



**HAL**  
open science

## Kuwait's Welfare System

Bruno Palier, Rivka Azoulay, Laurence Louer

► **To cite this version:**

Bruno Palier, Rivka Azoulay, Laurence Louer. Kuwait's Welfare System: Description, Assessment and Proposals for Reforms. [Research Report] 18, Laboratory for Interdisciplinary Evaluation of Public Policies. 2021. hal-03396220

**HAL Id: hal-03396220**

**<https://hal-sciencespo.archives-ouvertes.fr/hal-03396220>**

Submitted on 22 Oct 2021

**HAL** is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.



Distributed under a Creative Commons Attribution - ShareAlike| 4.0 International License

# KUWAIT'S WELFARE SYSTEM

## DESCRIPTION, ASSESSMENT AND PROPOSALS FOR REFORMS

A report by Sciences Po's  
**Laboratory for Interdisciplinary Evaluation of Public Policy (LIEPP)**

Coordinated by **Dr Bruno Palier**<sup>1</sup>

The first part was written by **Dr Rivka Azoulay**,  
a former Research Fellow at LIEPP, under the supervision of Dr Bruno Palier  
The second part was written by **Dr Laurence Louër**<sup>2</sup> and **Dr Bruno Palier**  
Research and editing support provided by **Mrs Morgan Packer**<sup>3</sup>

<sup>1</sup>\_ Centre for European Studies and Comparative Politics, Sciences Po and LIEPP

<sup>2</sup>\_ Centre for International Studies of Sciences Po

<sup>3</sup>\_ Department of International Affairs, Centre for Asia Pacific, Africa and the Middle East, Sciences Po



# INDEX

<b>INTRODUCTION/EXECUTIVE SUMMARY</b>	p. 2
---------------------------------------	------

## PART I

<b>MECHANISMS OF WEALTH DISTRIBUTION AND CHALLENGES FOR ECONOMY AND SOCIETY</b>	p. 4
---	------

<b>INTRODUCTION</b>	p. 5
---------------------	------

<b>I. SOCIOECONOMIC CONTEXT</b>	p. 6
---------------------------------	------

Demographics	p. 6
--------------	------

Labor market	p. 6
--------------	------

Economic specialization and occupational groups	p. 7
---	------

Inequality and HDI	p. 9
--------------------	------

Poverty line in Kuwait	p. 9
------------------------	------

Inflation and high costs of living in Kuwait	p. 10
--	-------

Government finances and public spending	p. 10
---	-------

Fiscal sustainability	p. 11
-----------------------	-------

Some concluding remarks	p. 11
-------------------------	-------

<b>II. WELFARE SYSTEM IN KUWAIT</b>	p. 12
-------------------------------------	-------

Universal support	p. 13
-------------------	-------

Social aid to vulnerable groups	p. 17
---------------------------------	-------

Social insurances	p. 20
-------------------	-------

Labor market and education policies	p. 21
-------------------------------------	-------

## PART II

<b>REFORMING THE WELFARE SYSTEM IN KUWAIT</b>	p. 26
---	-------

<b>INTRODUCTION</b>	p. 27
---------------------	-------

<b>I. KNOWLEDGE ECONOMY AND SOCIAL INVESTMENT POLICIES</b>	p. 28
--	-------

Dynamic services in a knowledge economy	p. 28
---	-------

Required skills to develop dynamic services	p. 28
---	-------

Social investment	p. 29
-------------------	-------

<b>II. REFORMING EDUCATION</b>	p. 31
--------------------------------	-------

Improving the efficiency of the public education system	p. 31
---	-------

<b>III. REFORMING THE LABOR MARKET</b>	p. 33
--	-------

Labor market segmentation is dysfunctional	p. 33
--	-------

Reform the recruitment policy of the government administration	p. 34
--	-------

A comprehensive reform of unemployment coverage	p. 34
---	-------

Make workforce support allowance temporary	p. 34
--	-------

Build an alliance in support for workforce nationalization	p. 35
--	-------

<b>IV. MOBILIZATION OF HUMAN CAPITAL, ACTIVATION AND TARGETING OF THE WELFARE SYSTEM</b>	p. 37
--	-------

Reform energy, water and food subsidies	p. 37
---	-------

Shift to universal housing subsidy to means-tested housing subsidy	p. 37
--	-------

Maintain women financial autonomy but enable them to reconcile family and work	p. 38
--	-------

Prepare the system for an ageing crisis	p. 39
---	-------

Diversifying the sources of revenues for welfare	p. 40
--	-------

## CONCLUSION

<b>A SUMMARY OF PROPOSALS AND SOME CONSIDERATIONS ON THEIR POLITICAL FEASIBILITY</b>	p. 41
--	-------

<b>Annex 1:</b> List of Interviewees	p. 43
--------------------------------------	-------

<b>Annex 2:</b> List of figures and tables	p. 43
--	-------

# INTRODUCTION & EXECUTIVE SUMMARY

This report is the result of a research project conducted by Sciences Po's Laboratory for Interdisciplinary Evaluation of Public Policy (LIEPP). The report aims to analyze Kuwait's current social policy system, identify key challenges, and in response to these challenges, propose general reforms. This report is split in two parts: the first part provides an overall description of Kuwait's welfare system, and assessment of main challenges. The second part proposes guidelines and recommendations to develop new venues for social policies in Kuwait, with a strengthened focus on social investment for a dynamic society and economy less dependent on oil revenues.

## Key insights from the first part on mechanisms of wealth distribution and challenges for economy and society

The first part of our report was written by Dr Rivka Azoulay, under the supervision of Dr Bruno Palier. Findings have been reviewed and validated by both Dr Shareefa A Al-Adwani<sup>1</sup> and Dr Blandine Destremau<sup>2</sup>.

This report represents the first time that an exhaustive description of the Kuwaiti welfare system has been compiled and published. There is no publicly available publication which outlines the Kuwaiti welfare system in its entirety. During our research, information was often scattered, sometimes contradictory, and challenging to obtain. We hope that this report will encourage relevant Kuwaiti administrations to provide regularly updated data and information on its entire welfare system (including all policies aimed at meeting population needs for education, security, work, health and wellbeing).

In order to assess main challenges met by Kuwait's welfare system, we have provided some basic socio-economic data (see the first section of the first part of this report). We have also relied on information from various publications and existing reports (see references in footnotes), in addition to conducting interviews with relevant experts (referred to in annex 1: list of interviewees provided at the end of this report).

Within the first part of our report, we describe how Kuwait's welfare state is one of the most generous and protective worldwide. This explains in great part Kuwait's high level of human development. In particular, poverty has been eradicated amongst Kuwaiti citizens, and the country's performance in terms of health and schooling is notable. Financial investment in education is particularly significant, with a high teacher-student ratio. Formally, Kuwait's welfare state is also very egalitarian in the sense that the mere possession of Kuwaiti nationality grants access to a great number of services, allowances and subsidies in education, health, housing, energy, water, food and employment domains.

Despite these achievements, Kuwait's welfare state also has a number of weaknesses. For example, non-Kuwaiti citizens and migrant workers typically experience less favorable conditions. Non-citizens also do not benefit from Kuwait's generous welfare system in the same way which Kuwaiti nationals do – with certain aspects of the welfare system only applicable to citizens. Moreover, Kuwait's welfare system is financially unsustainable in face of significant socio-economic changes. The current overall system also does not meet a principle aim of Kuwait Vision 2035: shifting away from an oil-driven economy to a diversified knowledge-based economy driven by the private sector.

First of all, the capacity of Kuwait's public education system does not correspond with the government's huge financial investment in this sector. This is particularly the case in terms of subjects covered – the structure of current educational content does not adequately develop skills necessary for a knowledge-based economy (notably in science and technology).

Furthermore, financial burden of the welfare state is very high, with public sector wages, allowances and subsidies accounting for 73% of the 2020-21 budget.<sup>3</sup> This burden also occurs under a context of increasing budget deficits, due to low oil prices and absence of taxation mechanisms, taxation that would allow to at least partially compensate for the decrease in rentier resources.

Moreover, Kuwait's welfare state is passive rather than active. It is designed primarily to distribute wealth and consolidate the link between government and residents of Kuwait, rather than to prepare citizens for a knowledge-based economy driven by the private sector. Kuwait's welfare state is not equitable enough. Notably, it includes a vast share of universal allowances that disproportionately benefit wealthier categories, and does not support non-Kuwaiti citizens living and working in Kuwait.

One particularly malfunctional aspect of the Kuwaiti welfare state is the importance given to distribution of public jobs as a means of wealth distribution. Coupled with the *kafala*-sponsorship system that regulates migration by bonding expatriate workers to their employers, this dynamic has led to a highly segmented labor market. Kuwait's labor market is split between Kuwaiti nationals working primarily in the public sector, and an expatriate workforce working principally in the private sector. The "low cost" private sector (based on labor intensive low-skill low-wage business models) has been largely unsuccessful in recruiting Kuwaiti nationals. Many Kuwaiti nationals prefer a job in the public sector as wages are well paid, highly protected, and typically less demanding in terms of working hours and work load compared to the private sector.

1\_ Associate Professor, Political Science, American University of Kuwait.

2\_ Research Director, CNRS, France.

3\_ Fiona MacDonald, "Kuwait Parliament Approves State Budget With \$46 Billion Deficit", Bloomberg, 09/09/2020 (<https://www.bloomberg.com/news/articles/2020-09-09/kuwait-parliament-approves-state-budget-with-46-billion-deficit>) (accessed 17/11/2020).

## Key reforms proposed to ameliorate Kuwait's welfare state in the second part of this report

The second part of this report was written by Dr Laurence Louër and Dr Bruno Palier. Findings from this research were discussed during a round-table held online January 29 2021. It was attended by Dr Shareefa A Al-Adwani<sup>1</sup>, Dr Nayef Alshammari<sup>2</sup>, Dr Blandine Destremeau<sup>3</sup>, Dr Steffen Hertog<sup>4</sup> and Wafa Saad<sup>5</sup>. Most of their remarks have been incorporated within the final version of this report.

In this second part, we propose a series of reforms to Kuwait's welfare system, its educational sector and labor market policies. To provide coherence along with our series of proposals, our approach is based on the social investment perspective to social policy, education and labor market reforms<sup>6</sup>. This approach aims at providing a general framework for adjusting welfare systems to a knowledge-based economy. It seems particularly appropriate in the case of Kuwait to address the main challenges met by its welfare system, while following the general orientation of Kuwait's global policy reform as outlined in Kuwait Vision 2035.

Regarding social protection, we argue in favor of lifting food subsidies, and shifting most universal subsidies (e.g. water, energy, and housing) to means-tested cash transfers to the lowest income households. We also propose to reform allowances targeting women considered vulnerable in order to foster female employability. In view of the forthcoming aging crisis, we argue in favor of developing a formalized elderly care sector, and restructuring Kuwait's pension system by augmenting the global retirement age. We also suggest that it is necessary to diversify revenue sources for welfare by increasing shares of insurance-based schemes.

In the domain of education, we argue in favor of expanding pre-school infrastructures in order to develop human capital in Kuwait, starting from the earliest age possible (age one) and fostering the employability of women. We underline that investing in STEM education (science, technology, engineering, math) is critical in order to align educational content with the types of skills necessary to develop knowledge-based dynamic service sectors. We also propose to improve efficiency of the public system through an amelioration of selecting and training teachers.

