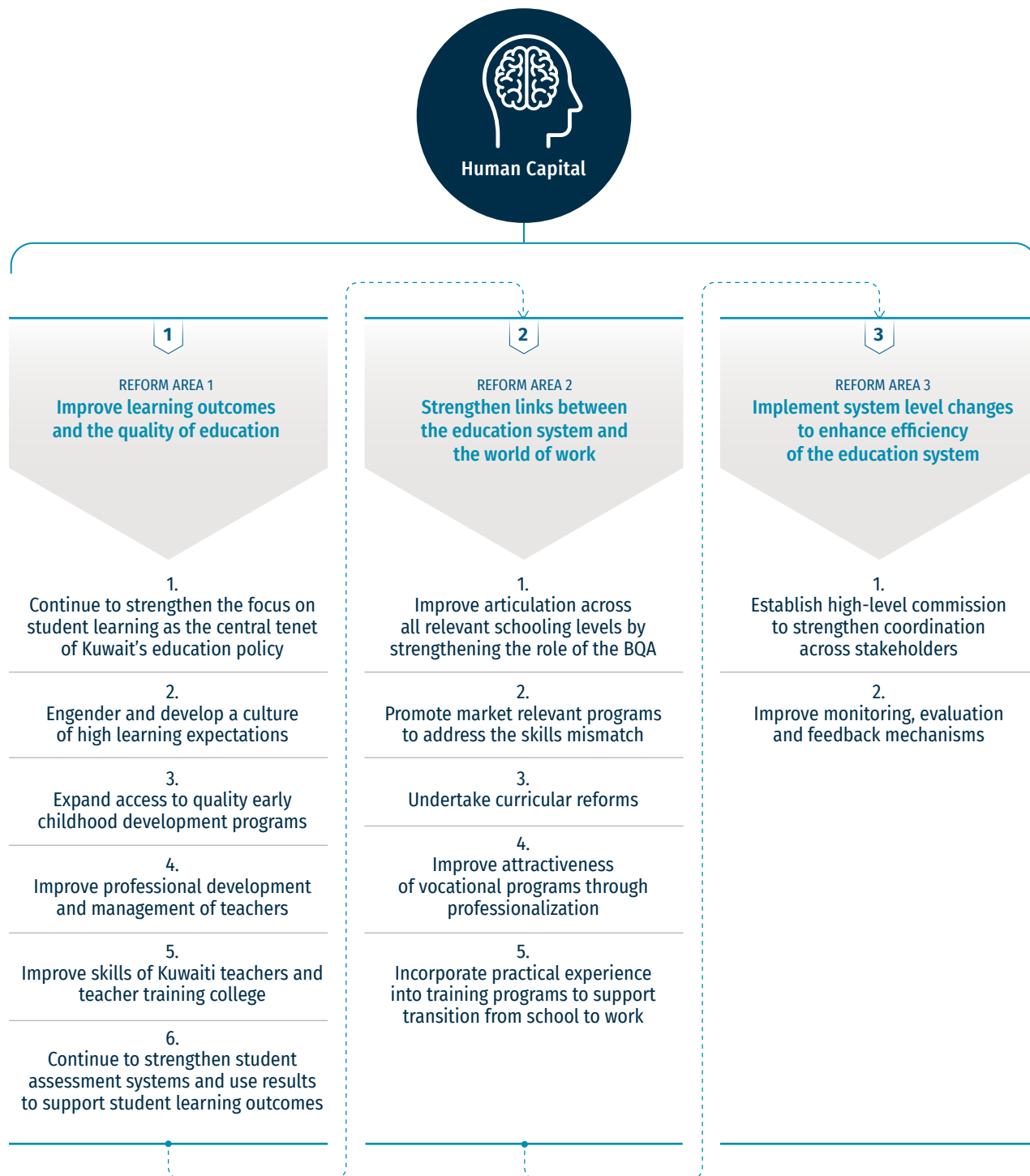
Curricular reforms, involving stakeholders from business, education and government will be useful to ensure that more time is spent teaching in-demand subjects; these subjects could be promoted both using information campaigns and communicating with students about potential scholarships available to them for certain subject areas. Some curricular reforms could be left to individual institutions.

The attractiveness of vocational programs could be improved through professionalization and active involvement with qualified companies and businesses whose performance and output will benefit from the programs. The Public Authority for Applied Education and Training (PAAET) can help Kuwait focus on excellence in the education system, participation in skills competitions, and improving articulation across qualifications. Improving parity between general education and Technical and Vocational Education and Training (TVET) would be invaluable in improving overall skills mapping.

A high-level commission could be established to improve and strengthen coordination and collaboration across all relevant ministries, agencies and organizations, the private sector, and other key stakeholders.

Monitoring, evaluation and feedback mechanisms need to be strengthened to support educational planning, to help drive evidenced-based policy, to support institutions with expanding or reducing programs, and to help improve the overall efficiency of managing the education system.

Summary of policy recommendations for human capital



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