

The **Jobs Agenda**
for the **Gulf**
Cooperation
Council Countries

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Abbreviations

ALMPs	Active labor market programs
DC	Defined contribution
ECD	Early childhood development
EOSB	End-of-service benefits
FDI	Foreign direct investment
GCC	Gulf Cooperation Council
HRD	Human resource development
HRM	Human resource management
MENA	Middle East and North Africa
MSA	Mobility saving accounts
OECD	Organization for Economic Co-operation and Development
RSA	Retirement savings accounts
SIMPLES	Sistema Integrado de Pagamento de Impostos e Contribuições das Microempresas e Empresas de Pequeno Porte
STEP	Skills Towards Entrepreneurship and Productivity
TIMSS	Trends in International Mathematics and Science Study
TVET	Technical and vocational education and training
U.A.E.	United Arab Emirates
UNESCO	United Nations Educational, Scientific, and Cultural Organization

Executive Summary

The economies of the Gulf Cooperation Council (GCC) grew severalfold over the past decades, making impressive improvements in key development indicators, supported by massive investments in extractive industries. Real gross domestic product (GDP) annual growth reached 5.1 percent during the 2000-2012 period, with hydrocarbons accounting for almost 90 percent of revenues and 80 percent of exports during the same period (IMF, 2011). Economic growth has not translated into sufficient employment creation and optimal job outcomes for GCC nationals outside of the natural resources industry.

Economic growth has been closely tied to government spending and consumption. In combination with liberal admission policies, low-skilled sectors have been fueling non-oil growth. Meanwhile, the public sector grew considerably and citizens have been shunning private sector jobs. The divergence between economic growth and better jobs for citizens has also produced negative externalities that translated into limited incentives to build human capital. It has also had social cohesion spillover effects, as youth and women in larger GCC economies remain in large numbers excluded from accessing jobs.

A key challenge is that GCC citizens are less inclined to accept private sector jobs since public sector employment, in combination with a range of other social benefits, is an integral part of the social contract of GCC countries. Against this background, what can be done to change the current social contract so that GCC citizens have access to more and productive employment? This engagement note offers a tentative answer to this question, namely that for GCC countries to increase private sector employment of their citizens, governments have to increase the attractiveness of private sector jobs while at the same time ensure that citizens are willing and able to accept private sector jobs. This will require, on the one hand, reforms that increase the productivity of the private sector by shifting economic activity to higher value-added sectors, more technology-intensive production, diversified and more sophisticated exports, technology-driven foreign direct investment (FDI), and enhancing admission policies. On the other hand, governance and social protection reforms are needed to alter the GCC countries' current

wealth distribution strategy to incentivize citizens to build their human capital. In addition to increasing private sector employment, the note highlights the importance of improving citizens' access to productive and merit-based, public-sector employment through the outlined reforms.

In terms of fiscal policies, the GCC countries have heavily invested in infrastructure in recent decades and private sector activities remain dominated by the injection of hydrocarbon revenues through government spending. This is fiscally unsustainable at varying degrees across countries. In addition, high public sector wages for GCC citizens combined with generous social benefits and subsidies act as a scheme to distribute hydrocarbon wealth that in the long term reduces economic growth and diversification potential by restricting human capital accumulation. Also, the scale and composition of public expenditures has biased the demand for labor towards the low-skilled.

In terms of competitiveness policies, a focus on business climate reforms is necessary to attract foreign direct investment for research and development and to diversify exports through targeted investment promotion. A key ingredient to achieving more productive jobs growth is a high number of firm entries and exits, which helps to fuel job creation by small, younger firms, while allowing for swift exit of inefficient firms. This process fosters rapid growth of efficient firms both in term of employment and productivity. A sound business climate that encourages the creation of new businesses, allows them to be run efficiently, but also be closed easily, underpins this process. It is also the basis for effective implementation of other policies related to competitiveness, such as investment promotion activities and export diversification.

In terms of admission policies, the current sponsorship system limits workers' internal labor mobility, and provides no incentives for firms to provide training. In some cases employers extract substantive rents by paying workers below their marginal value product of labor, biasing outcomes towards low-skilled migration. The demand for low- and semi-skilled manual labor will continue, and it is important that employers have adequate access to migrant labor. However, GCC citizens will also continue to have high reservation wages, especially in some of the smaller and richer GCC countries, such as Qatar and Kuwait. Therefore, linking labor demand in the GCC closely to the supply of foreign labor remains critical to ensure that GCC firms continue to have access to inputs that can guard their competitiveness. At the same time, attracting and retaining high-skilled talent, as well as reducing the bias towards low-skilled labor, will require further reforms in the sponsorship system that can strengthen workers' rights, internal mobility, incentives for training as well as provide a path towards permanent residency. Providing more social protection to migrants in the form of mobility savings accounts (MSA) is another important step in that direction.

Reforms are also needed in the areas of social protection, labor, governance, and education to ensure that GCC citizens are willing accept more private sector jobs. GCC countries have social protection policies that effectively alleviate poverty, but because of their focus on public employment, they provide few incentives for GCC citizens to participate in the private

sector. An equally effective but more efficient alternative would be one of an unconditional cash grants (or universal basic income) for GCC citizens, combined with generous social services and so-called "in-work benefits" that reward private sector jobs. The cash grants and social services would ensure a basic guaranteed minimum income and adequate access to social services, while in-work benefits would be conditional on having a job and would ensure that GCC citizens can, at least in some sectors, compete with foreign workers and still reap income comparable to current levels. Such a combination of benefits and services could also serve as a tool to manage the political economy challenges of public sector reforms.

Reforming public sector employment to increase the productivity and meritocracy of jobs for GCC citizens entails three key recommendations. First, while public sector pay should remain competitive to attract highly skilled workers, it needs to correspond with actual productivity levels. Second, introducing a meritocratic system and formal performance management tools in the public sector would increase competition among public sector employees and potentially increase productivity. Finally, in some of the larger GCC economies, rationalization of recruitment of citizens into the public sector might be necessary. Further increases in public sector employment to absorb an expanding and increasingly educated national labor force may contribute to increasing the non-oil fiscal deficit that may prove unsustainable in the near future.

Given the GCC's rapidly growing populations and rising unemployment among some countries, the transition to this more deliberate rationalized recruitment in the public sector, while ensuring an increased private sector activity, is vital from a fiscal standpoint as well as from a service quality perspective.

Finally, education reforms are needed to ensure that GCC citizens are not just willing, but also able to compete for jobs with the right set of skills. Reforms require a sequenced combination of education and skills development activities that include investments in early childhood education that produce stronger systems with clear learning standards and good teachers, and a proper regulatory environment, as well as strengthening pre-employment skills to ensure a smooth transition into the labor market. Together, labor demand- and supply-side reforms should lead to GCC citizens accessing more and better jobs in both the public and private sectors, and ultimately leading to a new social contract. This note elaborates on this line of reasoning and highlights how the World Bank can assist GCC governments in achieving their stated objectives of increasing citizens' access to more and productive employment and supporting the shift towards a knowledge-based economy.

1. Overview

1.1 Introduction

The countries of the Gulf Cooperation Council (GCC), which include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (U.A.E.), have undergone a remarkable economic transformation in recent decades. Fueled by immense natural resources, the economies of the GCC countries, including non-carbon sectors, have grown severalfold. Real GDP annual growth reached 5.1 percent during the 2000-2012 period. In the process, GCC countries considerably raised living standards while maintaining overall price stability and stable macroeconomic frameworks, in part by offering generous access to foreign labor.¹ New jobs growth in GCC countries has also been impressive: at least 7 million net jobs were created in the region between 2000 and 2010.²

Despite these astonishing achievements, the economic transformation has not fully translated into employment creation and productive job opportunities for GCC nationals beyond those related to the exploitation of natural resources. Economic growth has been

closely tied to government spending and consumption. Meanwhile and in combination with liberal admission policies, which refers to all policies regulating entry, exit, residency, and work permits for non-citizens. Low-skilled sectors like construction and retail have been fueling non-oil growth. As a result, the competitiveness of other high value-added exports has been hampered, with most GCC economies still highly dependent on oil. Importantly, wealth is distributed among citizens through generous transfers and subsidized public sector jobs, which generates harmful distortions in the economy. Meanwhile, GCC economies have been relying on migrants to do low-skilled work. Of the 7 million net jobs created between 2000 and 2010, 1.6 million (23 percent) were created in the public sector, and GCC citizens filled 1.1 million of these jobs. Only 700,000 GCC citizens entered new private sector jobs, and foreign workers filled the remaining 4.7 million private sector jobs, the large majority (4 million) of which were in low-skilled occupations. While this approach can maintain

¹ See Behar et al. (2013).

² This number does not include U.A.E. See Callen et al (2014).

living standards in the short to medium term, it comes at the expense of productivity growth. Labor productivity and total factor productivity has been stagnant or declined over the last 10 years.³ Other negative spillovers stemming from this divergence between growth and productive job creation include limited incentives to invest in education and human capital, in addition to the exclusion of certain groups, particularly youth and women, from the labor market as public employment opportunities become limited in larger GCC economies.

In following this path, most of the GCC countries have not achieved their stated goals of (i) more private sector employment of their citizens; (ii) a diversified, knowledge-based economy; and (iii) a rebalancing of their population towards less reliance on foreign workers.⁴ Failure to achieve these goals risks undermining the development of the entire region. Undoubtedly, developing a knowledge-based economy with a strong, diversified and export-oriented private sector in which GCC citizens participate is a high ambition; but it is both achievable and vital for the further development of GCC countries.

Arguably, one of the main challenges for the GCC is that citizens are less inclined to accept private sector jobs given the relatively high salaries in the public sector, where jobs are more secure and work requirements are not as high as in the private sector.⁵ At the same time, public sector jobs are readily available for GCC citizens to the extent that there is almost of an implicit public sector employment guarantee for citizens in some

of the smaller and wealthier GCC countries. In combination with a range of other social benefits, public sector employment effectively is an integral part of the social contract of GCC countries, but it is impeding GCC countries from achieving their ambitious goals. Against this background, what can be done to change the current social contract to foster private sector employment, as well as encourage productive and competitive public sector employment for GCC citizens?

This engagement note offers a tentative answer to this question and outlines the World Bank's potential support to GCC countries in achieving change.

This engagement note highlights the current policy challenges that GCC countries face with regard to jobs for their citizens and identifies policy areas where the World Bank can engage with GCC governments to address these challenges. The note is targeted to GCC government officials who are tasked with developing strategies to achieve the stated objectives in the area of jobs. This note does not present new evidence, but identifies areas of engagement between GCC governments and the World Bank, and tools and services that the World Bank can offer to support GCC governments.

This engagement note proposes a simple approach: For GCC countries to increase private sector employment of their citizens, governments will have to increase the attractiveness of private sector jobs while at the same time ensure that citizens are willing and able to accept private sector jobs.

This will require, on the one hand, reforms

that increase the productivity—and hence, wages and quality of jobs—of the private sector by shifting economic activity to higher value-added sectors, more technology-intensive production, diversified and more sophisticated exports, technology-driven FDI, and by enhancing their admission policies to ensure that global talent comes and stays in the GCC countries. On the other hand, governance and social protection reforms are

required to alter the GCC countries' current wealth distribution strategy, so citizens are incentivized to invest in their human capital, accept private sector employment, and access productive and merit-based public sector employment. These reforms should be complemented with reforms in the education sector to ensure that GCC citizens have the appropriate skills to contribute to a diversified and knowledge-based economy.

1.2 Increasing the Attractiveness of Private Sector jobs

Increasing the attractiveness of private sector jobs for GCC citizens can only be achieved through higher levels of productivity. Higher productivity brings higher wages and higher quality jobs, but a sectoral decomposition of employment reveals that in the past, labor mostly moved into low-productivity sectors such as construction and non-government services, such as retail. Private sector businesses in GCC countries have depended largely around government expenditure, and to a lesser extent private consumption; these are sectors where returns are high and risks are low. In combination with generous access to low-skilled foreign labor that arguably can be hired below the marginal value of labor product, this circumstance yields overwhelming incentives for the private sector to focus on doing business with government and providing services to consumers in the retail, restaurant, and hoteling and entertainment industries, to name a few.

Achieving higher levels of productivity and the development of a diversified, knowledge-based economy requires changes to fiscal and competitiveness policies as well as

to admission policies. In terms of fiscal policies, GCC countries have heavily invested in infrastructure in past decades. Non-oil private sector growth is concentrated in low-productivity sectors employing a majority of foreign workers. This is fiscally unsustainable at varying degrees across countries, and fiscal sustainability is a priority for the majority of GCC countries due to falling oil prices. Fiscal policies have marked effects on labor markets, operating through direct and indirect channels. The high wages for and extensive employment of GCC citizens in the public sector combined with generous social benefits and subsidies act as a scheme to distribute hydrocarbon wealth. This has created strong labor market distortions by raising reservation wages of citizens, which in the long term reduces growth and the diversification potential of economies by restricting human capital accumulation. Indirect channels include the scale and composition of public expenditures that have biased the demand for labor towards the low-skilled. The economies of the region are currently facing a short-term trade-off between fiscal sustainability and growth. Better functioning labor markets would

³ See Callen et al (2014).

⁴ These goals are stated in various national vision documents, such as the Bahrain Economic Vision 2030, the Kuwait Vision 2035, the Oman 2020 Vision, the Qatar National Vision 2030, the Saudi Vision 2030 and the U.A.E. Vision 2021, and spelled out in accompanying national development plans.

⁵ Many GCC governments have tried to compensate citizens for the wage differentials between public and private sectors in an attempt at increasing the attractiveness of the private sector, with varying degree of success.

not only help reduce the public wage bill in a nonconfrontational manner, but also boost growth and thus help avoid the trade-off in the medium term.

This shift in fiscal policies is best accompanied by competitiveness policies and reforms in the business climate to focus on attracting foreign direct investment (FDI) for research and development and diversifying exports through targeted investment promotion. Evidence from GCC countries seems to emulate the experience of developing countries in that firms do not significantly grow in terms of employment and productivity over their life cycle, with firm size largely persistent over time. Although small and young firms seem to be the main job creators, larger firms provide the better jobs. A key ingredient to achieving the leap towards higher productivity and jobs is a high number of firm entries and exits that allows for a large number of jobs created by small, young firms, but also allows for swift exit of inefficient firms, enabling the efficient firms to grow rapidly both in term of employment and productivity. Underpinning this process is a sound business climate that encourages the creation of new businesses and allows them to be run efficiently, but also to be closed easily. A sound business climate also enables other policies related to competitiveness, such as investment promotion activities and export diversification, to be implemented efficiently.

Small- and medium-sized enterprises are largely marginalized in GCC countries and entrepreneurship skills and innovation are lacking. This is a lost opportunity for GCC countries to improve productivity by

enhancing competition among firms, and to enhance the impact of other competitiveness policies related to investment promotion and export diversification. Further trade integration, through bilateral agreements and regional trade integration, is critical to access global markets and value chains.

Finally, admission policies need to be carefully reviewed to assess how migrant labor is impacting the jobs prospects of GCC citizens. The sponsorship system limits foreign workers' internal mobility and employers' incentives to train employees; in some cases, employers extract substantive rents by paying workers below their marginal product, biasing outcomes towards low-skilled migration. The demand for low- and semi-skilled manual foreign labor will continue, and citizens will continue to have high reservation wages, especially in some of the smaller and richer GCC countries. Therefore, linking labor demand in the GCC closely to the supply of foreign labor remains essential to ensure that GCC firms continue to have access to inputs that can guard their competitiveness. At the same time, reforming noncompetitive regulations surrounding foreign labor recruitment that exacerbate this bias remains imperative as they further undermine the attractiveness of private sector jobs to nationals and limit efforts to attract more global talent. This requires transitioning from employer-sponsored immigration to contract-based immigration that give more freedom to migrants to move in and out of the country and between employers as well as a pathway toward permanent residency. Providing more social protection to migrants in the form of mobility savings accounts (MSA) is another important step. Finally, reforms

outside the area of admission policies might be necessary to address instances where wages of migrant workers are below the marginal value product of labor, potentially leading to inefficient resource allocation in the economy. Reforms related to fiscal, competitiveness, and admission policies should ensure that private

sector job opportunities for GCC citizens increase. Reforms are also needed in the areas of social protection and labor, governance, and education to ensure that GCC citizens have access to productive and merit-based access to jobs in both public and private sectors.

1.3 Enhancing the Willingness & Ability of GCC Citizens to Accept Private Sector Jobs

GCC countries currently have comprehensive social protection policies that effectively alleviate poverty but that also provide few incentives for citizens to participate in the private sector labor market. Public employment for GCC citizens is at the core of the social protection system. GCC governments use public employment, together with implicit subsidies in the form of high wages, as a mechanism to distribute national wealth among its citizens. This means that social and governance policies in the GCC countries become intertwined, introducing considerable distortions and work disincentives in the labor market. GCC countries currently have the capacity to fund such policies, but may not be able to afford them in the future. In any case, the massive distortions and the associated inefficiencies are key obstacles for GCC countries to achieve their stated goals, as mentioned above.