Concerning labor market reform, we propose to aim at improving quality, remuneration and protection of jobs in the private sector in order for this sector to be more attractive to the Kuwaiti workforce. In order to achieve this aim, we argue in favor of fine-tuning (to the extent feasible) segmentation of the labor market by cancelling the *kafala* sponsorship system as soon as possible, restricting visas for unskilled and low-skilled expatriates to improve overall quality of the expatriate workforce, and reducing the labor cost gap between

Kuwaitis and expatriates. We also propose to increase the minimum wage level for all private sector workers in Kuwait, and to reform unemployment allowances. This reform would make wages more equitable, and more favorable to the objective of private sector Kuwaitization. We also propose to render Kuwait's wage subsidy system *da'm al-'amala* temporary in order to move the private sector away from "low cost" business models. In parallel, we propose to reform the overall recruitment policy of government administrators by cancelling Kuwait's Civil Service Commission waitlist system, and ceasing to use public employment as a channel of wealth distribution. Lastly, we suggest to foster the creation of trade unions within the private sector to generate an alliance for Kuwaitization, and to create a national tripartite institution for the private sector – thus encouraging participation of the private sector's actors in the elaboration of socio-economic policies.

Based on commentary and feedback provided during our expert roundtable discussion in January 2021, we also list reforms to implement in priority within the general conclusion of this report.



1\_ Associate Professor, Political Science, American University of Kuwait.

2\_ Director of Kuwait University's Graduate Economic Program

3\_ Director of Research, CNRS, France.

4\_ Associate Professor in Comparative Politics in the Department of Government at the London School of Economics and Political Science.

5\_ Managing Director, Ideation Desk, United Arab Emirates

6\_ Cf. Morel, Nathalie, Palier, Bruno and Palme, Joakim (Eds.). (2011). Towards a social investment welfare state? Ideas, policies and challenges. Policy Press.

PART I

# MECHANISMS OF WEALTH DISTRIBUTION AND CHALLENGES FOR ECONOMY AND SOCIETY



# INTRODUCTION

This first part of the report depicts the current social policy system<sup>4</sup> and describes its different components (e.g. legal, financial, fiscal and institutional setup, policies and programs) and how they relate to employment, social cohesion and inequality. The opening section of this report highlights socio-economic data in order to situate the general socio-economic context of Kuwait, and then presents Kuwait's welfare system in four steps, based upon different forms of social and welfare policies: 1. universal support (subsidies and services benefitting all Kuwaiti citizens, and sometimes non-citizens), 2. social aid to vulnerable groups (needs-based and means-tested benefits), 3. social insurances (contributory benefits mostly financed out of social contribution), 4. educational and labor market reforms.

While describing the overall welfare system (policies, benefits, beneficiaries, financing mechanisms), some of the main challenges met by these policies are mentioned alongside the analysis of the policy. These challenges are also wrapped up in “concluding remarks” at the end of each section, presented here. These challenges are often already mentioned in existing reports, or have been mentioned to us during interviews conducted for this project.

## SOURCES AND DATA

Sources for this first part are based upon quantitative and qualitative data. This includes data from the Central Bureau of Statistics (CBS) in Kuwait and respective ministries, International Labor Office (ILO), International Monetary Fund (IMF), World Bank (WB) and United Nations Development Program (UNDP) in Kuwait on topics such as government spending, revenues, demographic data, labor market data and data on social aid. The research also relied upon one-month fieldwork in Kuwait (December 2019) during which Dr Rivka Azoulay interviewed stakeholders within the Ministry of Social Affairs and Labor, the General Secretariat of Supreme Council for Planning and Development (GSSCPD), the National Chamber for Small and Medium-Sized Enterprises, and UNDP policy advisors on welfare reform in Kuwait (See the list of persons interviewed at the end of this report). Finally, there are secondary sources that were beneficial in this research dealing with labor market reforms, the private sector and the broader welfare system in Kuwait, the Gulf Cooperation Council (GCC) and beyond.

## ACKNOWLEDGEMENTS

We would like to express our gratitude to the GSSCPD, KPPC and KFAS for providing Dr Rivka Azoulay with access to first-hand government data, for arranging interviews with relevant stakeholders, in particular, Dr Khaled Mahdi. We would also like to sincerely thank Meshari Binhasan, Ahmad Al-Janahi, Fatima Keaik and Yousef Al-Mazeedi from KFAS for their invaluable support throughout Dr Rivka Azoulay's stay in Kuwait. In addition, we would like to thank our interviewees who provided insights needed for understanding the challenges at stake; Huda Al-Rashed, Hana Al-Hajeri, Wafa Saad, Dr Ala Zaglul, Dr Sungsoo Chan, Fares Al-'Anezi and Mohamed Al-Sharika.



<sup>4</sup> Social policy focuses on the way societies meet human needs for education, security, work, health and wellbeing. It focuses on social protection and welfare. Our focus here is on the role of the state in making and implementing social policy.



# I. SOCIOECONOMIC CONTEXT

Understanding context within which social policy systems exist is particularly important in order to analyze its functioning and effectiveness. Hence, our report starts with providing basic data on demographics, labor market situation, economic specialization and occupational groups, inequality, human development, poverty, public spending and fiscal sustainability.

## DEMOGRAPHICS

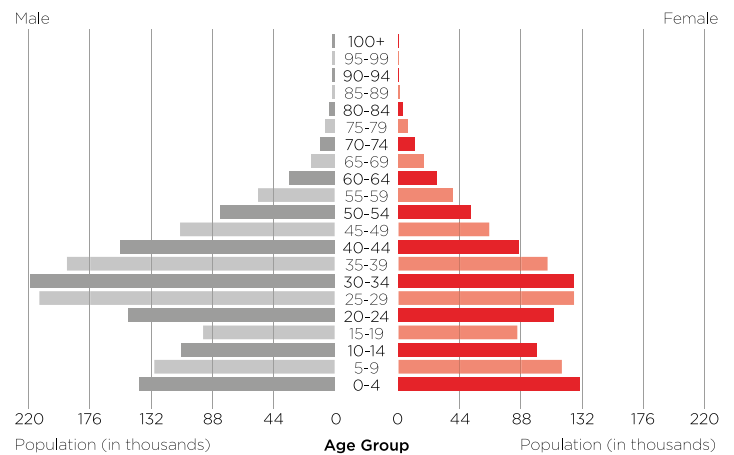
Kuwait's total population in 2018 was 4,226,920, composed of 2,923,674 non-Kuwaiti citizens and 1,303,246 Kuwaiti citizens.<sup>5</sup> Between 1995 and 2011, Kuwait's total population increased from 1,576,000 to 3,066,000 and the number of citizens rose from 653,616 to 1,090,000 (a significant increase of 64.7% in 11 years).

Approximately 31% of Kuwait's total population are citizens, and 69% non-citizens, largely composed of expatriate workers who predominantly work in low-wage private sector service jobs. Kuwait's largest expatriate communities are primarily Indian (~825,000) and Egyptian (~518,000). The majority of expatriates in Kuwait are from South Asia, followed by other Arab nationalities.<sup>6</sup> There are also roughly 100,000 to 120,000 people who are stateless (known as the *bidun* – meaning 'without' in Arabic).<sup>7</sup> The *bidun* have different origins, mostly from northern tribes, and for a variety of reasons did not receive citizenship when Kuwait became independent. Because of their lack of citizenship, *bidun* are excluded from most welfare state services, and receive healthcare and education through charities (albeit largely funded by the state).<sup>8</sup>

In terms of population age distribution, Kuwait has a relatively high number of youth among its citizens (as shown in Figure 1 – Kuwait's population pyramid). The median age of Kuwaiti citizens is currently 29 years, with a majority of Kuwaiti citizens under the age of 30, and 40.5% of the population under the age of 25.<sup>9</sup> This corresponds to a broader regional demographic dynamic in the Gulf Cooperation Council (GCC).<sup>10</sup> Within the GCC, more than half of the population is under the age of 30, and in the broader Middle East and North Africa (MENA) region (with some 400 million people), nearly 65% of the population is under the age of 30.

In 2019, Kuwait's fertility rate was 2.08 children per woman, with a notable decline in fertility rate since independence (e.g. in 1960 the birth rate was 7.244 children per woman in Kuwait).<sup>11</sup> This implies that the number of Kuwaiti citizens is expected to decline, while the number of elderly people will increase in the long run relative to the overall youth population. Due to this decline in fertility rate, and in combination

Figure 1: Kuwait's population pyramid according to age group and gender (2018)



Source: CIA World Factbook. [https://www.indexmundi.com/kuwait/age\\_structure.html](https://www.indexmundi.com/kuwait/age_structure.html) (accessed 19 May 2020)

with improved healthcare facilities over the past decades, the number of people aged 65 and older is expected to increase dramatically in Kuwait over the coming decades. In 2011, the number of people aged 65 and over represented 2.83 % of the total population, projected to increase to 4.41 % of the total population by mid-2025, and likely to 17.90 % in 2050.<sup>12</sup>

As mentioned below, and to be commented on further in the second part of this report, large youth populations are both a resource and challenge for governments. They are a significant, productive force, with the ability to contribute to the national economy. However, youth populations require integration into a labor market capable of absorbing them. As discussed further in the labor market section below, the overall trend was to employ younger citizens in the public sector in Kuwait (as in many other GCC countries), but this has become a challenge. In part, because GCC economies have been rentier economies, suffering from very large public sectors, currently engaged in a transitional process to reduce overall public spending and strengthen private sectors.

## LABOR MARKET

The economically active population is usually composed of the sum of employed and unemployed individuals between 16 and 64 years old. One has to note that in Kuwait, it is illegal to work under the age of 18. In addition, the minimum retirement age for men in Kuwait is 55, and for woman 50. It is rare to find people in Kuwait working beyond this age (e.g. in 2015, only 14% of Kuwaitis

5\_ Throughout this text total population refers to Kuwaitis and non-Kuwaitis. When talking about the Kuwaiti citizen population, the text refers to citizens, Kuwaitis or nationals. Non-citizens are referred to as non-citizens, expatriates/expats and non-nationals throughout the text.

6\_ <https://worldpopulationreview.com/countries/kuwait-population/> (accessed 21 May 2020).

7\_ A 2018 Human Rights Watch report states that in 2018 there were approximately 100,000 *bidun* in Kuwait. <https://www.hrw.org/world-report/2019/country-chapters/kuwait> (accessed 18 May 2020).

8\_ Azoulay and Wells, 'Contesting welfare state politics in Kuwait', MERIP, 272, Fall 2014.

9\_ <http://worldpopulationreview.com/countries/kuwait-population/> (accessed 27 January 2020).

10\_ High birth rates, higher life expectancy and lower infant mortality rates together with migration contribute to this phenomenon.

11\_ <https://data.worldbank.org/indicator/SP.DYN.TFRT.IN?locations=KW> (accessed 27 April 2020).

12\_ [https://www.researchgate.net/publication/257770795\\_Healthcare\\_of\\_Aging\\_Population\\_of\\_Kuwait](https://www.researchgate.net/publication/257770795_Healthcare_of_Aging_Population_of_Kuwait) (accessed 8 June 2020).



in the age bracket between 44-55 years old were still employed).<sup>13</sup> Most Kuwaiti citizens, and expatriates who are part of the labor force, are between the ages of 25 and 45.

Kuwait's labor market is highly segmented along nationality, gender and sectoral lines. The majority of the workforce – around 82% – is composed of expatriate labor.<sup>14</sup> In terms of Kuwaiti citizens active on the labor market, the vast majority work in the public sector (around 74%), while the remaining minority work in high-salary private sector jobs (mostly in the finance, insurance and mining sectors).<sup>15</sup> Private sector and individual households are the principal employers of expatriate labor, typically employed in low-paid and low-skilled jobs.<sup>16</sup> In 2017, the majority of female expatriate workers either joined their partner (40.4%) in Kuwait, or worked as domestic servants (40.4%). The majority of expatriate men worked in the private sector (68.5%), while 17.4% was working as domestic servants.<sup>17</sup>

In 2015, 45.9% of Kuwaiti citizens were part of the economically active population, a relative increase compared to 2013 when only 40% of Kuwaiti citizens were economically active. This active workforce of Kuwaitis is rather low compared to OECD averages (72.4% in 2018). In contrast, 84.5% of Kuwait-based expats are part of the workforce, 66.4% of expatriate women participating in the labor market, and 95.4% of expatriate men.<sup>18</sup> This higher percentage of expat participation in the workforce is expected, given that expats enter Kuwait on work visas as part of a sponsorship *kafala* system, and leave the country when they finish their job assignment under the *kafala* system.

In addition, in 2015, 39.3% of Kuwaiti women were part of the economically active population compared to 52.6% of Kuwaiti men. Although labor participation rates of Kuwaiti women remain low compared to OECD averages (64% in 2017 according to the OECD Employment Outlook published in 2019), within the GCC, Kuwait has among the highest levels of national female participation in the labor force. This is related to a high level of enrollment of Kuwaiti women in tertiary education.<sup>19</sup>

The overall unemployment rate is relatively low in Kuwait, but it has risen in recent years, primarily among youth, and in particular females. Among Kuwaiti citizens, unemployment rose from 3.9% in 2003 to 6.4% in 2016, compared to an average unemployment rate of Kuwait's total labor force at 2.2% in 2016 (the 2016 OECD average was 6.3%).<sup>20</sup> In 2016, the ILO Decent Work

country program for Kuwait reported an unemployment rate of 26.6% amongst Kuwaiti youth, with young Kuwaiti women reaching a level of unemployment almost twice the unemployment rate for young Kuwaiti men.<sup>21</sup> According to the GCC Statistical Center's 2019 calculations, 41% of unemployed Kuwaitis are university graduates registered as job seekers within the Civil Service Committee (CSC).<sup>22</sup>

As mentioned in many reports and academic analyses, this unemployment rate is driven by a large influx of graduates waiting for public sector jobs despite the government's efforts to 'Kuwaiticize' the private sector.<sup>23</sup> Kuwaiti citizens have a preference for working in government, but they cannot be absorbed in the already outsized public sector. There is certain overall reluctance among Kuwaitis – confirmed by surveys – to work in private sector jobs. Kuwaiti youth holding higher education degrees still prefer guaranteed life-long employment provided by the public sector.<sup>24</sup>

One of the reasons which explains this relatively low participation of Kuwaitis in the labor market (and the relatively high level of economically inactive citizens) is linked to a demographic factor known as the youth bulge. Many young people are either not yet part of the labor force, or actively engaged in tertiary education. 78.7% of Kuwaiti men inactive in the labor force in 2015 were pursuing tertiary education.<sup>25</sup> To add, the early retirement age in Kuwait (55 for men and 50 for women, to be compared to the OECD average of 65 in 2019) also contributes to this low labor force participation rate. Women also leave work behind in order to take care of family and children at a certain points in their life. In 2015, 67.3% of female Kuwaiti citizens part of the economically inactive population had left the labor force to take care of their families.<sup>26</sup>

## ECONOMIC SPECIALIZATION AND OCCUPATIONAL GROUPS

In comparison to OECD countries, Kuwait has a very large public employment sector. In 2017, employment in the government sector represented 18% of total employment across OECD countries (according to the OECD's Government at Glance Report, 2019). In Kuwait, the vast majority of citizens work in the public sector (~85% of citizens), whereas the private sector is dominated by expatriate labor (~95% of expats). Out of this expatriate labor force in the private sector, the majority work in less-skilled jobs with low-paid salaries that are significantly

13\_ CBS Kuwait, Labor Force Survey 2015.

14\_ ILO, Decent Work country program for Kuwait 2018-2020, p.3.

15\_ 'Kuwait: selected issues', IMF Country Report, No. 15/328, December 2015, p. 51.

16\_ 'Kuwait: selected issues', IMF Country Report, No. 15/328, December 2015, p. 51.

17\_ CBS Annual Statistical Abstract 2019, p. 45.

18\_ CBS Kuwait, Labor Force Survey 2015.

19\_ In Kuwait women's enrollment in tertiary education is nearly two-thirds higher than that of Kuwaiti men. ILO 'Rethinking economic growth: Towards productive and inclusive Arab societies', Beirut, 2012, p. 82.

20\_ ILO, Decent Work country program for Kuwait 2018-2020, p.4.

21\_ Ibidem.

22\_ [shorturl.at/dABZO](http://shorturl.at/dABZO) (accessed 29 January 2020).

23\_ On the comparative role of Arab states as caretaker states employing their citizens in the public sector see:

Destremau, B., Longuenesse, E. and Catusse, M. (ed.), 'Le travail et la question sociale au Maghreb et au Moyen Orient', REMMM, Aix en Provence, Edisud, 2005, pp. 105-106.

24\_ Gulseven, O., 'Challenges of employing Kuwaitis in the private sector', Labor Market Dynamics in the GCC states, Autumn 2015. <http://www.arabtimesonline.com/news/80-of-young-kuwaitis-refuse-work-in-private-sector/> (accessed 29 April 2020). Al-Mutairi, A., Naser, K. and Fayed, F. (2020), "Factors discourage Kuwaiti employees to participate in the private sector labour force (Kuwaitization)", International Journal of Organizational Analysis.

25\_ CBS Kuwait, Labor Force Survey, Table 45 (Percentage distribution of economically inactive population by reason for being outside labor force, sex, and education level 2015).

26\_ Ibidem.

lower than the average salary of Kuwaiti citizens (see data provided in more detail below). Kuwait's private sector only employs a minority of the national labor force, most of whom work in high-end jobs. At present, around 73,000 Kuwaitis work in the private sector. The Kuwaiti government has aimed to have 130,000 people working in the private sector by 2021; an increase of 78% in one year and therefore an ambitious target.<sup>27</sup> Out of Kuwait's total labor market (including both citizens and expats), 99% are employees and only 1% is either an employer or self-employed.<sup>28</sup>

Among Kuwaitis working in the public sector, most of them work in the Ministry of Education, followed by the Ministry of Health, the Ministry of Electricity & Water and the Ministry of Interior. Kuwait's Ministry of Education is considered to be one of the largest ministries. The number of teaching staff employed by the Ministry of Education is relatively high in comparison to the number of students, and compared to OECD standards. In Kuwait, the average teacher-student ratio in 2019 was 1 teacher for every 7.8 students.<sup>29</sup> Within the OECD, the average teacher-student ratio was 1 to 15.<sup>30</sup>

In terms of gender differences within ministries, 68.2% of Kuwaiti men work in Public Administration and Defense, followed by the Education sector (6%) as shown in figure 2. The majority of Kuwaiti women working in ministries are employed in Public Administration (47.3%), followed by Education (35.6%), Health and Social Work (6.3%) as shown in figure 3. Regarding the small percentage of expatriates working in Kuwait's public sector, the majority are employed in the Ministry of Health, followed by the Ministry of Education.

In terms of occupational groups, based upon data from Kuwait's Central Bureau of Statistics (CBS) 2011 census, Kuwaitis primarily work as professionals, followed by

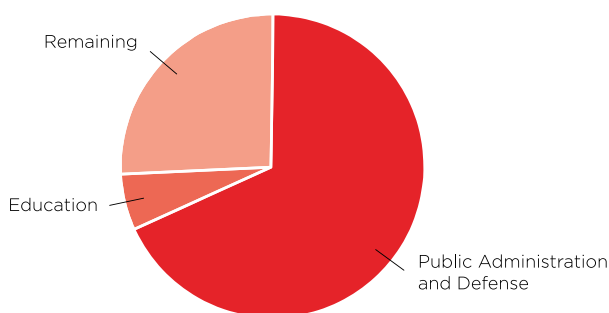
technicians and associate professionals, clerks and legislators, senior officials and managers.<sup>31</sup> The majority of Kuwait's national labor force is well educated. In 2015, 44.8% held a university degree or higher, 20.1% a secondary degree, and 20.6% a degree just under university level. Out of economically active Kuwaiti men, 38% held a university degree, in contrast to 53.5% of Kuwaiti degree-holding women active in the labor force.<sup>32</sup>

This is in contrast to the non-Kuwaiti labor force, whom primarily work in low-wage jobs and are on average less educated than Kuwaiti citizens. In 2015, 38% of the non-Kuwaiti labor force had only received primary education or lower, and 34.5% an intermediate level of education.<sup>33</sup> Many expats work in elementary occupations in the household sector (e.g. as maids, personal drivers) or in the private sector as shopworkers and market sales workers.<sup>34</sup> Only a small minority of the expatriate labor force work in Kuwait hold professions which demand tertiary education, such as in banking, engineering, construction and the oil industry. Based upon a census from 2013, only 3.15% of expats in Kuwait worked as managers.<sup>35</sup>

In 2013, 62.11% of managers were of Arab descent (including Kuwaitis), followed by 29.07% of Asian descent, and 3.79% European. Regarding technical and professional workers, the large majority were either Arab or Asian, and this was also the case in other categories such as service workers and production laborers.<sup>36</sup>

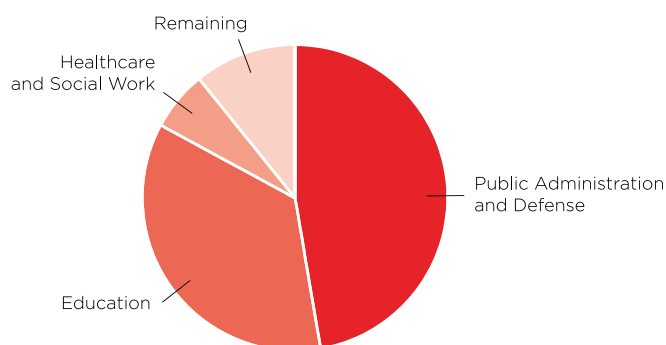
In terms of compensation, there is a considerable wage gap between nationals and expatriate workers. The mean income of a Kuwaiti citizen active on the labor market, between the ages 25 and 45, was between 1,116 and 1,352 KWD per month in 2015. In contrast, the expat labor force within the same age category maintained a mean income between 176 and 188 KWD per month.<sup>37</sup> The median wage of a Kuwaiti citizen holding primary and lower education

**Figure 2: Sectoral employment of Kuwaiti men in public sector**



Source: ILO, Decent Work Country Program for Kuwait 2018-2020, p. 4.