An equally effective but more efficient alternative to social protection policies and accompanying focus on public employment would be a system that uses unconditional cash grants (or universal basic income) for GCC citizens, combined with generous social services and so-called "in-work benefits" that

reward private sector jobs.⁶ The cash grants and social services would ensure a basic guaranteed minimum income and adequate access to social services such as family support, affordable housing, and social care for every citizen. The in-work benefits, on the other hand, would be conditional on having a job in the private sector if wage differentials with the public sector remain, and in either the public or private sectors in the absence of wage differentials. They would ensure that at least in some sectors GCC citizens can compete with foreign workers and still reap income comparable to current levels. As opposed to wage subsidies, in-work benefits are paid to beneficiaries and not to employers.

De-linking national wealth distribution strategies from public employment policies, as well as their wage setting policies, entails three types of recommendations for reforming public sector employment policies to help promote competitive and transparent public employment policies in the GCC. First, while public sector pay should remain competitive to attract highly skilled workers, it should correspond with actual productivity levels.

⁶In-work benefits are cash transfers conditional on having work. Section 5 elaborates more.

This would necessitate charting a policy course that balances desired reform outcomes against what is realistically feasible in the local political environment.

A reduction or at least a slowdown in future increases of public sector pay levels to their true competitive levels would ensure a less segmented labor market and significantly improve incentives for GCC citizens to invest in their human capital and to accept private sector jobs.

The aforementioned in-work benefits combined with the unconditional cash transfer could act as a transitional device to compensate for any income loss in the short- to medium-run for GCC citizens and as a tool to overcome the political and economic challenges related to far reaching governance reforms.

Second, introducing tools to promote meritocracy at entry into the public sector, such as by using entry exams, and for promotions, by using formal performance management tools, would not only increase competition among public sector employees, but hopefully also increase productivity in the public sector.

Finally, to shift labor market incentives and rebalance employment between the private and public sectors, GCC governments, at least those with large national populations such as Saudi Arabia, must rationalize the recruitment of citizens into the public sector. This does not mean cutting jobs for citizens overnight—a move that could be politically difficult for some governments. Rather, it means moving away from the previous policy of open recruitment, which has resulted in bloated and unproductive administrations,

towards a more deliberate and targeted staffing strategy, which seeks to select the best and brightest for specific functions and administrative or service needs.

Given the key role that public employment plays in the labor market for GCC citizens, reforms in governance and social protection policies have ramifications for education policies as well. For example, reforms in public employment policies former would significantly increase incentives for students to improve learning outcomes. If a guaranteed public sector job with low performance expectations awaits at the end of a school and university career, incentives for students to learn and invest in their human capital are low.

If the labor market is aligned to provide the right incentives for nationals to invest in their human capital, supply-side education reform policies are needed to ensure that nationals are willing and able to competitively participate in the private sector with the right skills. Currently, GCC countries are far from this goal, as illustrated by international assessment results on learning outcomes (see below). Additionally, specialization choices at the post-secondary level are geared towards public sector employment (such as humanities and arts), with limited focus on technical and scientific fields generally demanded by the private sector. Reforms that focus on fostering skills needed for productivity and economic growth require a sequenced combination of education and skills development activities through interlinked steps: (i) getting children off to the right start through early childhood development; (ii) ensuring that all children

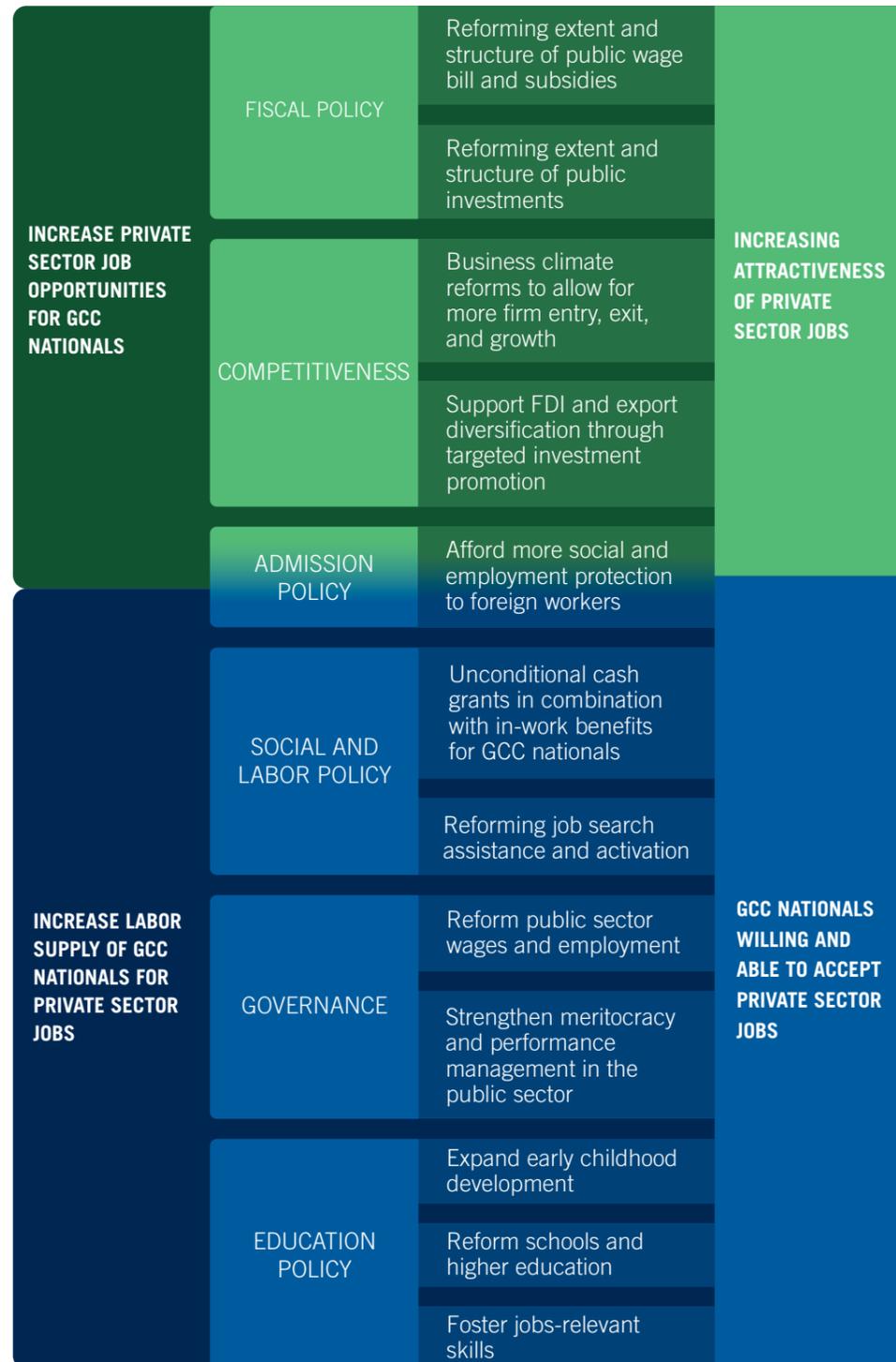
learn by building stronger systems with clear learning standards, good teachers, adequate resources, and a proper regulatory environment; (iii) building job relevant skills that employers demand; (iv) encouraging entrepreneurship and innovation; and (v) developing capacities to support job seekers and match skills demand with supply.

Together, reforms pertaining to labor demand and supply should lead to more GCC citizens accepting private sector jobs and finding productive and merit-based public sector employment. This may produce a social contract in GCC countries that is based less on distributing wealth among GCC citizens through subsidized public sector employment, and that encourages and rewards the productive and competitive participation of GCC citizens in the labor market. Figure 1 summarizes this policy framework to achieve a new social contract in GCC countries.

This note elaborates on these findings and highlights how the World Bank can assist GCC governments in achieving their stated objectives. The note is a collaboration between various Global Practices within the World Bank, namely Education, Governance, Macro and Fiscal Management, Social Protection and Labor, and Trade and Competitiveness. The note goes into the details of the findings by policy area, namely fiscal policy (section 2); competitiveness (section 3); admission policy (section 4); social and labor policies (section 5); governance (section 6); and education policy (section 7). The final section gives an overview of how the World Bank can assist GCC governments in the various policy areas discussed in this engagement note.

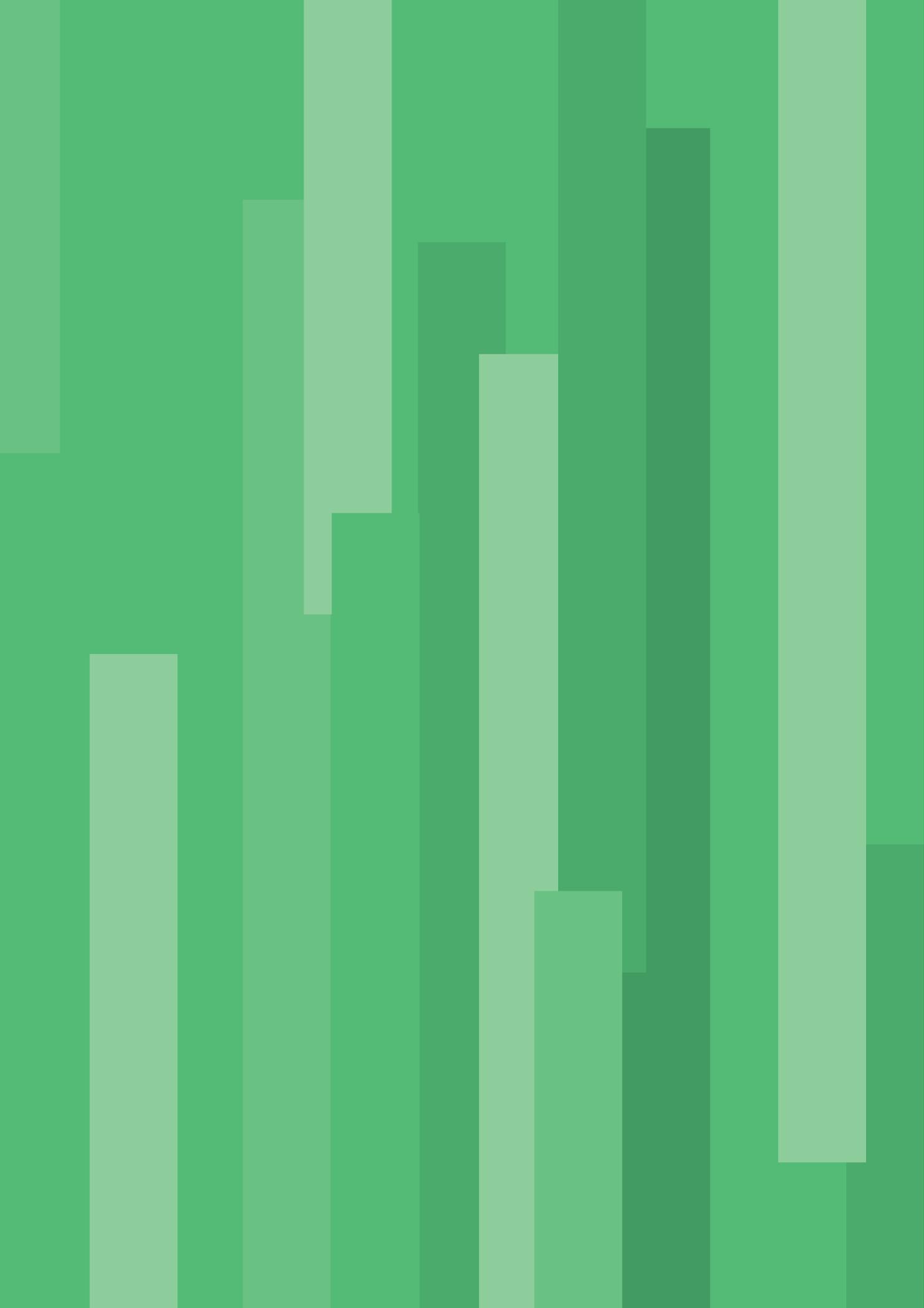
Figure 1: A Policy Framework to Achieve a New Social Contract in GCC Countries

A new social contract for GCC countries, with productive private sector jobs for GCC citizens at the center



“The cash grants and social services would ensure a basic guaranteed minimum income and adequate access to social services such as family support, affordable housing, and social care for every citizen.”

Source:



2. Fiscal Policy

Fiscal policy plays a more pronounced role in the GCC than in most other countries in the world. Monetary policy has been constrained with long-standing currency pegs, and fiscal policies are needed to perform both stabilization functions and address longer-term growth objectives. Perhaps more importantly for labor markets in the region, fiscal instruments have assumed unconventional roles, with deep consequences for labor markets in the region. Fiscal policy has traditionally been shaped to allocate the states' windfall revenues to citizens in various channels, and it has involved very limited non-hydrocarbon tax collection (especially direct taxes). For instance, public sector wage bills work implicitly as public transfer schemes in addition to reflecting the cost of service delivery: public employment and civil servant wages for GCC citizens have historically been used as mechanisms to transfer hydrocarbon revenues to GCC citizens. Similarly, provision of public goods and services have been heavily subsidized. Private sector activities remain fully dominated by the injection of hydrocarbon revenues through government spending, with limited transparency in procurement processes for government contracts to the private sector and the presence of excessive monopoly rents in the non-tradable sector (IMF, 2016).

These policies are unsustainable to varying degrees in individual GCC countries. Whereas those with major hydrocarbon revenues such as Kuwait and Saudi Arabia have not felt the urgency to change their fiscal stance, those with short resource horizons, such as Bahrain and Oman, have been more concerned about it. However, the drop in oil prices in 2014 and subsequent years has made fiscal sustainability a problem for all. The authorities initially responded with a counter-cyclical reflex by adjusting hydrocarbon production and keeping public expenditures relatively unchanged. As the protracted nature of the collapse in oil prices became apparent, they shifted focus towards more structural policies to boost non-oil tax revenues, reduce subsidies, and limit public expenditures at varying degrees across countries.

Overall, however, the traditional role of fiscal policy has not been altered drastically in most of the region's economies. Although some reform efforts such as the introduction of new taxes and fees and a reduction in subsidies have somewhat addressed the immediate sustainability problem, these quantitative adjustments have not altered the prevailing

social contract and fiscal policy. Private sector activities remain dominated by the injection of hydrocarbon revenues through government spending and the award of government contracts; these injections remain subject

to discretion of policy makers with limited transparency and rules, and extensive public sector employment and high salaries for citizens continue to prevail.

2.1 Labor market & Fiscal Policy Linkages in the Region

GCC fiscal policies have had pronounced effects on labor markets via direct and indirect channels. Direct channels comprise public employment as well as taxes, fees, and regulations on expatriate labor. Provision of low-cost (low-skill acquisition criteria) and high-return (high and risk-free lifetime incomes) employment opportunities have distorted labor market incentives directly by increasing the reservation wages of citizens. As a result, citizens often find private sector employment unappealing, and there are typically wide gaps between wages of citizens and expatriates. In the short term, these affect the employment outcomes of citizens, and in the long term, they reduce growth and the diversification potential of economies by restricting human capital accumulation, which is critical to highly productive and technology-intensive sectors. Although GCC economies typically have had access to a relatively large pool of foreign labor, excessive reliance on this pool is unsustainable due to the tension between two fundamental objectives: boosting economic growth and nationalization of economic activity and employment.

Indirect channels include the scale and composition of public expenditures, which determine the growth and sectoral composition of non-hydrocarbon economies. The sectoral composition translates into demand for labor with various skills. Therefore, the allocation of public expenditures to physical infrastructure, intangible capital, and various public services plays an important role on changing relative demand for expatriates or citizens, as they typically have different in skillsets. Although these indirect effects denote a secondary channel of impact on labor markets, the significance of the impact became apparent after the oil price collapse triggered fiscal consolidation efforts in the region. Finally, the efficiency and effectiveness of fiscal spending also produce indirect effects on labor market outcomes through human capital accumulation. For example, in most cases, the budget preparation process does not facilitate strategic alignment and planning, leading to suboptimal education outcomes that translate into skills mismatch in labor markets.