**Figure 3: Sectoral employment of Kuwaiti women in public sector**



Source: ILO, Decent Work Country Program for Kuwait 2018-2020, p. 4.

27\_ <https://www.alaraby.co.uk/economy/2020/1/3/35-بطالة-الكويتيين-ودعوات-الإيجاد-حلول-جذرية> (accessed 6 February 2020). <https://news.kuwaittimes.net/website/govt-jobs-incentives-continue-to-deter-kuwaiti-jobseekers-away-from-private-sector/> (accessed 17 February 2020).

28\_ CBS Kuwait, Labor Force Survey, Table 26 (Percentage distribution of employed persons by employment status and nationality 2015).

29\_ <http://www.arabtimesonline.com/news/one-teacher-for-every-7-8-students-in-kuwait/> (accessed 27 April 2020).

30\_ <https://gpseducation.oecd.org/revieweducationpolicies/#!node=41720&filter=all> (accessed 7 June 2020). See also Education at a Glance 2019: OECD Indicators, OECD Publishing, Paris, 2019

31\_ CBS Statistics 2019, 'Labor force by major groups of occupation, nationality and sector', p. 80.

32\_ CBS Kuwait, Labor Force Survey 2015, Table 14 (Percentage distribution of Kuwaiti economically active population by age groups and education level).

33\_ Ibidem.

34\_ Ibidem.

35\_ CBS, 'Main features of expatriate labor employment in the private sector as of 30/6/2013', p. 9.

36\_ CBS, Ibidem, p. 31.

37\_ CBS Kuwait, Labor Force Survey, Table 30 (Mean and median monthly wages in KWD for wage employees by age group and nationality).

was 850 KWD per month in 2015, whereas for a non-Kuwaiti this was 100 KWD a month.<sup>38</sup> This same year, Kuwaiti citizens with a university degree maintained a medium wage of 1,350 KWD a month, compared to a median wage of 490 KWD a month for expats with a university degree.<sup>39</sup>

In 2013, 10.24% of expatriates earned more than 430 KWD, with the remaining percentage of expatriates earning less than this amount per month.<sup>40</sup> Expats working in the household sector maintained an average wage of approximately 100 KWD per month.<sup>41</sup> This wage is below the monthly average of 559 KWD (approximately 1,600 Euros) which is considered by the Kuwait government to be the threshold for Kuwaiti citizens below which they are classified as vulnerable and entitled to receiving social aid as part of its social safety net (see below the section on Social Aid to vulnerable groups). Within the private sector, 7.3% of Kuwaiti nationals earn less than 600 KWD a month.<sup>42</sup>

## INEQUALITY AND HDI

Kuwait's Gross National Income (GNI) per capita increased by 36.1% between 1990 and 2018. GNI is defined as total income earned by a nation's population and businesses, which is different from Gross Domestic Product (GDP) as GNI incorporates income generated from overseas. GNI is expressed in constant US dollars, and converted using Purchasing Power Parity (PPP) adjustment measures. GNI includes income from oil sales. Overall, the average Kuwaiti GDP per capita of Kuwait's total population (including expats) in 2018 was recorded to be 33,537.90 USD (equivalent to 266% of the world's average).

Kuwait's income inequality amongst its population is high. According to the Credit Suisse Research Institute, the Gini Coefficient of Income Distribution for 2018 was 80.9%.<sup>43</sup> Kuwait ranks 3<sup>rd</sup> within the GCC in terms of income inequality (after the UAE and Saudi Arabia).<sup>44</sup> Income inequality in Kuwait is mostly due to the presence of labor market segmentation between Kuwaiti nationals and non-Kuwaitis. Around 50% of employed Kuwaiti nationals earn over 1,200 KWD per month (around 175,000 individuals) while of the expats working in the private sector, only 1.2% earn above this amount (representing some 15,000 jobs).<sup>45</sup>

In terms of the Human Development Index (HDI), Kuwait scores well, with an HDI of 0.808 in 2018 (0.800 and 1.00 is considered to be high HDI).<sup>46</sup> Table 1 presents the development of Kuwait's HDI trend as calculated by UNDP.

**Table 1: Kuwait's HDI trends based on consistent time series data and new goalposts**

	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2011 PPP\$)	HDI value
1990	72.2	10.6	5.5	52,301	0.712
1995	72.8	11.6	5.8	95,142	0.748
2000	73.1	14.0	6.2	81,957	0.786
2005	73.5	14.1	5.8	101,314	0.783
2010	74.4	13.4	6.8	80,290	0.794
2015	75.1	13.8	7.1	75,582	0.807
2016	75.2	13.8	7.2	76,145	0.809
2017	75.3	13.8	7.3	73,742	0.809
2018	75.4	13.8	7.3	71,164	0.808

Source: Human Development Indices and Indicators: 2018 Statistical Update, UNDP, 2019

## POVERTY LINE IN KUWAIT

Kuwait is a high-income country, and extreme poverty is non-existent among its citizen population. There is no uniformity as to the definition in Kuwait of when an individual is considered to be in poverty. Some sources define the poverty line to be when one earns less than 25-35 KWD a day, others refer to a monthly wage of less than 170 KWD a month, and some define the poverty line for those who earn less than 550 KWD a month.

As previously mentioned, Kuwait considers a citizen vulnerable if they maintain an income of less than 559 KWD per month (approximately 1,600 Euros). Any Kuwaiti citizens earning below this amount will have access to social benefits. This wage of 559 KWD per month is also equivalent to the minimum salary of a public sector worker.<sup>47</sup>

Yet, as also mentioned above, lower wages are common among the expatriate population, and in particular, among lesser-skilled expatriate workers. Expatriates also suffer from multiple forms of precariousness. According to Human Right Watch reports, domestic workers are particularly vulnerable to exploitation and poor labor conditions. In 2015, Kuwait undertook measures to regulate working conditions of domestic workers. However, there are still problems in implementation and monitoring of these regulations.<sup>48</sup>

38\_ Ibidem

39\_ CBS Kuwait, Labor Force Survey 2015, Table 32 (Mean and Median monthly wages in KWD for wage employees by nationality)

40\_ Ibidem, p. 25.

41\_ CBS Kuwait, Labor Force Survey 2015, Table 32

42\_ Wafa Saad, 'Kuwait National Development Plan 2015-2020 and the education-labor market alignment policies: key challenges, gaps and ways forward', SCPD.KPPC.HC.2018.46, p.12.

43\_ These data are based on the Gini coefficient measurements produced by Credit Suisse Research Institute. In its way of presenting the Gini coefficient, 0% means total inequality, and 100% maximum inequality. Credit Suisse Research Institute is one of the rare institutions which produces Gini coefficients for all countries worldwide, including Kuwait. The World Bank calculation of GINI coefficient in the world does not provide data for Kuwait. <https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html> (accessed 25 May 2020).

44\_ Destremau, B., 'Dans les pays du Golfe: des inégalités instituées' in Bihl A. et Pfefferkorn R. (dir.), Dictionnaire des inégalités, Paris, Armand Colin, 2014, p. 293-294.

45\_ Ibidem.

46\_ The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions. The HDI only captures a part of what human development entails. It does not focus on issues such as inequality, gender disparity, or poverty.

47\_ See i.a.: <https://www.mubasher.info/news/3230959/35-دولارات-في-اليوم-25-بالمفقر-بالكويت-بين-25-و-35-دولارات-في-اليوم> (accessed 25 April 2020). Also see: National Development Research Center, Social Safety Nets report, October 2018, p. 54.

48\_ Protections for domestic migrant workers are still lower than those in Kuwait's labor law. The law fails to set out enforcement mechanisms or sanctions against abusive employers. <https://www.ecoi.net/en/document/2002188.html> (accessed 11 June 2020).

As will be discussed in further detail below, Kuwait's government allocates the majority of its social aid for Kuwaiti citizens, and much less for its expatriate population who receive aid primarily through charities.

## INFLATION AND HIGH COSTS OF LIVING IN KUWAIT

While there is no extreme poverty among Kuwaiti citizens, the cost of living is rather high for middle-class families, and inflation has been a concern for ordinary Kuwaitis. Notably, in 2008, inflation reached a high of 6.3% compared to 2007. In 2019, the average inflation rate was 1.1% compared to the previous year.<sup>49</sup> This was due to slow economic growth. Yet, cost of living remains high for Kuwaiti citizens, and many of them are indebted with significant loans to be paid off. Since 2009, this has led to a movement within Kuwaiti society pleading for a drop in consumer loans due to heightened inflation and a global financial crisis.<sup>50</sup> Kuwait remains highly susceptible to inflation because of the volatility of oil prices, dependence on importing consumer goods, foreign labor, the relatively generous nature of the government in providing public employment, and expansionary monetary policies driving up demand-driven inflation.<sup>51</sup>

## GOVERNMENT FINANCES AND PUBLIC SPENDING

Oil revenues account for 90% of government revenue (see table 2). High oil price volatility presents a risk for public spending, and Kuwait has experienced budget deficits since the 2014 global drop in oil prices. At present, there is no income tax, no tax on goods and services (VAT), nor a corporate tax on national businesses (with the exception of foreign businesses, which are taxed by the government).<sup>52</sup> Kuwait's Parliament postponed implementation of a VAT set at 5% on a selected number of products until April 1 2021.<sup>53</sup>

Public sector wages and subsidies form the large majority of government expenses, and for 2020/2021 represent 71% of the budget – approximately 75 billion USD.<sup>54</sup> The payment of public sector wages adds up to approximately one third of government expenditures.<sup>55</sup> In addition, Kuwait has the highest public wage premiums within the GCC. As shown in detail below, there is also a high level of public expenditure for subsidies, despite the government's decision to cut fuel subsidies in 2016.

So far, Kuwait has decided to keep spending levels rather unchanged, although it has faced budget deficits consecutively since the global drop in oil prices in 2014 which ended more than a sixteen-year long fiscal surplus.<sup>56</sup> In 2018, Kuwait's budget deficit amounted to 21 billion USD.<sup>57</sup> Kuwait's 2020 budget was approved by Parliament with an expected 22 billion USD deficit, equivalent to 15.7% of the country's GDP.<sup>58</sup>

Table 2 presents a summary of revenues and expenditure of Kuwait's government, while table 3 displays the main domains in which the state spends its public money.

**Table 2: Kuwait's budget: summary of revenues and expenditures<sup>59</sup>**

### REVENUES

	2018/2019	2019/2020
<b>Oil revenues</b>	88.26%	87.68%
<b>Taxes<sup>60</sup></b>	3.65%	3.64%
<b>Social contributions</b>	0.75%	0.68%
<b>Other revenue</b>	7.28%	7.89%
<b>Revenues disposal of assets and other non-operating revenues</b>	0.06%	0.11%

### EXPENDITURES

	2018/2019	2019/2020
<b>Compensation employees (bonuses and other benefits)</b>	33.64%	34.19%
<b>Defense</b>	10.43%	10.52%
<b>Public order and safety</b>	6.62%	7.08%
<b>Economic Affairs</b>	12.14%	12.94%
<b>Environmental protection</b>	0.80%	0.55%
<b>Housing and Community amenities</b>	9%	9.28%
<b>Goods and services</b>	14.24%	15.05%
<b>Fuel subsidies<sup>61</sup></b>	2.47%	2.84%
<b>Grants</b>	24.39%	23.34%
<b>Social benefits</b>	3.65%	4.42%
<b>Other expenditures and remittances</b>	6.36%	5.62%
<b>Purchase non-current assets</b>	15.25%	14.54%

49\_ <https://www.statista.com/statistics/438867/inflation-rate-in-kuwait/> (accessed 20 May 2020).

50\_ Azoulay, R., Kuwait and Al-Sabah: Tribal Politics and Power in an Oil State, Bloomsbury Publishing House, July 2020, p. 67.

51\_ Hasan, M. and Alogeel, H., 'Understanding the inflationary process in the GCC: the case of Saudi Arabia and Kuwait', IMF Working Paper, WP/08/193, 2008.

52\_ Kuwait's Ministry of Finance, 'The General Budget for the Fiscal Year 2018-2019', p.8.

53\_ For a declaration of the Parliamentary Budget Committee on the implementation of VAT in Kuwait (in Arabic):

<http://www.kna.kw/cit-html5/news-details.asp?id=30070> (accessed 26 April 2020).

54\_ <https://www.arabnews.com/node/1613096/middle-east> (accessed 7 April 2020).

55\_ El-Katiri, L., Fattouh, B., Segal, P., 'Anatomy of an oil-based welfare state: rent distribution in Kuwait', Kuwait Program on Development, Governance and Globalisation in the Gulf States, Nr. 13, January 2011, p. 19.

56\_ Olver-Ellis, S., 'Building the New Kuwait: Vision 2035 and the challenge of diversification', LSE Middle East Center Paper Series, 30 January 2020, p. 5.

57\_ Sophie Olver-Ellis, 'Building the New Kuwait: Vision 2035 and the challenge of diversification', LSE Middle East Center Paper Series, 30, January 2020, p. 5.

58\_ <https://aawsat.com/english/home/article/1797951/kuwait-approves-2020-budget-22-bn-deficit> (accessed 17 February 2020).

59\_ Kuwait's budget: the fiscal year 2019/20 and the fiscal year 2018/2019, Kuwait's Ministry of Finance.

60\_ One can think of taxes on international trade and transactions (i.e. customs) and property taxes (these are minimal). Foreign businesses in Kuwait pay 15% corporate taxes. Kuwaiti businesses are exempt from paying such taxes. There is no sales tax and no personal income tax so far in Kuwait. Kuwaiti nationals pay social security taxes as monthly deductions from their wage. For more details on Kuwait's tax system, see:

<https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-kuwaithighlights-2019.pdf> (accessed 29 April 2020).

61\_ These subsidies here only refer to subsidies on gasoline but do not refer to other subsidies such as subsidies on electricity, water and food. Together, all these subsidies constituted around 16% of the government's expenses for the 2018/2019 budget.



## FISCAL SUSTAINABILITY

A recent IMF report on the future of oil and fiscal sustainability for the GCC came to the conclusion that at the current fiscal stance, the region's financial wealth could be depleted by 2034, and the region could become a net-borrower.<sup>62</sup> However, as Kuwait has strong reserves in its Sovereign Wealth Fund (SWF), the IMF predicts that at the current rate of spending, and with the projected decline in oil-derived income, Kuwait will keep its net financial wealth positive until around 2052. Kuwait has managed in recent years to maintain fiscal surpluses and positive saving rates (because of the presence of SWF that could cushion-in the effects of the oil price decline).<sup>63</sup>

### SOME CONCLUDING REMARKS

Kuwait's socio-economic data reveals a key challenge faced: a government confronted with growing deficits, yet continuing to provide public jobs, subsidies and welfare benefits its citizens have been accustomed to since independence, based upon rentierism. As shown in some reports quoted above, 'sharing the rent' welfare state might not be a sustainable model. There will not be enough resources in the future to maintain current spending without citizens contributing to the state's treasury, creating national wealth as a precondition for a dynamic post-oil economy.

The presence of a large young Kuwaiti citizen population can be seen as a resource, but also a challenge. It is impossible to employ the entire Kuwaiti youth population in an already overcrowded public sector, leading at present to high levels of youth unemployment (sometimes hidden) of graduates waiting for suitable government jobs.

New jobs will certainly have to be created, both in the private and public sectors. As will be shown in the second part of this, skill formation and job creation should be associated to focus more on the requirements of building a knowledge economy. At present, the highly segmented nature of Kuwait's labor market inhibits the development of a thriving economy. The current state of the private labor market does not incentivize to invest in innovation and reform necessary for creating better quality jobs within the private sector.



62\_ IMF Middle East and Central Asia Research Department, 'The future of oil and fiscal sustainability in the GCC region', No. 20/01 (2020).  
63\_ Ibidem.

## II. THE WELFARE SYSTEM IN KUWAIT

Kuwait's welfare system is typical of a rentier welfare state, financially independent from society, in which the prime function of the state is to redistribute resources to society rather than extract them from society. This is due to a presence of abundant oil resources that, combined with a small population, allowed the state upon independence in 1961 to design a generous welfare system. One in which citizens would get free healthcare, free education, a public sector job (for life) and an interest-free loan to build a family house. In addition, Kuwaiti citizens receive subsidized energy (notably electricity and water) and basic food items through the distribution of ration cards. The state is thus the main provider of social welfare – including jobs for citizens – and pays its expenses from the sale of oil.<sup>64</sup>

Kuwait's welfare policies are inextricably linked to citizenship in a country in which access to citizenship comes along with considerable benefits in terms of access to the state's welfare provisions. Kuwait's expatriate population does not have access to the same welfare benefits provided to Kuwaiti citizens. This also applies to *bidun* (stateless individuals in Kuwait), approximately 100,000 to 120,000 people, who receive healthcare and education through charities (often government-funded), yet are not entitled to welfare benefits provided to citizens.

Migrant workers in Kuwait are required to have a *kafil* (local sponsor) in order to issue a visa and worker's permit. A migrant worker cannot enter or leave the country without permission of the sponsor. All GCC countries at present operate a similar version of this *kafala* system, although several GCC countries have undertaken steps towards reform.<sup>65</sup>

Many welfare benefits are constitutionally enshrined as rights for Kuwaiti citizens, and the constitution mentions the role of the state as caretaker. Article 11 states: "The State ensures aid for citizens in old age, sickness or inability to work. It also provides them with services of social security, social aid and medical care."<sup>66</sup> Free education is a constitutionally enshrined right for Kuwaitis, meaning that the expatriate population, the *bidun* (stateless), and the children of Kuwaiti women married to expatriates, are excluded from this right.<sup>67</sup>

Other universal services, such as subsidies on products, are accessible to all inhabitants of Kuwait. However, in recent years, electricity and water prices have increased in residential buildings inhabited by expats. Public healthcare is free for Kuwaitis, while expats are expected to pay an annual fee in order to access public healthcare and must pay additional costs for certain services (i.e. X-rays, specialized tests).

Thus, many welfare benefits which come with Kuwaiti citizenship demark clear differences between *bidun* and expats on the one hand, and Kuwaiti citizens on the other. In recent years, due to growing pressure on the welfare system, and populism in Parliament, the expatriate population has been targeted with measures to reduce welfare spending<sup>68</sup>.

As discussed during our January 2021 roundtable with key experts, Wafa Saad highlighted this exclusion of non-Kuwaiti citizens from welfare benefits, and the subsequent impact this has on generating inequalities and social issues. In addition, the recent Covid-19 pandemic has highlighted existing weaknesses in Kuwait's social ecosystem. Hundreds of expatriates have lost their jobs during this pandemic, many did not receive pay for several months, and others found themselves stranded without the means to return home. These impacted individuals had limited access to financial support, and with the absence of a functional social safety net, found it difficult to have their basic needs addressed. Without the means to earn an income during subsequent lockdowns, many could not feed themselves and their families. For most, no source of income meant no food or a means to purchase basic necessities. Kuwaiti civil society, businesses and charities united together during the Covid-19 pandemic in order to address basic needs for those in precarious situations, in order to fill gaps in providing food supplies, basic needs, healthcare services, and other types of social support. Albeit to state that this serves as further evidence of current policy gaps in Kuwait's welfare system. Within the broader scope of reforming Kuwait's social safety network, these dimensions need to be addressed to ensure future reforms support social cohesion and inclusion.

In the following section, an overview will be given of Kuwait's present welfare system, its main components, the costs it represents, legal and institutional setup, policies and programs.

Within each subsection, the current challenges faced by these welfare policies, as they are presented in existing reports or mentioned during interviews with stakeholders, will be discussed.

Kuwait's welfare system can be classified into four main categories. The first category is composed of services and subsidies that are accessible first and foremost to all citizens unconditionally, and that in certain cases also benefits the expatriate population simply because they live in Kuwait. For its citizen population, the first category can therefore be considered as universal support. The second category is social aid which targets specific groups considered vulnerable amongst Kuwaiti citizens and in need of aid. Using the World Bank's terminology, this is referred to as social safety nets that are "non-contributory

64\_ As mentioned above, oil export revenues accounts for around 90% of government revenues and half of Kuwait's GDP.

65\_ Bahrain and Qatar have introduced some changes to their sponsorship system but these reforms are still rather small in terms of their impact.

For a comparison of the *kafala* system and labor laws in GCC countries, see:

<https://www.migrant-rights.org/2019/10/comparison-of-kafala-and-labour-laws-across-the-gcc-states/> (accessed 29 May 2020).

Qatar and Bahrain have both abolished their *kafala* system. Kuwait has started implementing reforms of the system to strengthen rights of migrant workers, such as allowing them to change their sponsor. Another proposal of the government committee entrusted with reforming the sponsorship system is to make the government the sponsor of all private sector employees. <https://gulfbusiness.com/kuwait-considers-reforms-kafala-labour-system/> (accessed 8 April 2020).

66\_ <https://www.wipo.int/edocs/lexdocs/laws/en/kw/kw004en.pdf> (accessed 10 April 2020).

67\_ Al-Nakib, R., 'Education and democratic development in Kuwait: citizens in waiting', Chatham House Middle East and North Africa Program, March 2015, p. 6.