2.2 Fiscal Consolidation & Labor Markets

By addressing labor market issues, GCC policy makers can amend the trade off between growth and fiscal consolidation in the medium term. Given the deteriorating fiscal outlooks following the collapse of oil prices, many GCC economies have undertaken significant efforts to reduce public expenditures and raise non-hydrocarbon revenues. These efforts will unavoidably have consequences for non-hydrocarbon growth in the short and medium terms. The economies of the region are currently facing a fiscal sustainability and growth trade-off in the short term; e.g. achieving fiscal sustainability in a rapid manner often entails introducing measures, like fiscal consolidation, that have contractionary effects. Better functioning labor markets would help to reduce the public wage bill in a non-confrontational manner and boost growth, thus helping to avoid the medium-term trade-off between fiscal sustainability and growth.

Quick fixes may fail to alleviate the problems or even make them worse. GCC economies have recently been exhibiting tendencies to level the playing field in their labor market by undertaking nationalization practices in the labor force using additional taxes and fees on immigrant labor. These measures aim to create disincentives to hire expatriates and more incentives to hire citizens. However, it is unclear who would pay for the subsequent economic inefficiencies. With differences in substitutability of local and expatriate

skills across sectors and countries, the full economic implications of these measures need to be assessed carefully. If there is scope for addressing one kind of distortion (lucrative public sector employment that prevents the economy from reaching its potential), with another, (increasing the cost of expatriate labor), then the economic rationale needs to be formally elaborated to inform policies.

“ For GCC countries to increase private sector employment of their citizens, governments have to increase the attractiveness of private sector jobs while at the same time ensure that citizens are willing and able to accept private sector jobs.”



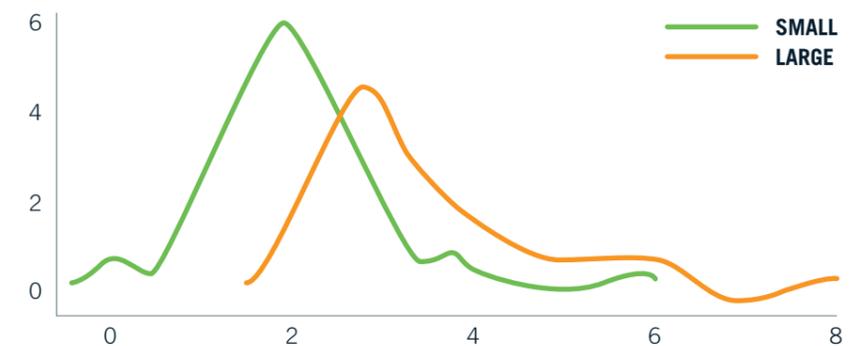
3. Competitiveness

3.1 Business Climate Reforms

Evidence from developing countries suggests that the biggest net (formal) job creators are relatively small and young firms, defined as under five years old and fewer than 20 employees (Ayyagari et al. 2011;

Figure 2). At the same time, evidence also suggests that larger firms can offer more productive and better paid jobs (World Bank 2012), which are the kind of jobs that GCC citizens are willing to accept.

Figure 2: Larger Firms Pay Higher Wages (Wage Distribution by Firm Size)



Source: World Bank, 2012.

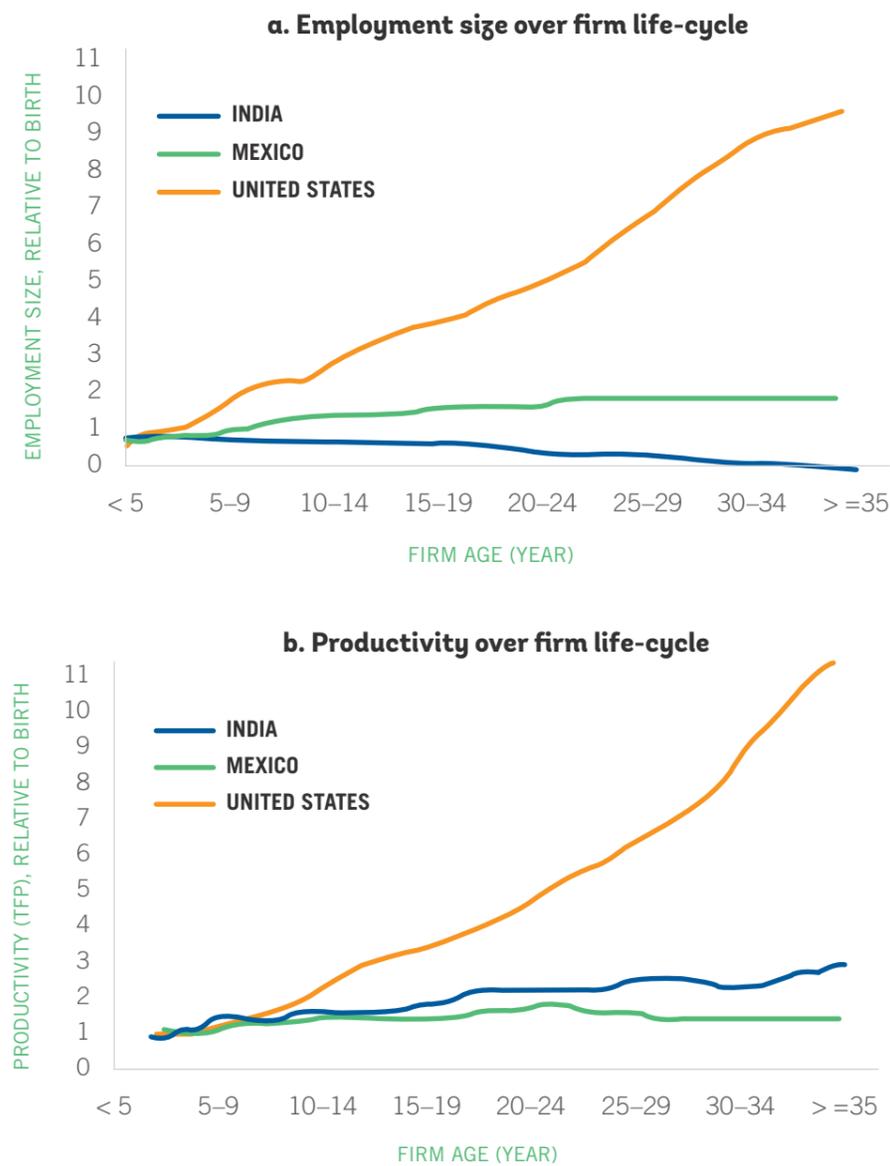
This suggests that there is both a need to make it easy for new firms to be created (to enter) as they are the main providers of new jobs, but also to foster growth of productive firms that can provide more productive jobs in the long run. A key ingredient for this to happen is to also make it easy for unsuccessful firms to be closed down

(to exit) quickly and at low cost, for two reasons: (i) low exit costs can also encourage more entry, as entrepreneurs are more willing to open new businesses knowing that closing them is cheap if they fail; and (ii) quick exit of inefficient firms allows for a pruning of the market and favors the growth of efficient firms.

The experience of developing countries is often that growth of firms is stunted. For example, the average 40-year-old manufacturing plant in the United States employs about 10 times as many workers as a plant that is less than five years old, suggesting a considerable employment expansion over the life cycle of firms

(see Figure 3). Productivity grows by about the same factor during the same period. In India and Mexico, on the other hand, employment and productivity growth are much lower or even negative, suggesting that the all-important leap towards more and better jobs is not taking place.

Figure 3: Growth of Employment and Productivity over a Firm's Life Cycle in India, Mexico and the United States



Source: Hsieh and Klenow (2011)

The experience of GCC countries seems to be more in line with developing countries. Evidence from Saudi Arabia, for example, shows that the levels of firm entry and exit are significantly lower than in developed countries of comparable levels of income. On the other hand, new market entrants in Saudi Arabia have much higher chances of survival than in comparable countries and consequently grow faster, but for the wrong reason: not because they are more productive, but because they face less competition. The result is an allocative inefficiency that may have a staggering effect on productivity, growth, and job creation. This inefficiency represents a forgone opportunity to increase productivity and aggregate economic growth and employment expansion, since limited competition reduces firms' incentives to improve productivity.

Two broad categories of factors inhibit firm growth and hence job creation: business climate-related constraints and firm-specific constraints. Examples of constraints related to business climate are restrictions on market entry, a cumbersome and costly regulatory environment for business operation, and complex and costly regulations to close businesses. Examples of firm-specific constraints include lack of entrepreneurial and managerial skills, limited innovation and technological upgrading, and lack of access to global markets and value chains. Removing these restrictions and addressing firm-specific constraints will foster competition, less

costly and better business operations, and higher productivity; it will also attract more investments from local and foreign investors, ultimately producing more and better jobs.

Business climate reforms in other countries have produced compelling results. For example, business entry reforms in Mexico increased the number of registered businesses by 5 percent and employment by 2.8 percent (Bruhn 2011); a business tax reduction and simplification program in Brazil⁷ increased firm formalization, firm expansion, and formal jobs (Fajnzylber et al. 2011); a reduction in competition barriers in the French retail industry led to a 10 percent increase in retail employment (Bertrand and Kramarz 2002).

Importantly, in developed countries, evidence suggests that tax incentives seem to attract FDI and create jobs (based on firms' production technology), but they are a financially viable policy option only when there is an otherwise favorable business environment (Becker et al. 2012). Hence, business climate reforms are an important precondition that will make other policies related to attracting FDI and diversifying exports more efficient.

⁷The program is called in Portuguese Sistema Integrado de Pagamento de Impostos e Contribuições das Microempresas e Empresas de Pequeno Porte (SIMPLES).

3.2 Attracting FDI for Higher Value-Added Production & Export Diversification

The focus should be on attracting foreign direct investment (FDI) for research and development and production of goods and services that are intensive in their use of capital and technology. So far, FDI has not led to higher export sophistication and quality (Callen et al. 2012). The large majority of FDI in GCC countries seems to flow into the hydrocarbon-related sectors, like chemicals and refined petroleum products, or into construction. There are some signs, though, that a certain share of FDI has been flowing into other sectors, in particular services (finance) and wholesale and retail trade. However, these limited flows have not led to increased export quality or sophistication. Investment promotion activities (IPAs) can be effective to attract more FDI; however, they seem to work better when targeted to specific sectors rather than being general. According to Harding and Javorcik (2011), targeted sectors received twice as much as FDI and created 68 percent more jobs than non-targeted sectors using a data set on employment in US affiliates abroad for the period 1983—2003.

Successful economic development crucially depends on export diversification towards higher value-added and more sophisticated products and services. To achieve greater export diversification, incentives to develop export markets—as opposed to developing business with GCC governments in low-

skilled sectors—could be strengthened.

The focus here should be on providing risk management tools for exporters in the form of export subsidies, public-private partnerships (PPPs), or other incentives that facilitate risk taking. Moreover, policy makers could think of strategic ownership in global innovation leader companies to leverage the potential for establishing subsidiaries in the GCC to attract FDI and lead to export diversification in higher value-adding sectors. However, such policies are best combined with mechanisms that hold exporters accountable for their performance, as Chile has done in the past.

GCC policy makers should pay special attention to services. Services are a means of adding value to low labor cost, light manufacturing. A simple example is fashion design, which adds significant value to garment manufacturing when branded. Another example is advanced manufacturing, which is heavily reliant on services. For example, the value of a modern electric car comprises over 50 percent services. Services themselves can be tradable and highly valuable. Moreover, the service sector is likely to be one in which GCC citizens are willing to work and able to earn the returns on education they seek, as evidenced by some successes in the GCC in aviation, logistics, and tourism.

Finally, there are a few additional areas that promise high returns in terms of job creation for GCC citizens. Innovation and entrepreneurship help to create more and better jobs by promoting successful startups and improving firms' productivity and growth. Increased trade leads to more and better jobs through easing entry to export markets and by strengthening GCC countries' position in the global value chain, which in turn help firms to become more productive and expand. Regional integration among GCC countries could be an important contribution in this regard.

4. Admission Policy

The majority of GCC countries recognize the need to reform their admission policies given the role that migration plays in influencing their stated development strategies and national visions, specifically encouraging the participation of citizens in the private and diversified sectors of the economy. Admission policies enacted can directly influence the attractiveness of private sector jobs by shaping the quality and productivity of the private sector, and can also influence the willingness of citizens to accept private sector jobs depending on the level playing field between citizens and expatriates. Admission policies also have implications for GCC countries' desired move towards diversified, high-skilled, and knowledge-based economies.

All six GCC countries offer admission policies to expatriates that are driven by employers' demand for specific occupations and in specific sectors. The majority of GCC countries, namely Saudi Arabia, Kuwait, Oman, and Bahrain, currently implement a sponsorship-based migration system, known as Kafala. Workers require a national sponsor (called Kafael) and are only allowed to work for the firm sponsoring their visa. The sponsor regulates workers' entry and residence. Additionally, the workers must obtain a no-objection certificate from the sponsor to resign, and they must

leave the country upon termination of the usual two to three years' contract before being allowed to commence a new contract under a new sponsor. Since they are tied to their sponsor, migrants become immobile within the internal labor market for the duration of their contract. This means that they cannot command a higher wage even when there is demand for their services by rival firms willing to hire them to avoid costs of hiring from abroad, and in some instances, they are made to accept lower wages than initially contracted. Consequently, the sponsors benefit from noncompetitive environments where they extract substantial economic rents that equal the difference between migrant earnings (which remain above wages in their country of origin but well below the marginal value of labor product) and the net marginal return from employing the migrant worker.

In recent months, some of the GCC countries have initiated varying reforms to move away from a sponsorship-based system and also to strengthen workers' rights. In 2015, the United Arab Emirates (U.A.E.) announced new measures to allow foreign workers to terminate their contract and change employers by prohibiting involuntary employment, requiring that workers' contracts be filed with

the respective Ministry of Labor instead of with employers, and prohibiting the retention of passports by employers. Additionally, the reforms have sought to terminate the so-called “substitution” practice, under which foreign workers sign one contract before they leave their home country and are compelled to renegotiate lower wages when they arrive in the GCC.⁸

In December 2016, Qatar implemented similar reforms to facilitate the transition to a system based on contractual arrangements between employers and migrant workers that includes both open-ended and fixed-term contracts. The reforms allow workers to leave their jobs without the objection of employers, giving them a period of three months to search for a job without having to leave the country. Nevertheless, restrictions on the ability of workers to change jobs persist in cases of changing occupations or sectors, or moving to direct competitors, which gives employers the right to object to workers’ moves. Qatar’s reforms have also eased restrictions on workers to obtain exit permits to leave the country from the Ministry of Interior (MOI) without having to obtain employers’ approval unless they are faced with criminal and civil lawsuits. MOI is ultimately given the responsibility to intermediate in cases of conflict between employers and workers, but in many cases, the terms of the contract remain in employers’ favor since they hold more bargaining power. Bahrain is also introducing gradual reforms to its sponsorship system that were due to take effect in April 2017.⁹

While these are welcomed reforms to improve current immigration policies, the potential changes associated with such reforms are

yet to be seen. Meanwhile, the broader immigration policies followed by GCC countries provide incentives for firms and entrepreneurs to concentrate on low-skilled, labor-intensive activities where profit margins are high and relative secure. In Qatar, between 2012 and 2015, the number of workers concentrated in occupations with relative low skills’ requirements – those requiring secondary education or below, such as crafts, service workers, and elementary occupations – grew by 530,773. In Kuwait, the labor market for expatriates in 2011 was comprised of 87 percent of workers with a secondary education or below. Similarly, in Bahrain, 82 percent of workers had a secondary education or below in 2010. In contrast, in the United Arab Emirates, the percentage of the highly skilled foreigners was 35 percent in 2013, which may be attributed to the status of the country as a financial and logistics hub that requires highly educated workers (Behar et al. 2013).

The bias towards low-skilled labor is evident in government fiscal spending that drives the growth of the non-oil private sector. GDP growth has been strong in sectors such as construction, wholesale and retail trade, and transportation, which tend to employ low-skilled, low-productivity workers. More productive sectors, such as financial services and manufacturing, have also contributed to growth but with a modest impact on employment of highly skilled labor in Bahrain, Oman, Qatar, and Saudi Arabia (Figure 4).