68\_ Azoulay and Wells, 'Contesting welfare state politics in Kuwait', MERIP, 272, Fall 2014.



transfers in cash or in-kind and are usually targeted at the poor and vulnerable”.<sup>69</sup> One can think of programs to help poor families and other vulnerable groups such as ill people or people with disabilities, and these can be cash transfers (conditional and unconditional) and in-kind transfers that contribute to reducing inequality.<sup>70</sup> The third category is a social insurance system which depends upon the contributions of individuals to insurance schemes. The last category is labor market and educational policies, policies which intervene in the labor market in order to generate more and better employment opportunities for workers: vocational trainings to improve the skills of the labor supply; wage subsidies; job search assistance but also educational policies directly aimed at improving the situation of the labor market.<sup>71</sup>

## UNIVERSAL SUPPORT

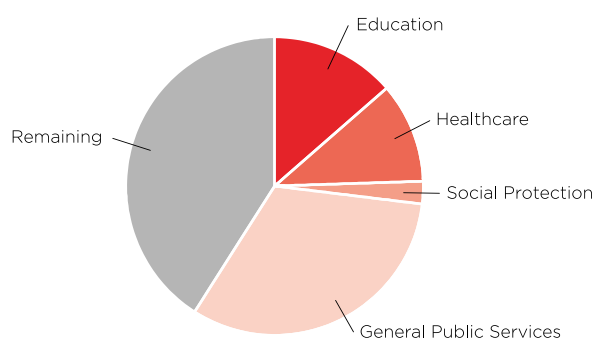
The first category of aid is support that is given to all Kuwaiti citizens, and in certain cases also to the expatriate population. In recent years, expats have lost some of their entitlements to these welfare services in a growing context of austerity and criticism from the Kuwaiti public vis-à-vis their entitlements (driven by a form of nationalist populism in Kuwait's Parliament).<sup>72</sup> Figure 4 provides an account of public expenditure shares by main sectors of intervention.

### Free public education

Free public education and free public health care are among the most prominent forms of universal service provided by the State of Kuwait to its citizens. Education represented around 14% of the government's budget for the 2018/2019 fiscal year (see Figure 4). Public education is free of charge for Kuwaiti citizens, however expats must place their children in fee-based private schools. Because of the generally perceived higher quality of private education, Kuwaiti citizens have increasingly tried to enroll their children in private schools following international curricula (at least for certain levels of schooling due to cost).<sup>73</sup> Kuwaiti students make up almost one third of total students enrolled at private schools at the intermediate level of education.<sup>74</sup>

Education starting from Kindergarten (4-6 years old) until Grade 12 (6-14 years old) is mandatory for all children. Kuwaiti citizens tend to have their children under the age of 4 taken care of by their families (e.g. a young married woman stays with her husband's family who take care of the child, often with the assistance of a maid). Another option, but less frequently used by Kuwaitis, are paid nursery houses (approximate cost between 300-1,000 USD per month).

**Figure 4: Government expenditures on main sectors of intervention (2018/2019)**



Source: 'The General Budget for the fiscal year 2018/2019', Ministry of Finance Public Budget Affairs, p. 65.

Education is one of the key pillars of Kuwait's development strategy since independence, and expenditures on education have, until today, constituted one of the largest parts of Kuwait's government budget, representing approximately 5% of overall GDP.<sup>75</sup> As previously mentioned, the teacher-to-student ratio is high in Kuwait (meaning there are many teachers available for students), which also is part of the explanation for elevated government costs per student.<sup>76</sup> As part of its reform strategy to prepare the economy for a post-oil future, Kuwait has strengthened its investment in education.

### Student aid

There are two main public higher education institutes in Kuwait: Kuwait University, and the Public Authority for Applied Education and Training (PAAET). The latter is considered as a non-academic center offering technical, applied trainings and education.<sup>77</sup> In recent years, many private universities were also established in Kuwait. Due to overstretched capacity of Kuwait University, the government has also started to give scholarships to Kuwaiti students studying at private universities.<sup>78</sup>

Student allowances cost the government in 2016/2017 approximately 158 million KWD and covered 66,000 students. Every Kuwaiti student registered in an officially recognized higher education institution receives between 200 and 400 KWD a month, depending upon the level of education pursued, and the student's marital status.<sup>79</sup> The Kuwaiti government has tried in recent years to provide scholarships for designated majors in which there is labor shortage in Kuwait (e.g. engineering, sciences and

69\_ <http://datatopics.worldbank.org/aspire/indicator/social-assistance> (accessed 12 April 2020).

70\_ <https://openknowledge.worldbank.org/bitstream/handle/10986/29115/211254.pdf?sequence=4> (accessed 8 April 2020).

71\_ McKenzie, D., 'How effective are active labor market policies in developing countries: a critical review of recent evidence', World Bank, Policy Research Working Paper, 8011, World Bank Group, May 2017, p. 2.

72\_ Azoulay and Wells, 'Contesting welfare state politics in Kuwait', MERIP, 272, Fall 2014.

73\_ Kuwaitis who can afford it tend to place their children in private schools. For one child the costs for schooling in a private school are around 6000 KWD a year for international schools. One of our interviewees says the following about it: 'I did it this way. As it is costly, I sent my kids to private school at the primary level to develop their basic skills, then transferred them to public schools for high school. I cannot pay for three children. It is too expensive'.

74\_ Educational Statistical Group 2017-2018, Ministry of Education Kuwait, p. 153.

75\_ El-Katiri, L., Fattouh, B., Segal, P., 'Anatomy of an oil-based welfare state: rent distribution in Kuwait', Kuwait Program on Development, Governance and Globalisation in the Gulf States, Nr. 13, January 2011, p. 8.

76\_ "Excessive staff may be an important factor explaining the relatively high per-student expenditure in Kuwait", International Monetary Fund (IMF), 'Kuwait: selected issues', December 21, 2017, p. 17.

77\_ <http://www.paaet.edu.kw/mysite/Default.aspx?tabid=36&language=ar-KW> (accessed 19 April 2020).

78\_ Around 4000 students study at private universities in Kuwait on a government scholarship. Saad, W., 'Kuwait National Development Plan 2015/2020 and the Education-Labor Market Alignment Policies: key challenges, gaps and way forward', technical report, SCPD. KPPC.HC.2018.46, p. 13.

79\_ In case the student is married and does not receive family allowances via the Family Care Department (Student Families) then he/she receives 350 KWD a month.

business).<sup>80</sup> The government also provides full tuition for around 6,000 students studying abroad annually. Scholarships are generous, paying for both tuition fees and living expenses. For example, a student studying in an EU-country would receive a stipend of 2,300 USD per month, with extra money allocated for clothes and books.<sup>81</sup>

In 2008 – in a context of rising youth unemployment – Kuwait’s Parliament proposed a law, subsequently passed, that pays 200 KWD to graduates looking for a job. This is an extension of existing student allowances, but does not entail the need for any activity in order to receive this post-graduation allowance. Different interviewees within organizations such as the Ministry of Social Affairs and Labor, but also the National Fund for Small and Medium-Sized Enterprises, expressed their criticism about this provision, arguing that it would be wiser to make such aid conditional upon graduates’ participation in meaningful activities (i.e. training programs, SMEs, private sector work) to enhance their employability. Relatedly, criticism was also expressed by some interlocutors about a law provision which prevents students to work while studying, which is seen as reducing students’ chances in gaining meaningful work experience.<sup>82</sup>

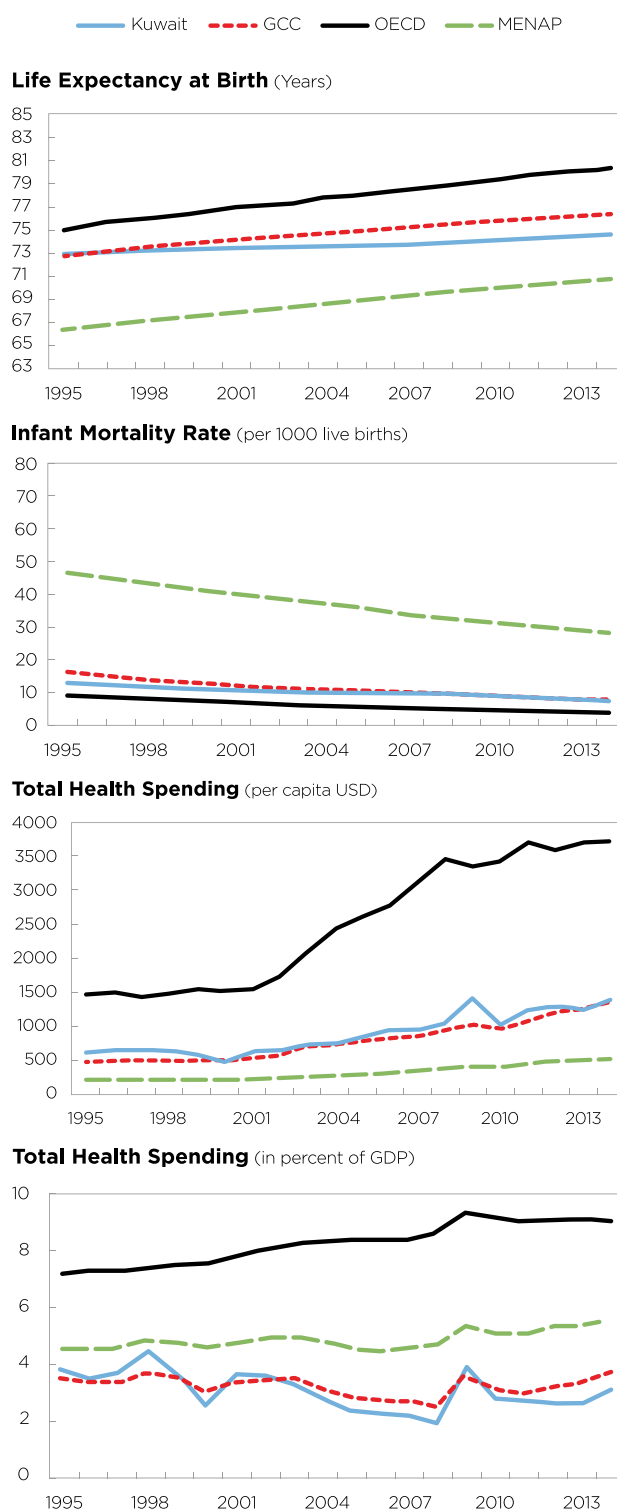
This part of the report readdresses higher education in our last section on labor market policies, in order to present education system reforms implemented at the University level. These reforms are supposed to improve the quality of higher education and qualification of Kuwaitis, and thus to facilitate their entry into the labor market.

## Free public healthcare

Public healthcare is free in Kuwait for citizens. Healthcare represented around 11% of the government’s budget for the 2018/2019 fiscal year (see Figure 4). This investment in healthcare has led to strong improvements in public health over the past few decades, extending life expectancy, and reducing mortality rates (see data in Figure 5). As also shown in Figure 6, within the GCC, Kuwait spends more on healthcare per capita than the regional average, yet remains below the OECD average spending on healthcare. This is partly due to the fact that a large part of the Kuwaiti population is young, thus is having less healthcare needs than in more aged OECD countries.

Expats have access to public health facilities, but must pay an annual fee for access to medical services and extra fees for additional services (i.e. X-rays, specialized tests, IC unit). Over the past years, public criticism has mounted regarding access to and quality of public health facilities.<sup>83</sup>

**Figure 5: Health indicators  
Kuwait in perspective**



Source: International Monetary Fund (IMF), 'Kuwait: selected issues', December 21, 2017, p. 18. (Data from: World Health Organization, World Bank, World Development Indicators and IMS staff calculations)

80\_ <https://monitor.icef.com/2015/08/kuwait-expanded-scholarship-support-helping-to-drive-growth-in-outbound-mobility/> (accessed 19 April 2020).

81\_ The amounts can be found on the website of the Ministry: <http://www.mohe.edu.kw/site/ar/services/financials.aspx> (accessed 19 April 2020).