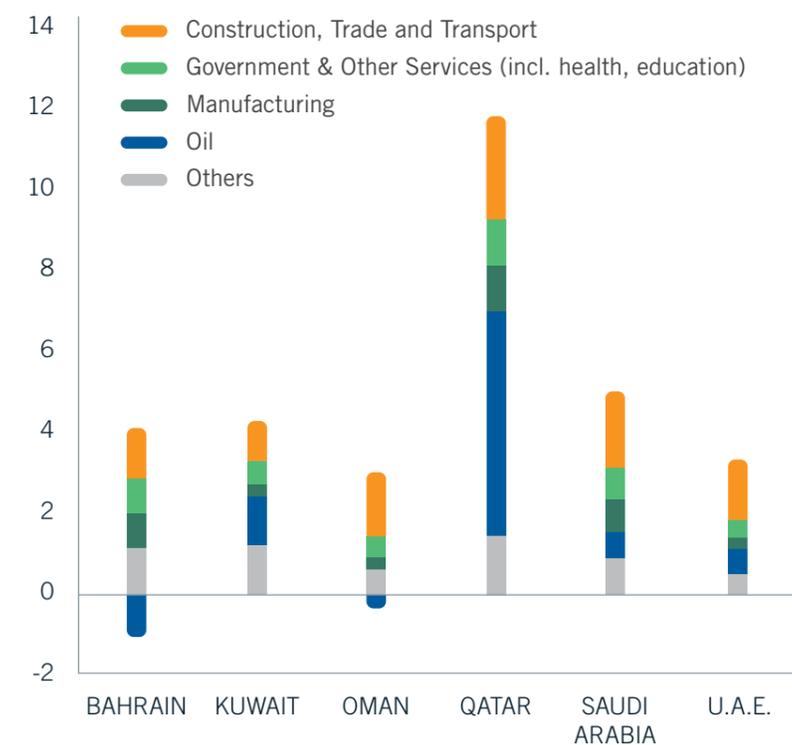
The current admission system presents multiple challenges. First, it remains a liability for GCC governments as the relative easy availability of low-skilled migrants is not conducive to their desired shift from low-cost,

labor-intensive activities towards higher value-added industries that require higher skills-based production methods in dynamic, capital-intensive industries. In the U.A.E., economic rents have been estimated at 50 percent of GDP (World Bank 2011). With the exception of Saudi Arabia, total factor productivity in GCC countries’ non-oil sectors (mainly driven by capital investment and labor force growth) has been negative since 1990 (IMF 2013), reflecting the chosen growth model underpinned by the easy availability of low-skilled labor.

Second, flat wages and lack of internal mobility provide no incentives for migrant workers to exercise greater productivity and engage in activities to enhance their human capital, which in turn influences the attractiveness of private sector jobs for citizens since it effects the quality

of jobs generated and the level of real wages offered in the private sector. Indeed, labor productivity (as measured by non-oil output per worker) has decreased in Qatar, Oman, Bahrain, and U.A.E. over the last decade (Behar et al. 2013). In Dubai, firms operating under the sponsorship system displayed substantially and statistically higher technical inefficiency than firms in free zones¹⁰ exempt from the sponsorship system. Using firm level data from May 2010, inefficiency levels were estimated at 6.6 percent of total costs and 11 percent of profits in average (Soto and Alvarez 2011). As a result, the economy-wide efficiency levels have not improved in the last two decades in Dubai despite massive investments, whereas they doubled in Hong Kong, and quadrupled in Singapore (Hussain 2014).

Figure 4: Growth & Job Creation in the GCC



Source: Behar et al., 2013

¹⁰ There are currently 23 free zones in Dubai that includes the largest duty-free retailer in the world, the largest man-made port, several technology parks, a free zone for gold and diamond, and the International Financial Center. Free zones are exempt from paying import duties and are not subject to the labor-related rules and regulations implied by the sponsorship system and the Emiratization process (Soto and Alvarez 2011).

⁸ See <http://www.aljazeera.com/news/2015/09/uae-announces-labour-reforms-protect-foreign-workers-150929143336000.html>.

⁹ See <http://english.alarabiya.net/en/business/economy/2016/12/19/Bahrain-abolishes-sponsorship-system-for-foreign-workers.html>

Third, the current admission policies contribute to the wage gap between citizens and expatriates in the private sector. The combination of easily available low-cost migrant labor that may be unproductive due to a noncompetitive environment, combined with the high reservation wages of citizens due to state subsidies, precludes a level playing field in some of the sectors in which citizens and expatriates compete. This situation undermines incentives for human capital formation and diversification, and consequently hinders the move towards a knowledge-based economy.

However, in many segments of the GCC labor market, GCC citizens are no substitute for foreign workers for jobs, since GCC citizens are not interested in many jobs, such as domestic work and other low-skilled service sector and construction jobs. In these cases, the easy availability of low-skilled migrant workers clearly contributes to

competitiveness and growth. To the extent that wages for low-skilled migrants are in fact below the marginal value product of labor, inefficient resource allocation within the economy is likely. In these instances, reform outside the area of admission policies might be necessary, such as in governance (transparency of government contracts) and public expenditures. Also, in some GCC countries, notably Oman and Saudi Arabia, the substitutability between migrants and citizens might be higher than in others; in all GCC countries, there will be some substitutability in certain segments of the labor market, such as clerical jobs.

In short, GCC countries need to review their admission policies to assess how migrant labor is impacting the jobs prospects of their citizens, but only after careful analysis of the potential impact of admissions policy reforms on firms' and citizens' competitiveness in the labor market.

4.1 Reforming Foreign Labor Recruitment: Guiding Economic Principles

Current GCC policies allowing for relatively easy access to global talent could be an enormous comparative advantage for building a knowledge-based economy. Generous admission policies can allow companies and start-ups to tap global talent quickly and in an unbureaucratic manner. However, there is a need to undertake steps to abolish the sponsorship system and manage foreign labor recruitment in a way that would allow labor to move to its most productive use and provide employers and employees with incentives to invest in human capital and productivity that can eventually raise the wages and quality of jobs in the private sector.

Such steps may entail guiding principles that need to be underscored by sound economic analysis to determine what limitations—which may run counter to governments' objectives—need to be in place and how recruitment policies can best serve national objectives. Limiting existing subsidies that bias migration outcomes in directions that run counter to governments' national objectives need to be carefully considered. Importantly, GCC governments should recognize that the demand for low- and semi-skilled manual labor will continue, and citizens will continue to have high reservation wages. In some of the richer and

smaller GCC countries, particularly Kuwait and Qatar, reservation wages are too high to fill many jobs in the low- and medium-skill sectors, which are currently dominated by the expatriate populations. Linking labor demand in the GCC closely to the supply of foreign labor remains essential to ensure that GCC firms continue to have access to inputs that can guard their competitiveness. At the same time, noncompetitive regulations pertaining to foreign labor recruitment that limit worker mobility by imposing barriers preventing migrants from changing employers, sectors, and occupations, as well as restrictive entry and exit regulations, might undermine efforts to attract more global talent. Global talent will

only come to and stay in GCC if entry into and exit from the country are uncomplicated and not marred by uncertainties. Global talent needs to be assured that they can come and leave as they please, and that they can bring their immediate family members. They will also want opportunities to invest in real estate, buy homes, and spend retirement, with their families. In other words, they will need a path to permanent residency independent of employment status. Finally, enhancing the social protection of migrants is a key ingredient to provide options for global talent in the GCC to manage their social risks; it also serves GCC governments as a tool to keep resources for investment in the country.

4.1.1. Linking Labor Demand in the Country Closely to the Supply of Foreign Labor

Foreign recruitment policy, like any other policy, should serve governments' national development goals and stated objectives. Recruitment policies should support economic development by linking labor demand closely to supply. This link empowers employers, in part by ensuring that the types of labor needed—including low-skilled—are available through immigration. For example, immigration policies can empower employers by allowing them to initiate visa applications for migrant workers identified as being needed. Arguably, this is already the case in the GCC, as employers in the region are free to recruit the workers they need. Such policies minimize the risk of inviting unnecessary migrant labor. Australia and Canada, for example, employ point systems that grant migrants access to the country based on predefined characteristics, such as education, age, and

work experience. However, point systems require tedious negotiations between industries and government to determine which skills are in demand. It is not always the case that those industries with the greatest needs succeed in lobbying the government to award more points to the skills they need. Indeed, there are concerns that a point system leads to “brain waste,” with highly skilled migrants ending up working in low-skilled jobs.¹¹ Continuing to rely on employers to initiate visa applications for expatriates they recruit overseas is good practice to ensure that employers have access to the types of human capital they need, and ultimately to helping to grow the economy.

¹¹ See Koettl (2009).

4.1.2 Assessing & Monitoring the Impact of Foreign Recruitment on the Local Labor Market

Nevertheless, such a relatively flexible recruitment policy also has drawbacks. In many countries, the concern has been that the unrestricted supply of immigration drives down wages for citizens and increases unemployment among some of the low- and semi-skilled national workers. In the GCC context, this concern might be less relevant, particularly in the domestic work and construction sectors, where the possibility of substitution between citizens and expatriates is limited. However, the situation might change in the future, especially if some of the current wage premiums are replaced with universal income and in-work benefits (see below). To the extent that competition between citizens and expatriates will increase—and to assess whether that is likely to be the case, GCC governments will have to find ways to monitor the impact of foreign recruitment on their local labor markets by conducting extensive economic research and close monitoring of labor market conditions. One possibility for governments could be to consider applying so-called “labor market testing,” which requires employers to prove that they have posted the vacancy they intend to fill with a new migrant for

sufficient time within the country, without being able to find a suitable candidate from within the residing national or expatriate populations. However, labor market testing is not a substitute for extensive economic research and labor market monitoring by governments. Even when employers can show their inability to fill vacancies with local candidates, governments need extensive information on whether employers have offered suitable wages and work conditions in their vacancies and made a serious effort to fill the vacancy with workers living in the country. This information would include the average time to fill vacancies by sectors and occupations, prevailing wage levels, and so on. Ultimately, such information would enable governments to assess the ability of certain industries – say, for example, agriculture – to remain competitive in a diversifying and knowledge-based economy given the prevailing wage levels. In this sense, foreign recruitment is an essential part of economic policy. Foreign recruitment could be a tool not only to gain comparative advantage by allowing flexible immigration, but also to steer develop certain sectors and industries.

4.1.3 Retaining successful migrants in the country

Another drawback of relatively flexible admission policies is that they might lead to suboptimal length of stay for expatriates, since employers recruit new labor from overseas instead of investing in training of current employees (including citizens). Hence, GCC governments should ensure that

successful migrants remain in the country to contribute their talent to and to invest in the host economy. The GCC has to consider more reforms to retain global talent to help build diversified, competitive, and knowledge-based economies. Some GCC countries have already implemented important reforms by

moving from a sponsorship to a contract-based recruitment system, but more needs to happen to attract global talent. This does not mean that the GCC governments have to provide citizenship or, as a matter of fact, take on responsibilities to provide for these new residents through social benefits like pensions, unemployment insurance,

health insurance, social assistance and so on and so forth. These social risks can be managed in a way such that no liabilities arise for the GCC (see below); but some basic rights like free entry and exit and a path to permanent residency¹² for workers and their families will need to be considered.

4.2 Reforming Social Protection for Migrants

Another way to attract more global talent is to provide more comprehensive social and employment protection to foreign workers. This may take the form of mandatory health insurance, and mandatory savings schemes in lieu of old-age pensions and severance pay. In this regard, mobility savings accounts (MSAs) have emerged as an innovative policy instrument to extend social protection to foreign workers. MSAs are mandatory medium- or long-term savings schemes for expatriate workers that are partially co-financed by employers. Their goal is to provide a tool to noncitizens to cope with contingencies usually covered by social insurance schemes but that are currently beyond the scope of available end-of-service benefits (EOSB). Extending the benefits of the existing pensions scheme for citizens to expatriate workers is not feasible, and it would be expensive and financially unsustainable. As such, the introduction of MSAs such as a savings scheme for retirement, in addition to mobility for expatriate workers, should be considered as socially acceptable and economically convenient alternatives.

An MSA scheme would reduce the economic vulnerability of expatriate workers through financial support during resettlement periods and transitions between jobs or into retirement. Currently, expatriate workers require additional income protection since most stay in the same job or stay in GCC for a short period of time and the current EOSB cannot cope with financial vulnerability. Reforms are necessary to improve the shortcomings of the EOSB and increase the social protection of expatriate workers while providing opportunities for economic development and also leveling the playing field with GCC nationals, where appropriate.

An MSA scheme, enhanced by retirement savings accounts (RSAs), has already been proposed for countries such as the United Arab Emirates (Dubai) and Saudi Arabia (see Box 1). MSAs promise to deliver on a number of important policy objectives, the most important being: (i) self-financed mobility for foreign workers and retirement income for long-term expatriates, which should enhance labor market outcomes for both expatriates and citizens; (ii) creation of a local labor market of expatriate workers, which should

¹² Some of those measures pertaining to permanent residency are currently being considered by the Saudi Arabian government: <http://gulfnnews.com/news/gulf/saudi-arabia/saudi-arabia-mulls-permanent-residency-for-expats-1.1704716>.

reduce recruitment costs from abroad; (iii) increased retention of some remittances in the country, which should increase domestic savings and capital formation; and (iv) co-financing from employers, which levels the playing field with citizens in the labor market. This would be a win-win situation for GCC economies, labor and employers.

Depending on each country's objectives and desired features for MSAs, different design and implementation alternatives are available. Options will depend on features related to the MSAs' structure, including voluntary and mandatory contribution rates and base, the split between employer and employee contributions, the eligibility trigger for mobility between employers, the validity of a self-financed visa, and so on. Alternatives will also depend on the availability and design features of an RSA for long-term migrants that would build upon the MSA, such as the years of stay that create eligibility of participation, the mandated or voluntary character of the RSA, the role of matching employers' contributions and the source of financing, and so on. A third set of decisions pertaining to MSA alternatives will depend on the provisioning of MSAs and RSAs via decentralized or centralized financial approaches; and finally, governments can consider the option of whether to implement MSAs at once, or to initiate well-monitored and evaluated pilot MSA programs in selected sectors.

To be effective, any policy instrument must have clearly focused objectives and a well-selected design and implementation approach. For policy relevance and stakeholder buy-in, a number of knowledge and awareness initiatives would be needed, including knowledge transfers from those economies

of the GCC that are seriously considering introducing MSAs. Governments will also need to raise awareness and buy-in from key stakeholders, including expatriate workers, firms, and relevant financial institutions.

Achieving an MSA program would involve designing and implementing a defined contribution (DC) type of scheme. To mitigate the market risks to ensure the integrity of prefunded benefits while smoothing the economic cycle, the composition of portfolios backing expatriate workers' related benefits and expatriate bank deposits could comprise mostly foreign assets. This program would optimize the reputation of the GCC countries concerning honoring expatriate rights, and at the same time benefit the GCC economies in several ways: (i) it would attract the strong human resources, which will improve labor productivity and the possibility for diversification of production; (ii) it would smooth out economic cycles while reducing the risks of financial sector illiquidity and insolvency problems; and (iii) it would reduce volatility in the real exchange rate (reduce pressure for the real appreciation of the GCC currency during the accumulation stage, and contribute to reduce the rate of depreciation at time of withdrawal of funds), thereby increasing the competitiveness of the economy.

Further steps toward a policy innovation agenda would include: (i) discussion of objectives of the proposed policy innovations with relevant policy makers for better focus; (ii) consultations with key stakeholders to gauge their interest in MSAs and obtain feedback on options and alternatives; and (iii) exploration of different design and implementation options and development of a communications strategy.

Box 1: The Experience of Mobility Saving Accounts (MSA) in the GCC

GCC labor markets are characterized by large numbers of expatriate workers, most of them staying only a short time in the same job and even in the same country. Since some social insurance programs, in particular old-age pensions, traditionally require long contribution times before beneficiaries can access benefits, a new, tailored approach might be required for expat workers in the GCC. Some GCC governments have already introduced or are considering introducing innovative mechanisms that would increase the welfare of expatriate workers while providing opportunities for economic development. The main reasons for designing and implementing innovative mechanisms of social insurance for expatriates include the following: (i) the shortcomings of existing end-of-service-benefit (EOSB), and the need to consider longer-term savings provisions for expatriate workers; (ii) the need to improve the welfare of expatriate workers and provide incentives to attract and retain highly skilled and qualified workers; and (iii) the opportunity to promote economic development by attracting larger institutional investors.

Mobility Savings Accounts (MSAs) represent a portable social protection instrument linked to a Retirement Savings Scheme (RSS) and is financed through a combination of mandatory and voluntary contributions. The balance in this account might be used with more flexibility than normal pension products, but only upon exit from a job or leaving the country. Upon termination of the work contract, employees may decide to leave the country and use their savings in their home country or they may use the savings balance to extend their stay in the country while searching for another job. Upon retirement, an expatriate worker would be able to use the balance as a source of financial support during old age.

Dubai and Saudi Arabia are currently considering MSAs, whose key elements are based on objectives that should be achieved sequentially and include: (i) an assessment of the initial situation and analysis of reform options; (ii) the government's commitment to reforms; (iii) raising awareness of the reforms among stakeholders; (iv) seeking consensus among stakeholders; (v) enacting the necessary regulations; and (vi) implementation of the reforms.

Implementation of a new scheme is always a challenge. Some GCC governments, like Dubai and Saudi Arabia, seem to be on the path towards successful implementation of schemes to increase income protection for expatriate workers with limited marginal labor costs for employers. The schemes would add savings to their economies and help to retain skilled and experienced workers.



“Reform are needed that increase the productivity—and hence, wages and quality of jobs—of the private sector by shifting economic activity to higher value-added sectors, more technology-intensive production, diversified and more sophisticated exports, technology-driven FDI, and by enhancing their admission policies to ensure that global talent comes and stays in the GCC countries.”

5. Social and Labor Policies

Most GCC countries have all-encompassing social protection policies that effectively alleviate poverty and improve the well-being of their citizens. Strong social and economic development outcomes in all GCC countries result from robust investments in health, education, and infrastructure, as well as reforms to the business environments. Human development index scores have improved, infant mortality has decreased, expected years of schooling have increased, and life expectancy has risen (Callen et al. 2012).

Cash transfers and non-contributory assistance represent one element of the GCC's social protection programs, although the number and nature of programs may differ by country, depending on the existing vulnerability and poverty. In Qatar, where only 8 percent of population falls below the calculated relative poverty line,¹³ the government runs a relatively small noncontributory social assistance scheme to protect the vulnerable and poor from financial shocks. The scheme is well established and is mandated with only covering a relatively small share of the population by focusing on inactive groups who are unable to take up a

job in the public sector. The scheme provides cash transfers to individuals who fall in eligible categories and enrolls able-bodied working age beneficiaries in skills training and upgrading programs to support their reentry into the labor market. The total number of beneficiaries reached 15,592 individuals in 2016, and spending on social benefits comprised 0.04 percent of GDP. In Saudi Arabia, where poverty is deeper and more prevalent, the government administers a large cash transfer program that amounted to US\$5 billion in 2010 (about 1 percent of GDP) and that covered approximately 1.1 million families (i.e. 33 percent of the total number of families). The majority of GCC countries provide citizens with universal subsidies that cover fuel, electricity, water, housing, food items, among others. Governments are nonetheless cognizant of the need to reform, with Kuwait becoming the latest GCC country to raise petrol prices in August 2016 as part of a package of reforms aimed at alleviating fiscal pressures in light of the oil crisis.

The key element of social policies across the GCC is the extensive use of public employment, combined with implicit

¹³ In line with OECD and European Union (EU) practices, Qatar measures its relative poverty by its population's current standards of living (SoL)—with the threshold of decent SoL (RPL) determined at 50 percent of the median value of equivalent income/consumption. Based on the 2012-2013 Household Income and Expenditure Survey (HIES), the threshold of decent SoL (RPL) has been calculated to be QAR 3,514 per month for Qataris. The percentage of low-income Qataris whose income equivalent is less than the QAR 3,514 is 8 percent.

¹⁴ In some cases, like in Qatar, the state has also utilized the pension system to channel benefits beyond the value of the contribution flows, providing enormous work disincentives, particularly for women.

subsidies in the form of wages potentially above the marginal labor productivity¹⁴ as a wealth distributing mechanism. This means that social and governance policies in GCC countries are intertwined and introduce considerable distortions and work disincentives in their labor markets.

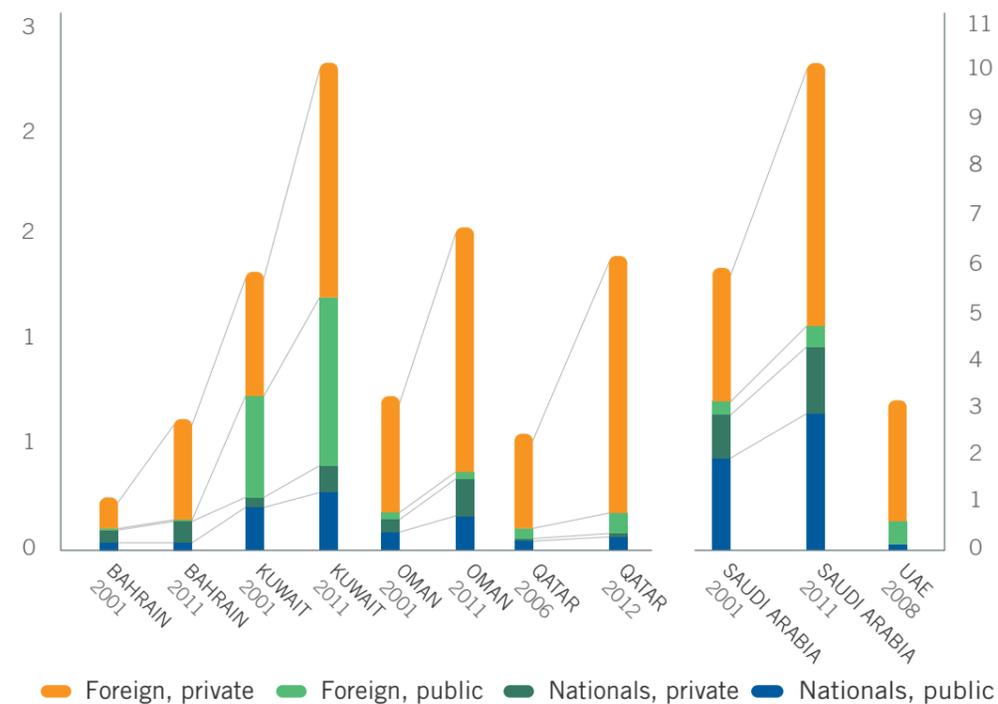
Supported by government spending, GCC job creation for citizens has outpaced that of other countries over the last decade, with average national employment growth for Bahrain, Kuwait, Qatar, and Saudi Arabia ranging between 4 and 5 percent, and reaching 9 percent in Oman (Behar et al. 2013). However, created jobs were for the majority concentrated in the public sector (Figure 5). Public sector employment of citizens is particularly dominant in the wealthier and less populated GCC countries of Kuwait, Qatar, and the United Arab Emirates, where over two-thirds of employed citizens work in the

public sector. The ratio is similarly high in Saudi Arabia (Behar et al. 2013). Females, especially, are overwhelmingly employed in the public sector. In 2015, 81 percent of active females were employed in the public sector in Qatar, compared to 93 percent in Kuwait. On the other hand, foreign labor accounts for 80 percent of employment in the private sector in all GCC countries. While the average annual percentage growth in private sector employment has far exceeded that of the public sector from 2001 and 2012 in Bahrain, Kuwait, Oman, Saudi Arabia, and Qatar, employment growth in the public sector picked up in 2012 (Behar et al. 2013). In Qatar, the public sector comprised 62 percent of net employment increase for Qatari employment between 2012 and 2015. Overall, employment growth for foreign workers has been more volatile than for citizens and is influenced by oil prices.

Despite the implementation of employment quotas to raise the share of citizens in the private sector (such as the Nitaqat system in Saudi Arabia), the segmentation in the labor market between the public and private sectors remains, with only Kuwait and Oman having seen an increase in the proportion of employed citizens in the private sector over the last decade. In essence, a combination of wage premiums, expected low effort level, and job security provides few incentives for citizens to participate in the private sector.¹⁵ In many of the GCC countries, public sector wages, particularly for low-skilled citizens, are often several times those in the private sector, raising citizens' reservation wages and providing a disincentive to invest in skills that are demanded by the private sector. In addition to this, the public sector provides a conducive environment for female employment with flexible work hours, paid maternity leave,

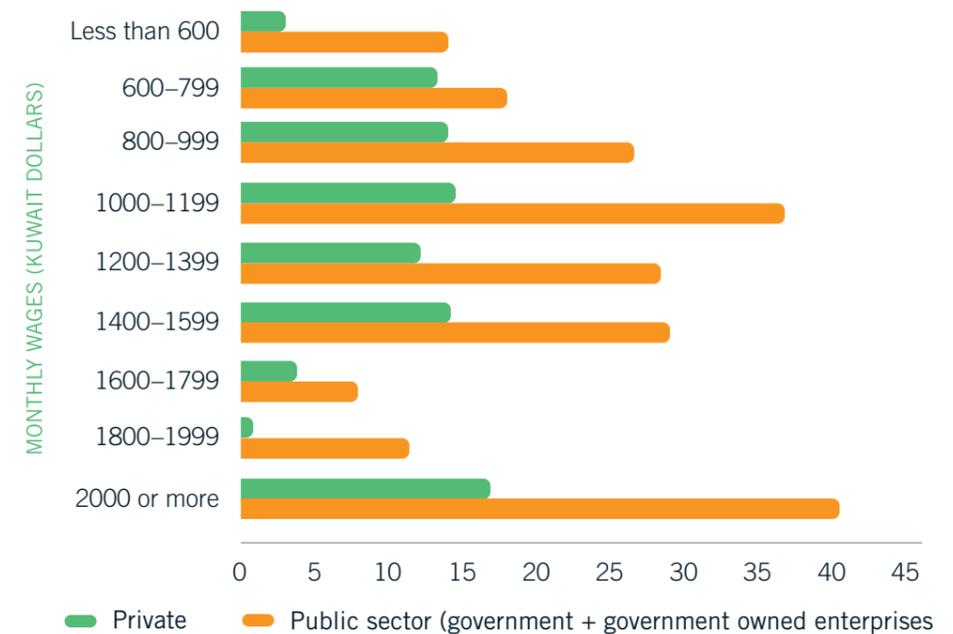
and childcare services. Citizens who are better educated self-select into the private sector and remain only concentrated in high-paying activities (oil industry and financial services) or take on supervisory roles in low-wage sectors (construction, trade, and transportation (Van Ark et al. 2008). Figure 6 demonstrates how for a given wage level, many more Kuwaitis are employed in the public sector rather than the private sector. In Saudi Arabia, the public-private wage gap has widened over time from 2.7:1 in 2005 to 3.2:1 in 2010, and reportedly to even higher levels after 2010 in the wake of the Arab uprisings.¹⁶ Similar patterns have emerged in other GCC states, where civil service salaries were significantly increased prior to 2016. In 2012, Bahrain increased civil service and military salaries by over 36 percent. Qatar increased civil service salaries by 60 percent in 2011 and salaries for those in the military by 120 percent.

Figure 5: Employment of Citizens and Foreign Workers by Sector (Millions)



Source: Behar et al., 2013

Figure 6: Percentage Distribution of Kuwaiti Wage Employees by Sector & Monthly Wage levels, 2015



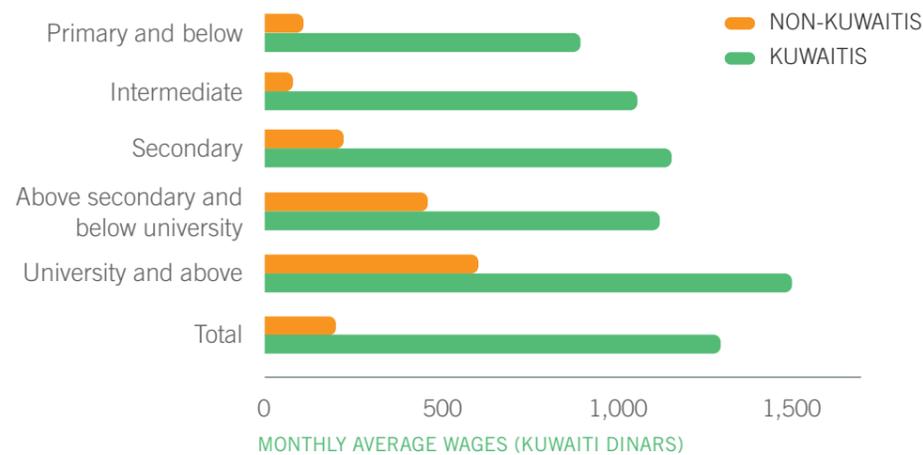
Source: Kuwait Labor Force Survey, 2015

¹⁵ See the governance chapter for a detailed assessment of the incentives and public employment policies that skew citizens' employment against the private sector.
¹⁶ Al-Sheikh and Erbas 2012. The Saudi public sector wage bill increased by nearly 22 percent, from 10.6 percent for 12.9 percent, between 2010 and 2011. In 2016, the IMF projected compensation to peak at 16.9 percent of GDP before gradually declining. See IMF Article IV Consultations, <http://www.imf.org/external/pubs/ft/scr/2016/ cr16326.pdf>.

The GCCs' generous wage premiums raise citizens' reservation wages, undermine their competitiveness in the private sector labor market when compared with other expatriates of similar education and occupation status, and adversely impact citizens' attitudes toward competition, meritocracy, and human capital investment. In Kuwait and Bahrain, average wages for citizens are more than double the wages of expatriates with the same levels of education (Figure 7 and Figure 8). Although the higher productivity, skill levels, and experience of citizens could theoretically explain some of the wage

difference, this is very unlikely, and a detailed econometric analysis, requiring raw labor force survey data would be necessary for such an analysis. As a result of the wage differential and the lack of incentives for citizens to acquire skills for the private sector, employers in the private sector prefer foreign workers since they are less expensive, less mobile, and more motivated since they rely on employers for their legal status in the GCC. This is worrisome amid observed levels of high national unemployment levels in some of the GCC countries coexisting with rapid job creation for foreign workers.¹⁷

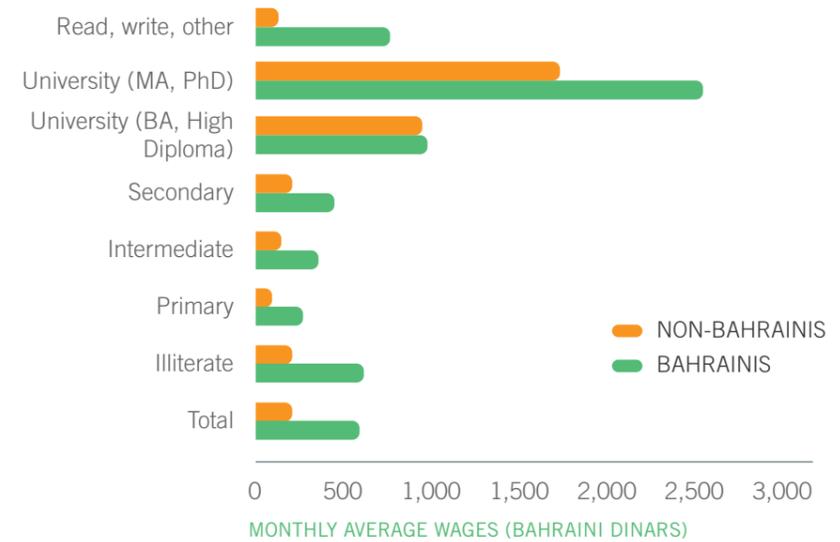
Figure 7: Monthly Average Wages for Kuwaitis & Non-Kuwaitis, by Education Level, 2015



Source: Kuwait Labor Force Survey.

¹⁷ Even if the majority of foreign workers are low-skilled, evidence suggests that in some GCC countries, such as Saudi Arabia, their degree of substitutability with citizens is likely to be higher than highly skilled workers. IMF country report no.13/230 (2013) documents the high levels of unemployment and low levels of labor market participation among low-educated Saudis.

Figure 8: Monthly Average Wages for Bahrainis & Non-Bahrainis, by Education Level, 2010



Source: Bahrain Labor Force Survey.

For countries with relatively small national populations, namely Qatar and Kuwait, quasi-guaranteed public employment jobs have helped maintain unemployment levels at very low rates. In other GCC countries, unemployment rates remain high. Among citizens, the unemployment rate reached 12.1 percent at end of 2012 in Saudi Arabia, and 14 percent in 2009 in the U.A.E. Unemployment rates are particularly high for youth and females in larger GCC economies. Female unemployment rates have risen alongside falling fertility rates and increasing numbers of female labor force entrants, especially among highly educated nationals. In Saudi Arabia, labor force participation rates have improved from 14 percent in 2015 to 20 percent in 2016, but female unemployment rates persisted

at 21.4 percent. Youth unemployment rates are also alarmingly high in Saudi Arabia, reaching 29.6 percent in 2013.

These figures suggest that job opportunities in the public sector are insufficient to absorb the rapidly growing youth and female segments of the labor force, and unemployment could rise in coming years among these groups unless they find jobs in the private sector (Behar et al. 2013).¹⁸ Econometric work presented by Behar and Mok (2013) finds that, on average, the creation of a public sector job comes at the cost of a private sector job for citizens. This kind of crowding out may occur for three reasons: (i) reduced private sector economy activity; (ii) citizens' preference for a public sector job due to the wage differential; and (iii) citizens' acquired skills are geared towards finding a job in the public sector.

¹⁸ Job creation forecasts between 2012 and 2018 predict that unemployment could rise for all of the GCC countries, with the exception of the U.A.E., even if public sector hiring continued at its recent pace and private sector generated jobs for citizens of about 600,000 (which would constitute about one-half to one-third of the expected labor market entrants (Behar et al. 2013).