82\_ Interview with Fares Al-Anezi, deputy director for the National Fund for small and medium-sized enterprise development, Kuwait City December 2019. The same was told by Huda Al-Rashed, Director of the Social Safety Nets within Kuwait's Ministry of Social Affairs and Labor, Kuwait City, December 2019. 'In the past the majority of people had only received secondary schooling and then went to work in the Ministry of Social Affairs and Labor or in the Ministry of Health. While working there, they continued their education. These two ministries were the ones where people worked and studied at the same time. Today this is not anymore allowed'.

83\_ Interview with Prof. Sungsoo Chun, policy advisor in health, UNDP Kuwait, December 2019.

Due to complaints of Kuwaiti citizens about long queues in public hospitals, it has become more difficult and expensive for expats to use Kuwait's public health facilities. As such, fees for using these facilities have increased, and in certain cases, specific hours have been allocated to expats at public hospitals.<sup>84</sup> These measures have led to a decline in the use of public health facilities by expats, and counter the idea of equality and protection of vulnerable people. Meanwhile, the Kuwaiti government has started to think about creating a national health service system (in parallel to the existing private insurance system) to cover and protect low-income workers in their access to healthcare.<sup>85</sup>

## Energy subsidies

Energy subsidies can be found in many countries of the world. In Kuwait, subsidies on energy have been particularly generous, and remain high despite significant reforms over the past years to cut them. Before the collapse of oil prices in 2016, energy subsidies on fuel and electricity were around 11% of GDP, and almost formed a quarter of government spending within a fiscal year.<sup>86</sup> Since 2016, Kuwait's government has reduced energy subsidies following the crash in world oil prices; profiting from a favorable context of low prices with less need for subsidies on energy. In 2016, the government increased gasoline prices and diesel by 70% (to between 85 and 165 fils per liter of gasoline, and 115 fils per liters of gas oil level). However, as shown in table 4, prices are still lower in value compared to other GCC countries.<sup>87</sup>

Cost of electricity and water are heavily subsidized in Kuwait. At present, electricity and water remain virtually free for Kuwaiti citizens living principally in private houses.<sup>88</sup> Water tariffs (in KWD per imperial gallons) are among the world's lowest (USD 0.50/m<sup>3</sup>), with more than 90% of costs subsidized.<sup>89</sup> Price of electricity remains very low (0,02 dollars per KWh, as shown in table 4). In 2016, fuel and electricity subsidies still accounted for almost 8% of GDP, and remain elevated in contrast to other oil exporting countries.<sup>90</sup> For foreign residents (residing in apartment buildings), electricity prices went up from 2 fils to 5 fils for consumption levels below 1000 kWh a month/10 fils, between 1000 and 2000 kWh a month/15 fils, above 2000 kWh a month.<sup>91</sup>

Consumption rates of water and electricity are still among the world's highest, and reducing subsidies could significantly enhance government's resources. Efforts to increase tariffs for water and electricity have so far largely failed, and both services remain very cheap for Kuwaiti citizens. Only partial measures were taken, sparring Kuwaiti citizens by targeting expatriates and businesses. Indeed, residential properties of Kuwaiti citizens were exempted from price increases.<sup>92</sup> This is largely

**Table 4: Prices for Energy Products GCC**

### Prices for Energy Products: GCC and the United States

(October 2018 or latest available)

	<u>Gasoline</u>	<u>Diesel</u>	<u>Electricity</u>
	(U.S. dollars per liter)		(U.S. dollars per KWh)
<b>Bahrain</b>	0.53	0.42	0.04
<b>Kuwait<sup>1</sup></b>	0.35	0.38	0.02
<b>Oman</b>	0.61	0.75	0.04
<b>Qatar</b>	0.58	0.56	0.05
<b>Saudi Arabia</b>	0.54	0.13	0.10
<b>UAE</b>	0.68	0.75	0.12
<b>GCC average (excl. Kuwait)</b>	0.59	0.52	0.07
<b>U.S. Prices</b>	0.83	0.87	0.13

Sources: Prices for GCC countries come from country authorities and are averages for 90 and 95 octane gasoline. U.S. gasoline (average for mid and high grade) and diesel prices come from the U.S. Energy Information Agency (EIA) and are adjusted for taxes. Electricity tariffs for the United States include taxes and come from EIA.

<sup>1</sup> For Kuwait, nationals were exempt from the August 2017 electricity price increases. The overall price is a weighted average of differentiated prices across different sectors.

Source: 'Kuwait', IMF Country Report, No. 19/95, April 2019, p. 11.

the consequence of popular pressure in Kuwait's Parliament to undo such austerity measures. Thus, global expenses on energy subsidies in Kuwait remain high.

Energy subsidies are costly, and lead to inefficiencies in terms of consumption and production. While energy subsidies are one method of wealth distribution, economists have pointed to the risks involved in subsidizing energy. These types of subsidies may encourage excessive consumption levels that go against sustainability objectives<sup>93</sup>, and tend to disproportionately benefit richer households that require higher energy consumption levels.<sup>94</sup> Another concern is that money allocated to subsidies could instead be used for more productive forms of government spending, such as investment in human capital (through education) or in developing economic infrastructure projects.

## Housing aid

Housing policies constitute an important pillar of Kuwait's welfare system. Kuwait's housing welfare policy is based on the assumption that every Kuwaiti family should be able to own a family house, which is markedly different from apartments rented by expats. By law, every Kuwaiti

84\_ <https://www.internationalinvestment.net/news/4001897/kuwait-hikes-healthcare-fees-expats> (accessed 19 May 2020).

85\_ Interview with Prof. Sungsoo Chun, policy advisor in health, UNDP Kuwait, December 2019.

86\_ <https://www.reuters.com/article/imf-kuwait-subsidies/kuwait-starting-to-cut-subsidies-imf-report-says-idUSL6NORV1CY20140930> (accessed 10 March 2020).

87\_ Annual Meeting of Arab Ministers of Finance, 'If not now, then when? Energy price reforms in Arab countries', IMF (April 2017), p. 31.

88\_ The electricity structure for such houses has remained the same since 1966.

89\_ Al-Jamal, A., Bagnied, M. and Speece, M., 'Willingness to pay for water. In Kuwait', paper presented at EBES Conference (January 8-10, 2016), Lisbon. [https://www.researchgate.net/publication/272019563\\_Willingness\\_to\\_Pay\\_for\\_Water\\_in\\_Kuwait](https://www.researchgate.net/publication/272019563_Willingness_to_Pay_for_Water_in_Kuwait)

90\_ International Monetary Fund (IMF), 'Kuwait: selected issues', December 21, 2017, p. 13.

91\_ Annual Meeting of Arab Ministers of Finance, 'If not now, then when? Energy price reforms in Arab countries', IMF (April 2017), p. 39.

92\_ International Monetary Fund (IMF), 'Kuwait: selected issues', December 21, 2017, p. 14.

93\_ Annual Meeting of Arab Ministers of Finance, 'If not now, then when? Energy price reforms in Arab countries', IMF (April 2017), p. 5. Important to note that Arab countries and particularly the GCC are among the largest greenhouse gas (GHG) emitters in the world per capita. In a similar vein, carbon dioxide emission per person in Kuwait is the second highest in the world.

94\_ International Monetary Fund (IMF), 'Kuwait: selected issues', December 21, 2017, pp. 14-15.

family has the right to possess a house, and receive an interest-free loan from the government to buy a house; provided that the person does not own or co-own real estate at the time of application.<sup>95</sup>

The *Bank Al-Itiman* (Savings and Credits Bank) grants universal loans to married Kuwaiti men (70,000 KWD) if a number of conditions are met by these heads of households.<sup>96</sup> It has 2.5 billion KWD in its reserves, and borrowers have 57 years to pay back their loan. Housing Welfare is supervised by the PAHW (Public Authority for Housing Welfare), and the Savings and Credit Bank. The control of land and resources falls under various state institutions, including parliament, cabinet, the municipal council and the municipality.

As stated by S. Shafian, amongst others, there are various problems in providing housing to Kuwaiti citizens, and the housing welfare provision in general:

**1\_** There are long waiting lists for receiving a family house. Although the law stipulates that a house should be provided within five years following the request by a family, in reality waiting years are much longer, and can amount to 18 years.<sup>97</sup>

**2\_** There has been a considerable level of inflation on Kuwait's housing market, therefore the universal loan given to families (70,000 KWD) to buy a house is not sufficient today in a market in which the cheapest available house is worth at least its double.<sup>98</sup>

**3\_** The compensation given to citizens who are waiting for a house (150 KWD a month as a rent allowance) is not a realistic value to cover their rent. Average rents for an apartment of around 85m<sup>2</sup> in a middle-class neighborhood amount to between 350 and 500 KWD a month.

**4\_** The universal nature of this aid makes that even affluent families (provided they do not own or co-own a house) are entitled to a housing loan, but in reality do not need it.

To face this housing crisis, Kuwait's government has resorted to various measures, notably building more houses and new cities (outside of Kuwait City where the vast majority of Kuwaiti citizens live). Part of Kuwait's 2035 Vision is to build five new cities on the capital's outskirts. Construction has already begun, and some of these cities, such as the South Sa'id Al-Abdullah city, aim to become eco-friendly, smart cities.<sup>99</sup> Some cities are planned to be completed by 2029. The Public Authority for Housing Welfare (PAHW) is responsible for building houses and/or granting land to families. Whereas the initial plan was to have the PAHW build all houses under this new development plan, because of complaints about the lack of quality of certain newly built houses (i.e. in

the South Sabah area), the Minister of State for Housing Affairs decided in 2016 that for new housing projects the government will only build 30% - as social housing - and have the remainder built directly by citizens (e.g. hiring construction firms) using government housing loans and their own capital.<sup>100</sup>

While these megaprojects are increasing the availability of houses, thereby reducing waiting lists and inducing downward pressures on an inflated real estate market, there are a number of problems remaining. Kuwaiti citizens are still reluctant to live in outer areas, and prefer to live in the capital. In order to deal with high costs of houses and shortages in the city center, one solution would be for Kuwaitis to accept living in apartments and smaller houses. However, it takes time to build acceptance for this lifestyle change from citizens.<sup>101</sup> Apart from building new cities, the government has also reduced the loan amount and size of land redistributed (currently 400m<sup>2</sup> per family) to address this shortage. Kuwaiti citizens receive government land, but richer Kuwaitis can also purchase parcels of private land, often in the inner city.<sup>102</sup>

Some critics of current housing policies argue that long waiting lists could be reduced by allowing other banks aside from the State's Credit and Savings Bank to provide citizens with loans to build houses. In a financial context, this would place more responsibility at the individual level. At present, Kuwait's government has focused on state-controlled solutions to alleviate the housing problem of citizens.

## Rent replacement allowance

As previously mentioned, Kuwaiti families waiting for a house receive a rent replacement allowance of 150 KWD per month (lower than the average cost of renting an apartment). This allowance is paid on the condition that applicants have already submitted their request for a housing loan to the PAHW, they are married, and do not receive a rent replacement allowance from their place of work. They may not possess a house, or any piece of land valued at more than 200 KWD. There has been a steep increase in the number of beneficiaries receiving this aid, exacerbated by long waiting lists to receive government provided houses. At present, the number of people receiving this rent replacement allowance is 120,600; approximately 9.3% of Kuwait's citizens.<sup>103</sup> In 2015/2016, the rent replacement allowance represented around 4% of total social aid provided by the Kuwaiti government. Kuwait and Qatar are the only countries within the GCC that provide this aid, regardless of someone's income.