As a result, higher growth in the non-oil private sector does not quickly translate into jobs for citizens (as estimated by an employment elasticity of 0.45 in the short run) (Behar et al. 2013). Unless the distortions that are skewing national employment towards the public sector are addressed in a comprehensive manner to allow for wider participation in the private sector, unemployment among citizens, particularly

for youth and females, will continue to be a key concern for some GCC countries. While Bahrain, Kuwait, Oman, and Saudi Arabia (the Hafiz program)¹⁹ have established schemes to support the unemployed in the form of unemployment assistance, job search assistance, and training programs, there is insufficient information to assess the impact of some of these programs, and unemployment rates remain relatively high.

5.1 Reforming Social Benefits: A New Way to Distribute National Wealth

As outlined above, the current labor and social policies that GCC governments use to some extent as wealth-sharing mechanisms introduce massive distortions and challenges that run counter to the GCC governments' stated objectives of diversifying their economies and enhancing the human capital of their citizens. Additionally, from a fiscal perspective, the wage bill of these policies in many of the GCC countries is relatively high. Further increases in public sector employment to absorb an expanding and increasingly educated national labor force, particularly among females, may contribute to increasing the non-oil fiscal deficit that may prove unsustainable in the near future.

An equally effective social protection and wealth sharing mechanism entails de-linking national wealth distribution strategies from public employment policies, as well as wage- and perhaps pension-setting policies (as in Qatar), which have introduced strong distortions for GCC citizens in the labor market. In this regard, a combination of an unconditional cash grant for every citizen,

supplemented by design features like an in-work benefit to guard against work disincentives, is proposed to replace wage premiums and other implicit subsidies. The unconditional cash grant would work as a universal basic income scheme and give each citizen an entitlement by birth to a stake in the national wealth. It would also ensure adequate access to social services such as family support, affordable housing, and social care services for every citizen. The in-work benefit would incentivize work and reward those who work or contribute to society in other ways, such as volunteering. The in-work benefit would be conditional on having a job in the private sector if wage differentials with the public sector remain, or in either the public or private sector if there is no wage differential, and would ensure, at least until wage levels in the private sector have risen sufficiently, that GCC citizens can compete with foreign workers and still reap income comparable to current levels. As opposed to wage subsidies, in-work benefits are paid to beneficiaries and not to employers, limiting labor market distortions and the potential for abuse.

There are many examples of such benefits in countries of the Organisation for Economic Co-operation and Development (OECD), although they are relatively recent. One of the first benefits of this kind was the U.S. earned income tax credit, which is refundable to the tax payer in the form of a negative income tax. The benefit usually supports low- to medium-income earners and their families on the condition that they have a job, therefore explicitly rewarding work. The United Kingdom offers the Universal Credit, which serves as a top-up to wages in support of low-income earners and families.²⁰

The unconditional cash grant could be embedded within the broader GCC social protection systems, by introducing reforms to other programs, such as the heavily subsidized pension system. While all GCC citizens can be entitled to receive a share of the unconditional cash transfer benefit by virtue of citizenship, the dividend could be differentiated by certain criteria. For example, a higher benefit could be paid to elderly people in the form of an old-age subsidy, as an explicit component of the unconditional cash transfer and in lieu of the heavily subsidized and overly generous old-age pension that currently encourages early retirement, especially among women. Furthermore, the design and targeting of existing social assistance and cash transfer schemes could be further improved and potentially streamlined under the unconditional cash transfer benefit. Saudi Arabia is already considering such a program²¹ that would reduce or eliminate subsidies, cut public sector employment, and distribute oil revenues as cash transfer, in an attempt at enhancing efficiency while still sharing oil revenues with the population.

The proposed social protection interventions would need to be implemented in conjunction with the main reforms associated with public employment to make citizens indifferent to private sector employment, reduce their wage premiums, and hence their reservation wages, as well as promote competition in the labor market. This would necessitate reducing public sector wages to reflect actual productivity; to ensure work requirements in the public sector resemble those of the private sector; and to promote merit-based entry and promotions.²² The unconditional cash transfers together with an in-work benefit may serve to compensate citizens for losses due to salary cuts in the public sector and help reaffirm GCC governments' commitment to maintaining their wealth sharing strategies with citizens. This new proposed scheme could be financed through savings generated by public salary wage cuts under various specifications and scenarios.

Figure 9 illustrates how such an in-work benefit could work in detail. For demonstration purposes, the figure and accompanying discussion present the scenario of a--rather unrealistic--cut in income due to public salary and subsidy reform. It further assumes that such an extensive reform would immediately be rolled over to private sector employees as well via a reduced reservation wage. To compensate for the significant income loss, an in-work benefit is introduced. In the figure, this benefit compensates the income loss at a high level of 80 percent for relatively low-wage earners. For anyone earning less than this lower threshold, the in-work benefit would almost completely compensate for the losses from the reform and income would remain almost unchanged. For anyone earning over the upper threshold after

¹⁹ The Hafiz program, which was established by Royal Decree under King Abdullah Bin Abdulaziz, is an unemployment assistance program that aims at (1) financially supporting Saudi jobseekers during their job search, and (2) developing their skills and practical experience until they obtain jobs in the private sector.

²⁰ Immervoll and Pearson (2009) provide a good overview and assessment of in-work benefits in OECD countries.

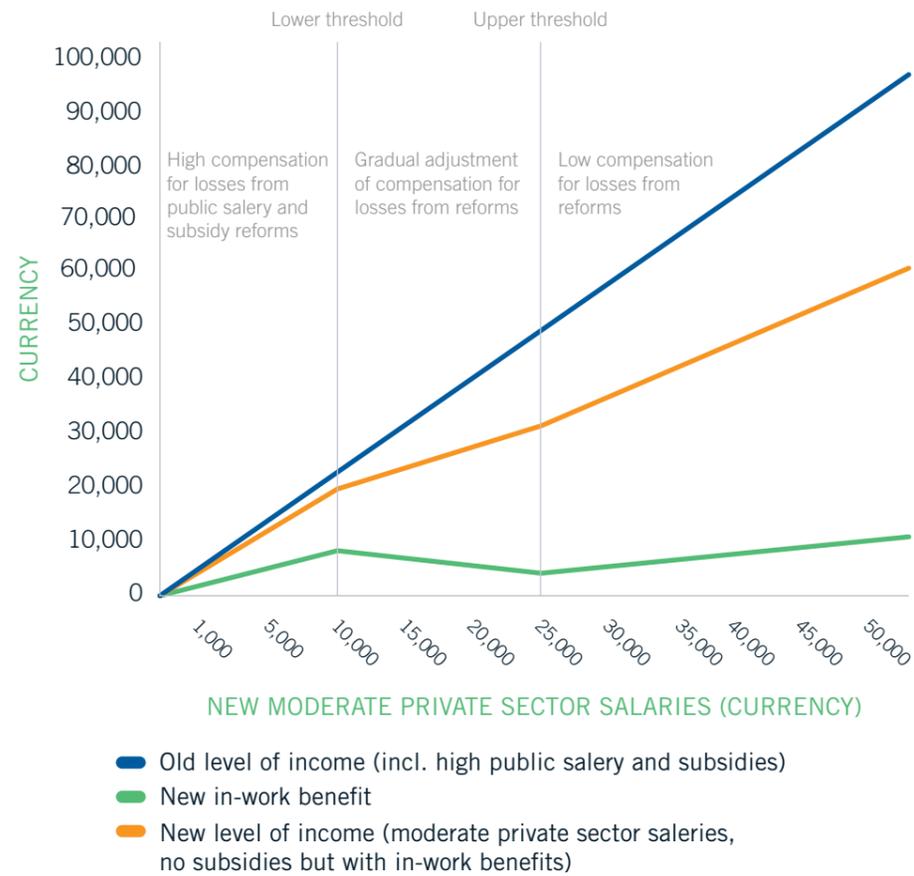
²¹ See <http://english.alarabiya.net/en/business/economy/2016/12/22/Cash-transfer-program-for-low-income-Saudi-citizens.html>.

²² Refer to the Governance Section for more details on the proposed reforms associated with public employment.

the reform, the loss from the reform would be compensated at a much lower rate of 20 percent in the figure. For anyone earning between the two thresholds, the benefit would be reduced gradually with the wage level.

In addition, workers, like everyone else, would receive a possible unconditional cash grant for themselves and each household member, which could be an additional income boost.

Figure 9: Illustration of an In-Work Benefit in Combination with a Substantial Reduction in Public Salaries and Subsidies



Source: World Bank analysis.

There are infinite ways to design such in-work benefits and unconditional cash grants. Policy makers can choose the design depending on what they seek to emphasize. If an emphasis on work incentives is considered unimportant, a simple unconditional cash grant would be sufficient. If work incentives matter greatly, as they should, more emphasis should be put on

in-work benefits. If, in addition, private sector employment is highly valued, an additional private sector premium could be introduced, or alternatively, the in-work benefit could only be paid for private sector employment.

As discussed in the governance section, large salary cuts in the public sector are rarely implemented because of political economy reasons. Although unconditional and in-work

benefits are potential tools to compensate even for large salary cuts, such reforms might create too much uncertainty and too many losers and winners. A more realistic approach would be the gradual introduction of such policies, where future increases in public salaries are frozen

for a time while fringe benefits, like allowances, are reduced or eliminated. The gradual introduction of these benefits can help to create a new tool to distribute national wealth that is independent of public employment, and therefore reduce distortions over time.

5.2 Reforming Job Search Assistance, Activation, & Active Labor Market Programs

As GCC labor markets become more competitive, more comprehensive job search assistance and implementation of active labor market programs (ALMPs) will become necessary to ensure that employers find the skills they need, and that workers find the jobs that best suit their skills. This is particularly important for youth entering the labor market for the first time, and whose lack of work experience and professional references means that they are more likely to face difficulties signaling their skills to potential employers (World Bank 2010).

sanctions in cases of low job search intensity and job refusals; and (iii) to strengthen social protection systems such as unemployment assistance and insurance schemes to protect workers' income in case of job losses.

The priorities for reform to facilitate labor mobility and job matching are: (i) to improve the matching of skills and jobs by enhancing existing databases on job vacancies in both public and private sectors so that job seekers can get intermediate access to job vacancies, and to support job seekers in the form of search counseling, such as developing job search strategies, presenting qualifications, and preparing for job interviews; (ii) to develop an activation model for working-age, non-contributory social assistance beneficiaries that defines rights and obligations, including financial assistance, obligations to look for work intensively and accept suitable jobs, and

6. Governance

Many GCC citizens are unwilling to take up private sector careers. Job seekers considering employment options typically weigh three factors when choosing a career path: (i) the total compensation package, including job security, allowances and benefits; (ii) the level of effort required to obtain the compensation; and (iii) the availability of jobs in a particular career track. Unfortunately, on all fronts, existing incentives in GCC labor markets are aligned in favor of the public over the private sector.

Public sector wages in the GCC are much higher than those in the private sector, especially for women and low-skilled workers. In addition, employees are offered unmatched allowance and benefits packages. Some GCC countries consume up to 9 percent of their state budget in allowances, offering partial or full support for housing and transportation, as well as compensation for purchasing home furnishings or performing the Hajj. Public sector benefits are also more generous than in the private sector, and include items such as pensions, medical insurance, vacations, maternity and infant care leave, sick leave, educational leave, and mourning leave.²³

Another implicit public sector perk that draws GCC citizens away from the private sector is job security. Anecdotal evidence suggests that even poor performing employees maintain job security in the public sector since performance-based sanctions, such as pay cuts or contract terminations, are rarely implemented. In some cases, weak performers are merely asked to stay at home while still being able to draw their substantial government salaries and allowances. Such job security considerations lead many GCC citizens to turn down private sector careers even in cases where their expected wages and benefits would be comparable to or higher than in the public sector.

Across the GCC, the public sector demands less work effort overall than the private sector. Two imperfect but indicative measures that can be used to look at this include hours worked and the importance of merit and performance in recruitment and promotions. The shorter and more flexible working hours within public sector agencies are a big draw for GCC citizens, especially women, who value the additional time with family. Credible data on actual hours worked by GCC

²³ AME Info Business News 2015; Alkadry 2015.

civil servants is scarce, but existing data suggests that the de jure hours are very low by international standards (Table 1) and de facto effort is lower still. In Kuwait, for example, public employees work on average only around two-thirds the time of their American counterparts, which translates into almost four months of service forgone per employee. In Qatar, employees are

documented to work 22 percent less time de facto than their private sector counterparts. Some GCC states such as Saudi Arabia have attempted to reduce this gap by regulating (reducing) working hours in the private sector. However, these policies may be difficult to enforce, and would need to be complemented by adjustments to public sector work schedules to be truly effective.

Table 1: Comparison of Working Hours in GCC & Other Countries

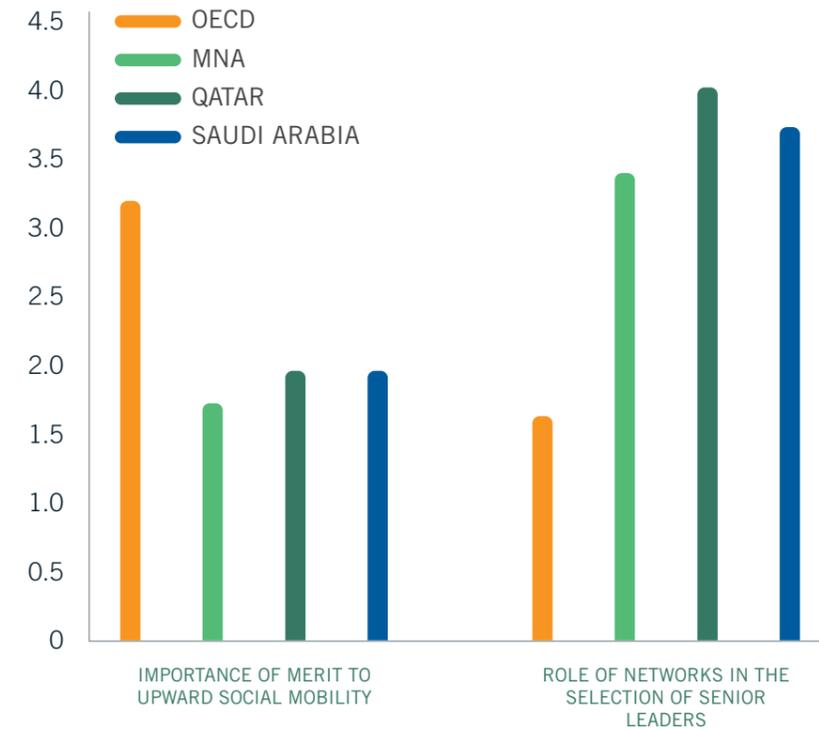
COUNTRY	WEEKLY HOURS	GROSS ANNUAL HOURS	ANNUAL LEAVE	PUBLIC HOLIDAYS	TOTAL LEAVE HOURS	TOTAL HOURS WORKED
Hungary	40	2080	20	8	224	1,856.00
United States	40.1	2087	20	10	240.8	1,846.20
Ireland	39	2028	24	9	257.4	1,770.60
Spain	38.4	1996.8	22	14	276.5	1,720.30
Emirate of Abu Dhabi	37.5	1950	24	10	255	1,695.00
United Kingdom	37.3	1939.6	25	8	244.7	1694.90
Sweden	37.1	1929.2	25	11	267.1	1,662.10
Germany	37.7	1960.4	30	10.5	305.4	1,655.00
France	35.6	1851.2	25	11	256.3	1,594.90
Saudi Arabia	35	1820	35	17	364	1,456.00
Qatar	35	1820	33	23	392	1,428.00
Kuwait	30	1560	39	12	306	1,254.00

Source: World Bank analysis.

Governments in the GCC also typically place low or inadequate emphasis on performance and merit in hiring and promotion decisions related to public sector jobs. Studies show that recruitment into the public sector often bypasses official channels and thus any vetting of qualifications. According to cross-national indices, GCC civil services

have higher levels of favoritism in recruitment and advancement than comparators in the OECD and MENA region (Figure 10). In addition, even when official channels are used to recruit new employees, subsequent promotions are often automatic and/or driven by seniority and relationships, rather than merit.

Figure 10: Favoritism in Civil Service Recruitment and Advancement



Source: Institutional Profiles Database, 2012.

6.1 Reforming Public Sector Employment Policies

Given the objective of de-linking national wealth distribution strategies from public employment and wage setting policies, there are at least three sets of recommendations that can help promote competitive and transparent public employment policies in the GCC. These can be instrumental in shifting the willingness of citizens to accept private sector jobs and in positively influencing their

attitudes toward competition, meritocracy, and human capital investment. The proposed social protection reforms discussed in earlier sections (universal basic income scheme together with the in-work benefit) can act in parallel as the GCC governments' main wealth distribution tool to minimize current distortions in the labor market as well as buffer against political economy concerns downstream.

6.1.1 Reforming Public Sector Compensation Packages

In terms of wage payments, while public sector pay should remain competitive to attract high skilled workers, it needs to correspond with actual productivity levels. GCC governments should take steps to ensure that public salaries

reflect true productivity and are competitive with wages in the private sector. If this is not the case, reservation wages of GCC citizens will remain high, and broad participation in the private sector is unlikely to be successful.²⁴

²⁴ Comprehending the degree to which citizens in different GCC countries are overpaid compared to their marginal product requires a detailed econometric analysis that accounts for differences in education levels, years of experience, sector, and occupation.

Reforming public sector compensation packages necessitates charting a policy course that balances desired reform outcomes against what is realistically feasible in the local political environment. Depending on the context, directly reducing public sector wages may not be viable for some GCC governments. Instead, gradually restraining future wage increases may prove more effective. Governments can develop mechanisms to regularly monitor compensation trends and set fixed criteria for wage adjustments. This may be accomplished by establishing a wage and productivity commission that periodically studies and makes recommendations for the size of future wage increases to ensure that they are in line with changes in inflation and are benchmarked against private sector wages, as well as regional and global comparators. Given the high wage increases in recent years, GCC countries may wish to allow for some near-term salary erosion due to inflation before implementing these measures.

GCC governments should also carefully track and make transparent the compensation and benefits already being offered in the public sector to stem any opportunities for employee misuse. Several GCC countries

have yet to develop fully operational, centralized human resource systems that track public employee salaries and benefits. Developing such systems and instituting mechanisms to regularly monitor wages and/or other cash or in-kind compensation could enhance overall transparency and help governments identify any misallocation or potential employee misuse of wages and allowances, thereby creating a stricter culture of accountability in the public sector.

In parallel to these actions, GCC governments will need to trim the overall allowances and benefits offered in the public sector to bring them in line with those offered to citizens in the private sector. Unlike wages, selective reductions and/or consolidation in allowances and benefits can be politically feasible measures in the short- to medium-term. GCC governments can therefore strategically reduce public sector allowances and benefits as a way to incentivize GCC citizens to accept private sector jobs. When implemented in conjunction with the proposed social protection mechanism (i.e. an unconditional cash transfer combined with an in-work benefit), this reform can be achieved without compromising the overall welfare and income of GCC citizens.

6.1.2 Strengthening Meritocracy & Performance Management in the Public Sector

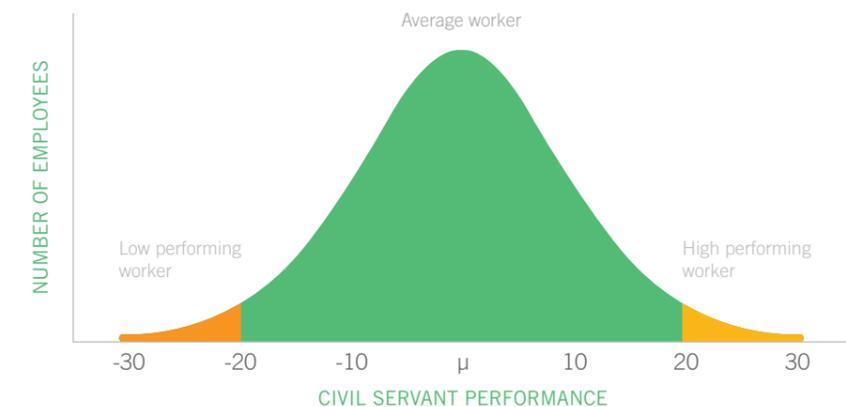
GCC governments must foster meritocracy and performance in the public sector to ensure that hard work is rewarded and public employment is not seen as a guaranteed entitlement for citizens. This will require establishing new human

resource management (HRM) and human resource development (HRD) processes in the public sector, and strengthening the quality of performance management by adopting formal tools.

Conceptually, the problem can best be approached through the graph provided in Figure 11. One would expect that the performance of GCC citizens within the public sector would be captured

by a normal distribution curve in which there are both high performers and low performers, with the vast majority of civil servants falling somewhere in the middle.

Figure 11: Performance of Public Sector Employees



Source: World Bank analysis.

For various reasons, the primary public administration challenge for most GCC governments will be to effectively manage both ends of the distribution curve. Although most civil servants can be found in the middle, the incentive structures at either end will have a disproportionate impact across the public sector. At the high end, the principal goal will be to develop available talent and utilize it to its full potential. This would involve strengthening meritocratic systems and procedures in recruitment and promotion so talented individuals do not feel ignored, under-utilized, or passed by, therefore leading to a drop in morale. Other possibilities worthy of exploration would include the development of a senior executive service corps, as well as a fast-track career program for young civil servants entering the bureaucracy.

Governments will need to adopt rigorous standards to ensure that transparent, competitive, and merit-based recruitment and promotions take place in the public sector. As a first step, ministries and agencies should develop job descriptions that identify the relevant skills and competencies needed for all public sector positions and categorize functions within a transparent grading structure that is consistently applied across the public sector. Subsequently, all public sector positions should be filled based on the skills and abilities of the candidates, which must match the skills profile ministries and agencies have identified for those positions. GCC governments may also consider introducing formal civil service exams for entry into the public service as an added measure to create a transparent,

merit-based recruitment system. Finally, once GCC citizens have entered the public sector, there should be an expectation of increased work effort and demonstrated merit to earn promotions rather than automatic career advancement or promotions based on favoritism and personal relationships.

Similarly, governments will need to improve the enforcement of existing work rules to show that certain threshold standards of performance are expected if GCC citizens wish to retain public employment. If basic work rules are not enforced, GCC countries will run the risk of poor performance seeping into the broader public sector and impacting the behavior of staff who would otherwise

perform at higher levels. One way for GCC governments to ensure that this does not happen is to track employee absenteeism rates and hours on the job. Monthly statistics on absenteeism rates in ministries and agencies can be circulated to all ministers, thereby creating both formal and informal incentives to enforce attendance rules. Based on this, a sanctions regime can be instituted to penalize staff for chronic absenteeism, with penalties including proportional pay cuts and even termination in egregious cases. The imposition of sanctions and disciplinary procedures for other work-related violations, combined with remedial classes for chronic poor performers, should also be pursued.

6.1.3 Rationalizing the Size of the Public Sector

To shift labor market incentives and rebalance employment between the private and public sectors, GCC governments (at least those with large national populations, such as Saudi Arabia) must rationalize the recruitment of citizens into the public sector. This does not mean cutting jobs for citizens overnight, which could be politically difficult. Rather, it means moving away from the previous policy of open recruitment, which has resulted in bloated and unproductive administrations, towards a more deliberate and targeted staffing strategy that identifies the best candidates for specific functions and administrative or service needs. Given the GCC's rapidly growing populations and rising unemployment among some countries, the transition to this more deliberate rationalized recruitment in the public sector, while

ensuring an increased private sector activity, is both vital from a fiscal standpoint as well as from a service quality perspective.

GCC governments can also take progressive steps to contain the size of the public sector without compromising on capacity. Governments may choose to temporarily or permanently freeze hiring in select ministries and agencies or introduce voluntary retirement schemes under which some citizens may choose to take their pensions early and exit the public sector. Ultimately, job preferences among citizens and the attendant labor market segmentation will improve not only when the terms of employment become less attractive in the public sector, but also when there are less public sector jobs to go around.

6.2 The Broader Political Economy of Public Sector Reform

The above mentioned reform measures run contrary to decades of established practice in the GCC and will need to be introduced carefully and systematically. Elites may be loath to relinquish their ability to use civil service pay and employment as a mechanism for enhancing loyalty—even though evidence suggests that the mechanism's effectiveness is mixed at best. GCC citizens may resent efforts to foreclose job opportunities within the public sector, or to extract greater value and performance from the current workforce. Despite these challenges, the task is not impossible. Some GCC localities, such as Dubai and Abu Dhabi, have been relatively effective in enshrining a performance ethos throughout their public sectors. Other countries, such as Saudi Arabia, offer proof that “islands of excellence” can exist in some parts of the public sector. In a world of low hydrocarbon prices, the fiscal reality is that the traditional development approaches pursued by many GCC countries are simply no longer attainable. More perniciously, a reliance upon large, highly compensated public sectors creates dysfunctional incentives that will undermine their long-term developmental goals. Unless addressed, these problems will become more acute.



“Governance and social protection reforms are needed to alter the GCC countries’ current wealth distribution strategy, so citizens are incentivized to invest in their human capital, accept private sector employment, and access productive and merit-based public sector employment.”

7. Education and Skills Development Policies

Current education policies in the GCC face higher order constraints stemming from the existing labor market distortions and near-guaranteed public employment policies that present perverse incentives for nationals against investing in their own human capital. Building on the earlier discussion, a reduction (or at least limited future increase) in public sector salaries to competitive levels and increasing meritocracy and transparency in labor market conditions would ensure a less segmented labor market and significantly improve incentives for GCC nationals to invest in their human capital and to accept private sector jobs. If, at the end of a school and university career, a guaranteed public sector job with low performance expectations awaits, incentives for students to learn and invest in their human capital are low.

Weak incentives towards learning are underlined by the outcomes for GCC students in international student learning assessments, such as the Trends in International Mathematics and Science Study (TIMSS).²⁵ They remain significantly below international benchmarks despite the high level of financial investments in the sector; The exception is the

U.A.E., whose assessments results are better than its GCC peers but still underperform internationally (Figure 12). Outcomes are particularly low for young boys, who are not performing as well as their female peers. For example, in grade four mathematics achievement on TIMSS 2011, Saudi Arabia, Oman and Kuwait displayed the highest gender differences in average scores, with girls outperforming boys by 16, 26 and 35 points respectively. Grade eight achievements in TIMSS reflect a reverse gender gap in Bahrain and Oman, where girls outperform boys by 43 and 63 points respectively. Furthermore, as a result of public employment policies and high reservation wages, specialization choices at the post-secondary level are almost exclusively geared towards humanities and social sciences fields with limited focus on technical and scientific fields generally demanded by the private sector. Figures from the United Nations Educational, Scientific, and Cultural Organization (UNESCO) data show that between 66 to 72 percent of GCC students choose education, arts, humanities, social sciences, or general programs as their course of study (OECD

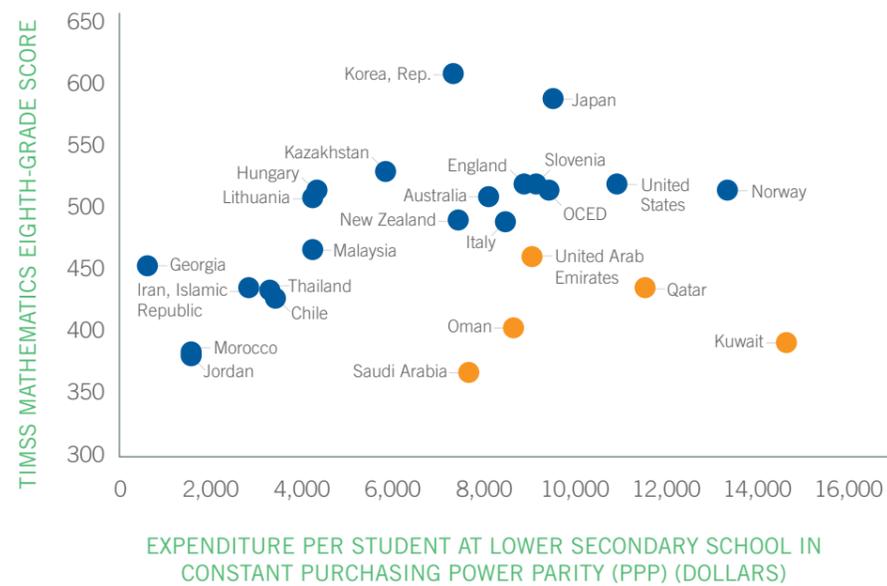
²⁵ Trends in International Mathematics and Science Study (TIMSS) is a series of international assessments of the mathematics and science knowledge of students around the world.

2011). This compares to an average of 50 to 55 percent in the United States, United Kingdom, France, and Germany. This in turn creates an oversupply of graduates ready for public sector employment but with limited to no incentive in joining the private sector.

Building on governance and social and labor policy reforms outlined above, if the labor market is aligned to provide the right incentives for nationals to invest in their human capital, several supply-side education reform policies are needed to ensure that nationals are willing and able to competitively participate in the private sector. A simple World Bank conceptual framework titled Skills

Towards Entrepreneurship and Productivity (STEP) suggests that skills needed for productivity and economic growth require a sequenced combination of education, training, and labor market activities involving five interlinked steps: (i) getting children off to the right start through early childhood development; (ii) ensuring that all children learn by building stronger education systems with clear learning standards, good teachers, adequate resources, and a proper regulatory environment; (iii) enabling students to build relevant skills that employers demand; (iv) encouraging entrepreneurship and innovation; and (v) matching the supply of skills with the demand (see section 5.2).

Figure 12: International Comparison of Expenditure per Student & Student Performance



Source: TIMSS 2011, UNESCO Institute for Statistics, 2011

7.1 Early Childhood Development

Developing technical, cognitive, and behavioral skills in early childhood development (ECD) is conducive to high productivity, and involves emphasizing the main domains of a child development, including physical (such as mother's and child's health and nutrition, breastfeeding, immunization), cognitive, language, and socioemotional aspects. Early childhood interventions occur at different stages of a child's development, beginning from the early stages of being in utero to the ages of three or five.

There is a need in the GCC to expand ECD interventions for pre-primary school children, both in the area of ECD institutions like crèches, kindergartens, and preschools, and in the area of informing parents about children's essential nutrients needs in their first 1,000 days of life and their need for early stimulation. Aggregate years of schooling and enrollment rates in ECD are still low in relative terms (Callen et al. 2014). Access to kindergarten averages at 49 percent net enrollment in the GCC, lagging behind OECD countries where access is near universal for pre-primary students. Variation exists among member countries, for instance, it is as high as 83 per cent in the U.A.E. but only 13.5 per cent in Saudi Arabia. The U.A.E. has recognized kindergarten as part of the mandatory years of education, and has developed an attractive pre-primary market, with nearly 405 nursery schools in 2013 showing overall attendance rates surpassing those of many OECD countries. In contrast, Saudi Arabia's pre-primary education is yet to take off, as kindergartens are not part of the official educational system; however, the government's Vision 2030 has set expansion of pre-primary education as a top priority area.

Improvements in ECD can help boost student achievement through higher cognitive development and overall school readiness on primary school entry, lower repetition and dropout rates in the early grades, greater learning in school, and higher school completion rates (World Bank 2010). Research shows that the serious handicaps acquired early in life, when for example children are malnourished or insufficiently stimulated, are difficult if not impossible to remedy later in life and that effective ECD programs can have a very high payoff.

ECD services can be delivered through various channels. The most common ones are center-based, such as preschools that focus on child development work with children and parents on all domains of ECD, such as cognitive stimulation through arts, games, and music, as well as on basic math and reading to prepare children for elementary school. ECD should also focus on good health, nutrition, and hygiene through parent and caregiver training. Public health centers measure areas related to linguistic and socioemotional stimulation. Additionally, social workers can counsel parents and provide training on the methods for proper children feeding, the process for immunization, and the provision of cognitive development either via center-based services or at homes. Other important counseling and training services include peer-to-peer learning to share information among community members about the various forms of care, as well as media campaigns to share information about proper care and stimulation of children with a broad and dispersed population.

7.2 Reforms in the Education System

As previously mentioned, GCC student achievements on international assessments are significantly below international average benchmarks despite substantial financial investments in education. GCC countries invested 11.8 percent of total government expenditure from 2005 to 2014 on education, which is comparable to average annual OECD spending of 12.3 percent from 2005 to 2014. The main challenges to enhance system performance in the GCC relate to the need to improve the teaching force, policies to establish and enforce proper qualifications, as well as the provision of an integrated system of incentives, rewards, and sanctions for performance.

Evidence suggests that teachers have minimum educational background requirements and unsubstantial levels of subject knowledge mastery. The majority of teachers (Saudi Arabia 95.2 percent, Oman 94.6 percent, Bahrain 73.6 percent, U.A.E. 70 percent and Qatar 67.8 percent) in GCC schools hold at minimum a degree from a three-year program at a tertiary institution (International Standard Classification of Education statistics). The proportion of teachers with four-year degrees, advanced degrees and sciences subject specializations wanes in comparison (17 percent of grade eight mathematics teachers on average in GCC countries versus 28 percent in OECD countries). These degrees are largely unsought by national teachers given that differentiation by education background is minimally recognized or rewarded

past initial entry into the profession.

Shortages of subject specialists in math and science persist in GCC countries and affect instruction. These findings suggest that a large portion of teachers either are not specialized or are specializing in over saturated subject areas that are not leading to positive gains in learning outcomes.

Furthermore, teaching methodologies remain teacher-centered. Many teachers in the GCC do not utilize skills and practices characterized by good practices, which include: adapting and modifying goals to suit individual diverse learners; presenting challenging objects; maintaining better classroom climate; sensitivity to context; monitoring learning more effectively and providing feedback to students; and demonstrating good problem-solving strategies.²⁶ Instead, on average 56 percent of teachers in the GCC²⁷ report that they always or almost always include questions based on recall of facts and procedures in their mathematics tests or examinations for grade eight students, while 53 percent of GCC teachers, compared to 30 percent of OECD teachers, ask students to memorize rules, procedures and facts every or almost every mathematics lesson taught.²⁸

Accountability to improve learning also seems weak. Asked if it was easy to understand their math lessons, 10 percent of grade eight students in Bahrain and Qatar highly disagreed, versus 8 percent of OECD students. In the GCC, 43 percent of grade four math students are in schools that report

teacher absenteeism as a moderate or serious problem, compared to the OECD average of 9 percent, with the highest figures in Kuwait (69 percent), Oman (63 percent), and Saudi Arabia (52 percent).

Minimal autonomy and discretionary powers at the local level make it difficult to incentivize providers to improve performance. Greater autonomy can give schools the flexibility to empower teachers and parents, thus improving teacher morale. Education systems in the GCC are highly centralized with planning and management of school budgets and personnel all controlled centrally. Local governments at the regional level are not involved in the decision making process. At the school level, principals have limited ability to motivate or incentivize teachers

whether for merit or sanction. For example, in the case of teacher absenteeism in Oman, a principal's ability to sanction noncompliance is very limited. In terms of financial autonomy, schools in the GCC have almost no control over the resources allocated to them and have minimal discretionary powers on how to use those resources.

Finally, little information on the quality of services is collected, reported, and made publicly available. High-performing countries use information to focus constantly on improvements over time. In contrast, schools in the GCC are regularly inspected but information on individual or organizational performance is typically not shared throughout the centralized education system, receives no follow-up, and is not made available publicly.²⁹

7.3 Reforms in Improving Job Relevant Skills to Facilitate Transition into the Labor Market

Transitioning successfully from the education system into a stable job in the labor market requires graduates to be equipped with relevant job skills through pre-employment skills development (offered by public institutions, such as the Technical and Vocational Education and Training (TVET) programs and tertiary institutions). Other services include on-the-job training, as well as skills certification systems.

GCC youth believe they are inadequately prepared for employment. In addition, in 2014, only 29 percent of employers agree that the education system prepares students with relevant technical skills (computer literacy,

English, etc.); 19 percent agree the education system is preparing students with the right attitude and behavior; 16 percent agree education equips students with specific and core skills required by industries; 16 percent also agree the curricula are in line with needs of the private sector. Students similarly are not confident (54 percent in Saudi Arabia, 58 percent in Qatar, 68 percent in the U.A.E. and Oman, 69 percent in Bahrain and 72 percent in Kuwait) their education is equipping them with the right skills and training for their chosen career.³⁰

²⁶ See Hattie and Anderman 2013.

²⁷ Excluding Kuwait.

²⁸ See TIMSS 2011.

²⁹ In Dubai, the Knowledge and Human Development Authority (KHDA) has established clear accountability mechanisms that transparently inform parents of the performance of each private school in the Emirate. In Kuwait, since 2013, a number of schools within the "School Leadership" pilot program have successfully implemented the practice of sharing general teacher attendance and absenteeism data. These are charts displayed publicly at the schools—with names of individual teachers removed—to indicate to parents and the community the degree of teacher attendance and absenteeism within the school.

³⁰ Parthenon-EY, 2015.

Similarly, private sector employers believe GCC nationals lack the skills and work experience needed to succeed in the workplace. A recent survey of GCC nationals found that 50 percent of employers in Saudi Arabia and Qatar reported that youth lack work experience. A third of survey respondents identify behavioral attributes, such as communication skills, discipline, commitment and attitudes toward employment as major constraints to retaining nationals. Finally, just under a quarter of employers cite a lack of required skills or qualifications—evidence that a shortage of technical training is a challenge to young people's career progression.

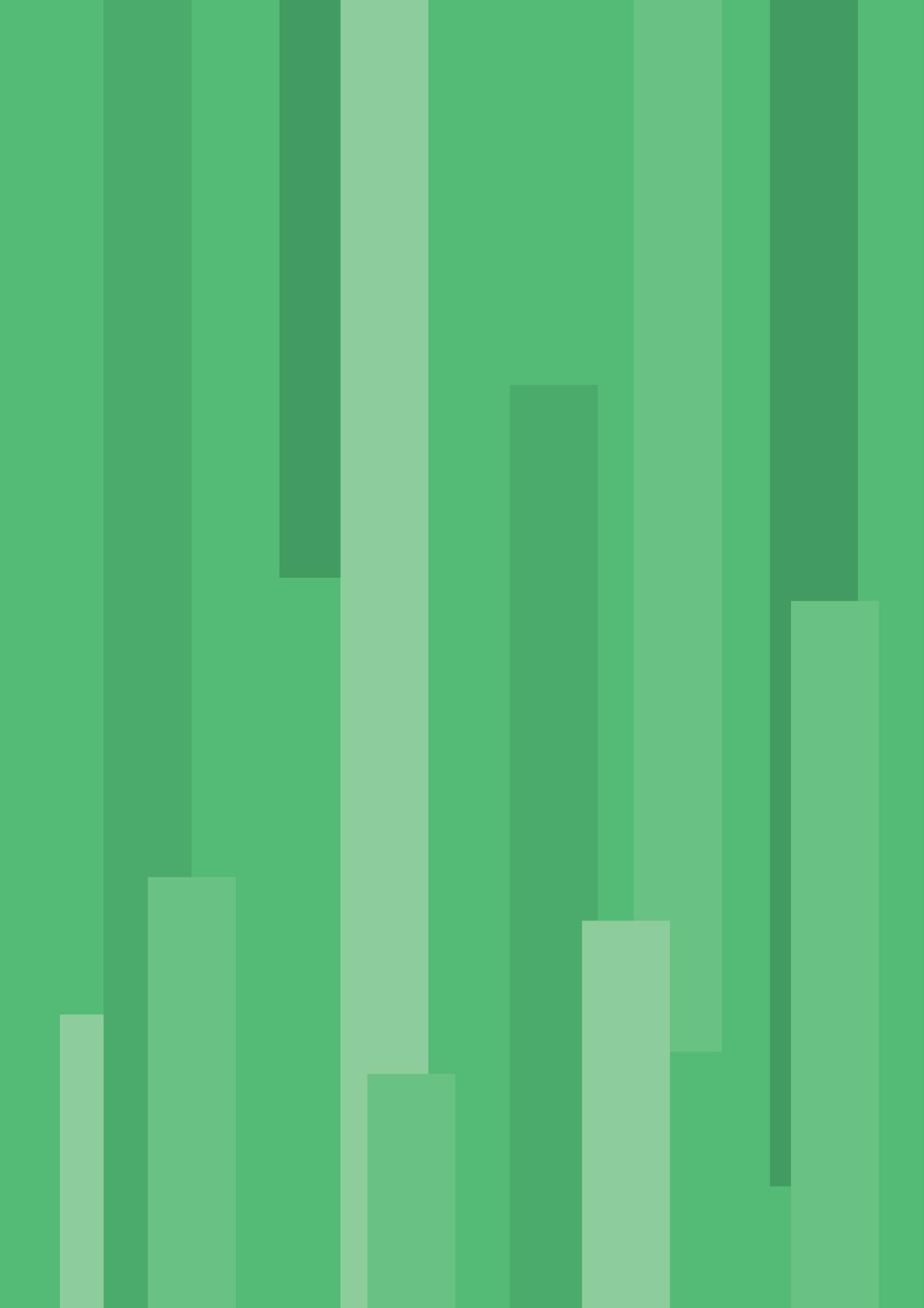
Some of the weaknesses that underlie the skills development sector include a weak TVET sector, where there is a definite sense in the GCC that it remains a “second-choice, second-rate” option, an alternative for those who cannot succeed academically or who cannot be accommodated by higher education. Evidence shows that, over the past decade, student demand for TVET in the Middle East and North Asia region (MENA) has declined, while the opposite trend is observed for upper secondary and tertiary education. In terms of the tertiary education system in the GCC, a critical part of a skills building system, schemes that offer students incentives and support to complete undergraduate and graduate studies conditional on returning to and

working in origin country can further ensure the development of human capital among nationals. Some schemes already exist in GCC countries, with scholarships programs targeted at nationals to study abroad. In some cases, GCC states imported a Western model of higher education instead of sending students abroad to invest in local talent.³¹ Modules focusing on work-based learning programs as part of countries' skill development sectors have also been introduced recently in some middle and low-income countries in partnership with public institutions, private sector, and technical and vocational schools.

Furthermore, career guidance services for secondary and tertiary students play an important role in supporting them in making an informed decision about their fields of specialization, career choices, and the needed job-relevant skills to invest. In the GCC, 72 percent of young nationals rely heavily on friends and family for advice and career information. Fewer than 30 percent of GCC students (13 percent in Oman, 22 percent in the U.A.E., 24 percent in Saudi Arabia, 39 percent in Qatar, 41 percent in Bahrain, and 42 percent in Kuwait) say they have sufficient information about job opportunities, qualification requirements and application processes.

Finally, if GCC countries expect to succeed in transitioning to highly productive, knowledge-based economies, they must develop a system that can transform existing learning to growth-inducing innovations. In this regard, policies that encourage creativity, entrepreneurial skills, and innovation-specific specialties through improved access to information, communication technology, finance, and greater spending on research and development remain essential (Callen et al. 2014). Additional policies may include scholarships for math, science, and business students to earn degrees in external research programs and bring the knowledge home, financing innovation spaces in public universities, as well as providing publicly funded incentives for greater collaboration between universities and the private sector (World Bank 2010).

³¹ GCC states imported a Western model of higher education to meet national reform agendas and invest in local talent and human capital. This model has taken diverse forms, ranging from American-style institutions (e.g. American University of Kuwait), to branch campus (e.g. Carnegie Mellon University in Qatar), or to a full-fledged replica liberal arts campus (e.g. New York University, Abu Dhabi)



8. How the World Bank Supports GCC Countries

The World Bank is a well-positioned partner to support GCC governments in achieving their goals of diversifying their economies away from oil and increasing the participation of GCC nationals in the private sector, as well as improving productivity, innovation, entrepreneurship, and human capital investment. The Bank has a comparative advantage in designing and utilizing rigorous analytical tools and research methods, as well as an extensive experience supporting over 120 countries in policy and program implementation as they relate to jobs and labor markets.

The World Bank currently engages with GCC governments on a Reimbursable Advisory Services (RAS) program that encompasses key cross-sectoral areas as they relate to the jobs and employment agenda, namely: fiscal policy, competitiveness, admission policy, social and labor policy, governance, and education and skills development. It provides comprehensive support that addresses each cross-sectoral area in a fully integrated manner, such as assistance with the Second National Development Strategy in Qatar and with the 2030 National Vision in Saudi Arabia.

In particular, the World Bank can provide technical and analytical assistance as well as program design and implementation support for GCC governments that build on identified challenges in each of the six reform priorities highlighted above.

In the area of *fiscal policy*, the World Bank can offer analytical and advisory assistance to GCC governments to promote policies leading to better functioning labor markets that meet long-term growth objectives, while also addressing fiscal sustainability concerns. The main analytical tools utilized include: (i) a macro-econometric structural model to analyze the rich set of interactions among sustainable development, labor and population. This model develops a baseline forecast and considers alternative population and development trajectories focusing on the long-run sustainability of the envisioned population futures, as well as the productivity of employed resource; and (ii) an overall macroeconomic and structural transformation analysis to examine aggregate trends in employment and productivity and factors behind GDP per capita and labor productivity in the GCC countries.

The main analytical products delivered include country-specific economic memoranda, public expenditure reviews, tax policy analyses, job diagnoses, systematic country diagnostics, and support to national development strategies.

In the area of *competitiveness policy*, the World Bank can offer a range of analytical services that can inform sound policies to support firm growth and job creation. A sector/industry value chain diagnostics is one tool that examines subsectors with potential for job creation and the types of constraints affecting their development and growth, as well as pilot interventions. With regards to sectors, the World Bank has strong experience in supporting agribusiness, information and communication technologies (ICT), manufacturing and tourism.

Secondly, a competition assessment helps to address the question of how to make the private sector more competitive; it would include benchmarking analysis as well as quantitative price analysis, in addition to addressing competition and regulatory reforms in two to three specific sectors. For example, the World Bank is currently providing technical assistance to establish a competition protection authority in one GCC country. Components of the technical assistance include: (i) legal review and amendments of the competition law; (ii) the institutional set-up; (iii) establishing a regulatory and procedural framework for mergers, authorizations/cartel exemptions, market definitions; (iv) competition advocacy and sector specific regulations; and (v) cooperation modalities with sector regulators and other public institutions.

Analytical and advisory support also includes areas of trade competitiveness of goods and services, non-tariff measures, trade facilitation

and bilateral and multilateral trade agreements, and relevant recommended policy measures to enhance trade. In a series of engagements, the World Bank team helped the authorities of one GCC country determine the feasibility of special economic zones (SEZs). This involved developing a methodology for site selection criteria and weighting, collected data, visited and analyzed sites, and producing a comprehensive report with site ranking, recommendations, and action plans for prospective sites. The World Bank also provided support to the economies of the East African Communities on regional growth dynamics, transport needs through spatial growth and transport policy analyses, infrastructure and ICT assessments, modelling the effects of regional integration, and a study looking into the feasibility of special economic zones.

Innovation diagnostics are also an important analytical tool to address how to bring about improvements at the firm level and the adaptation of technologies to new markets. GCC governments have expressed a desire to prioritize innovation, but relevant policies are lacking. GCC countries would benefit from an innovation diagnostic and the necessary follow up. This is a topic the World Bank Group is engaged in on a reimbursable basis throughout the world. For example, the World Bank assisted the government of Bulgaria in upgrading the policy and legal framework of its National Innovation System, establishing effective mechanisms for policy coordination, identifying and enhancing flagship projects, and preparing an action plan to deliver services to commercialize innovation.

In the area of *admissions policy*, the World Bank can provide a review and assessment of international experiences regarding immigration

systems developed in other advanced economies that aim to attract and retain highly skilled workers. Emphasis can be placed on policies towards permanent residency, which many GCC countries are starting to consider. Quantitative and qualitative tools such as employer and worker surveys, as well as key informant interviews can be utilized for a better assessment of country context. The World Bank has provided tailored support on this agenda to the U.A.E. and the Saudi Arabia in reviewing their systems and assessing reform options.

In the area of *social and labor policies*, the World Bank can offer rigorous analytical assessments to determine the suitability of universal basic income schemes, as well as in-work benefit designs in the GCC context. In this regard, the World Bank can draw on its international experience in supporting countries' reform of their social assistance program design, as well as address work disincentives stemming from receiving cash transfers in the GCC.

In addition, the Bank can provide analytical assessment as well as policy design and program implementation support for facilitating labor mobility and job matching to assist job seekers and the unemployed. The World Bank has supported many countries over the years in implementing and rigorously evaluating active labor market programs to reduce the risk of unemployment by enhancing labor supply (through training), increasing labor demand (through public works or subsidies), and improving the functioning of the labor market (through employment and intermediation services).

In the area of *governance policy*, the World Bank can provide comprehensive reviews and assessments of international experiences regarding public sector employment reforms,

strengthening meritocracy and performance management, and rationalizing the size of the public sector. In addition, the World Bank can conduct a political and economic assessment of the feasibility of public sector reforms in the context of the new proposed wealth redistribution mechanism. The World Bank has experience in conducting distributional impact analyses of proposed reforms to determine winners and losers, as well as develop strategic and well-tailored communication plans.

Finally, in the area of *education and skills development policy*, the World Bank can support GCC governments in reviewing policies and regulations pertaining to the financing process for education provision across all levels. This would include reviews of policies, official processes, funding mechanisms, and other formal guidelines that influence the education finance system. This assessment would give policymakers a holistic understanding of the relations between budgeting, expenditures and learning outcomes.

Additionally, support can be provided in designing and implementing policies, laws and regulations regarding early childhood education. Engagement can also be targeted towards identifying the reforms and programs that will have the largest benefit for gender equality, given the reverse gender gap concerns in learning outcomes in the GCC.

Throughout the different reforms, the World Bank can support the institutionalization of robust monitoring and evaluation systems and through regular data collection efforts, the implementation of impact evaluations for pilot reforms to assess impact and decisions for scale-up, and the development of a system assessment and benchmarking tool.

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