## Food ration cards

In Kuwait, food is largely imported, and therefore susceptible to international price fluctuations and

95\_ Article 14 of Law no. 47 of 1993 concerning Housing Welfare, according to the latest amendments of 1995.

96\_ <https://www.e.gov.kw/sites/kgoarabic/Pages/Services/SBC/BuyingHouseAtMax70000Loan.aspx> (accessed 18 April 2020).

97\_ Al-Shafian, S., 'The rights to housing in Kuwait: an urban injustice in a socially just system', Kuwait program on development, governance and globalization in the Gulf states, LSE, May 2013, No. 28, p.10.

98\_ Al-Shafian, S., p.13.

99\_ <https://www.citylab.com/equity/2016/08/kuwaits-answer-to-scarce-housing-more-villas-more-sprawl/497603/> (accessed 13 March 2020).

100\_ Interview with an engineer involved in the construction of new cities at the PAHW, Kuwait City, December 2019. Local contractors tend to get these tenders, themselves using international subcontractors to execute these city projects.

101\_ Al-Shafian, S., p.25.

102\_ Interviews with employees in the Public Authority for Housing Welfare (PAHW), December 2019.

103\_ Public Authority for Housing Welfare, 2019.



transportation costs.<sup>104</sup> In the GCC, citizens have been particularly sensitive to price rises in dairy, fish and meat products. Regimes in the Middle East have prioritized food subsidies as part of their welfare and food security policies, and food price increases have been a major source of political upheaval in the region.

Kuwait subsidizes basic food items, such as rice, sugar, oil, and recently, eggs, through the use of ration cards, administered by the Ministry of Commerce and Industry. These ration cards are provided to all citizens with no limitations such as income bracket. One of the problems involved in this aid is that it does not account for consumption patterns of households. There exists a common societal practice to donate food items to needy expatriate families; donations primarily made by rich Kuwaiti families. In 2015, around 210,000 food ration cards were distributed, benefiting around 1.8 million citizens, and expenses in 2015/2016 amounted to 360 million KWD.<sup>105</sup>

Supermarket co-ops play a role in stabilizing prices for foodstuff, and in keeping prices low. People can have a 'box' within their co-op, where at every purchase they can give the cashier their box number, and at the end of the fiscal year the co-op gives them back a certain amount of money based upon their consumption. People can also get their monthly subsidized food items through these co-ops.<sup>106</sup>

## Loans for marriage

The Kuwaiti Credits Bank provides loans for Kuwaiti men who want to marry a Kuwaiti woman. They receive a 4,000 KWD loan, in addition to a 2,000 KWD government grant for getting married. Payoff is monthly, with 40 KWD as the minimum payment, depending on the borrower's income.

## Some concluding remarks

Public sector employment is the largest form of wealth redistribution provided by the Kuwaiti government to its citizens, and has accounted on average for more than one third of the government's budget.

As far as universal forms of social aid are concerned, the following challenges have been mentioned:

> Education and Health make up a large part of Kuwait's government's budget (14% and 11% respectively in 2019). Salary payment for teaching staff make up a big chunk of current government expenses for education, given the high rate of teachers per student in Kuwait.

- However, public education is perceived by Kuwaitis as being of a lower standard than private education to prepare for tertiary education, and instill the 21<sup>st</sup> century skills the

youth needs. Private education is costly, and not accessible for citizens with lesser means. Expats have to make use of private schools, but often choose the less costly schools that teach their home-country curricula.

- Students receiving student allowances are not allowed to engage in secondary remunerated activities, both as students and as graduates waiting for a (government) job. This inhibits the possibility for them to gain valuable work experience.

- Public healthcare is free for citizens, but has suffered from under capacity caused by the high demand in public healthcare services used by both citizens and expatriates. Consequently, more hospitals have been built to reduce pressure on healthcare, such as reducing waiting time in public hospitals.

> Energy subsidies also comprise a large part of Kuwait's government's budget. Despite cuts in fuel subsidies, total energy subsidies still make up around 8% of Kuwait's GDP. Citizens have pressured the government to focus electricity and water cuts on expatriate communities,<sup>107</sup> and consequently, these cuts have not targeted the total population of Kuwait. Subsidies are still costly. Low prices for energy and water lead to high levels of consumption, and do not incentivize the search for more sustainable forms of energy. In addition, subsidies benefit richer households more.

> Housing policies are confronted with important challenges at present, with long waiting lists for citizens to receive a loan to build a house. While waiting to receive this loan, the rent replacement aid which they receive is less than half of the average monthly rent of an apartment in Kuwait City. This aid is also regressive, as it does not take into account the beneficiary's income. Kuwait's housing crisis for its citizens may be reinforced by the fact that there is only one main money provider for housing loans (the Savings and Credit Bank). Also, Kuwaiti citizens tend to prefer houses in the city center, and generally do not accept smaller apartment-style houses, thus creating longer waiting times for the allocation of land to build on.

## SOCIAL AID TO VULNERABLE GROUPS

The second category of social benefits is social aid, targeting specific groups of citizens considered vulnerable in Kuwaiti society. Kuwait has tried over the past years to reform its social safety nets, and develop a comprehensive system. In 2013, a technical cooperation program was launched in collaboration with the World Bank (WB) to develop a social safety net framework.

104\_ The GCC imports around 90% of its food. Lahn, G., 'Fuel, food and utilities price reforms in the GCC: a wake-up call for business', Chatham House, Energy, Environment and Resources Department, June 2016, p. 14.

105\_ Social safety net report in Kuwait 2018, unpublished report in Arabic, produced in October 2018 by the General Secretariat for the Supreme Council for Planning and Development in Kuwait (GSSCPD) p. 57.

106\_ Ibidem p. 57.

107\_ Azoulay and Wells, 'Contesting welfare state politics in Kuwait', MERIP, 272, Fall 2014.

Also, in this context, the Law *Rabt al-Musa'adat* was enacted in 2013, with the aim to bundle different existing social assistance schemes under one law.<sup>108</sup> Article 23, paragraph 1 of this law defines 15 groups within Kuwaiti citizenry to be vulnerable and entitled to social aid. At present, these 15 groups comprise 42,641 people and 48,275 families.<sup>109</sup> This represents around 3% of Kuwait's citizen population. For those considered to be vulnerable, the aid received per person is 559 KWD a month. For a two-family household, this aid increases to 780 KWD, and 1,200 KWD is the maximum one can receive as a family (for a 10 person household). Table 5 presents the main groups, their particularities, the expenditure amount on each group, and percentage of the total cost of social aid.

Between 2010 and 2016, there has been a substantial increase in the cost of social aid programs.

It is important to note a growing population increase of This cost rose by more than 151%, to 262,840,000 KWD. Also, the number of beneficiaries rose in this period by 92.7% (from 31,128 to 59,958).<sup>112</sup>

Kuwaiti citizens during this period, which rose by around 19.5% (210,000) accounting in part for this increase. Another reason for this increase relates to the promulgation of the more integrated *Rabt al-Musa'adat* law in 2013, and the creation of new categories benefitting from social aid, such as adding in housewives. In terms of public spending, budget expenses for social aid do not seem to present a considerable burden on the state. In the 2018/2019 State of Kuwait budget, social assistance represented approximately 3.17% of total expenditures.

**Table 5: Social aid to vulnerable categories in Kuwait**

	Conditions required to receive aid	Particularities	Costs in 2016	Costs in 2016
<b>Housewives</b>	55 + years of age who are at home and do not have an independent income	This was introduced in 2013, and many interlocutors have questioned the 'vulnerable' dimension of this category because of the age of these women who do not have minors anymore to take care of.	99,441,358	37.8%
<b>Divorced women</b>	Divorced women without income or with income lower than 559 KWD/m.		50,168,488	19.1%
<b>Elderly</b>	Citizens 60+ years of age who do not have an income or an income lower than 559 KWD/m.		33,962,962	12.9%
<b>Financially needy</b>	Citizens with an income lower than 559 KWD/m. and who is not capable of increasing his salary independently.	Media reports in Kuwait pointed to the misuse of this aid by certain Kuwaitis who apparently receive this aid but have more sources of income. <sup>110</sup>	15,130,332	5.8%
<b>Unmarried women</b>	Unmarried women 35-60 years old.	Media and interlocutors report in some cases that the presence of this aid can disincentivize young unmarried women to search for a job.	13,572,647	5.2%
<b>Kuwaiti women married to non-Kuwaitis</b>	Kuwaiti women who are married to non-Kuwaitis.	These women cannot pass citizenship to their children, and therefore their children do not benefit from many of the welfare entitlements. <sup>111</sup>	13,572,674	5.2%
<b>Student families</b>	Kuwaiti students who are married.		12,768,193	4.9%
<b>Ill individuals</b>	People who on account of their illness are unable to work.		7,861,309	3%
<b>Family of prisoners</b>	Family of Kuwaitis in prison who are dependent on the income of the prisoner and therefore receive aid.		6,048,575	2.3%
<b>Widows</b>	Kuwaiti widows who have an income lower than 559 KWD/month.		4,828,937	1.8%
<b>Students abroad</b>	Kuwaiti students studying abroad in an officially recognized university and who are married.	It does not seem completely clear whether this only concerns married students or any students studying abroad.	2,083,277	0.8%
<b>Orphans</b>	Kuwaiti orphans.		1,736,706	0.7%
<b>Adopted children</b>	Children adopted by Kuwaiti parents.		1,504,255	0.6%
<b>Addicted prisoners released from prison</b>	Addicted prisoners released from prison who are receiving treatment to end their addiction.		423,982	0.2%

108\_ National Development Research Center, Taqir 'an bina shabaka al-aman al-'ijtima'i bi dawlat al-kuwayt, October 2018, p. 50

109\_ This information was provided to Rivka Azoulay during an interview with the undersecretary for social development (Mrs. Hanan Al-Hajeri) at the Ministry of Social Affairs and Labor, Kuwait City, December 2020.

110\_ For example if young men receive this aid, the state should also join the salary of the divorced mother under whose custody they fall to the file. To avoid abuse, the government decided that in case the mother who has the custody over these children earns more than 1000 KWD/month, these young men should not receive this aid. Also, a factor that has been taken into account is when women remarry and the new partner also takes care financially of her children. <https://alqabas.com/article/5733691-انفاق-من-ايداء-الطلاق-في-دائرة-العجز-الداوي> (accessed 10 April 2020).

111\_ One can think of scholarships, free education in general, healthcare and job opportunities. <https://journals.openedition.org/cy/3722#ftn1> (accessed 12 April 2020).

112\_ National Development Research Center, Taqir 'an bina shabaka al-aman al-'ijtima'i bi dawlat al-kuwayt, October 2018, p. 50. Source: Ministry of Social Affairs and Labor.



## Social aid to vulnerable women

Vulnerable women are those who receive the majority of social aid in Kuwait. Since 2013, the category of “housewives” was added to the aid eligibility list. When a woman reaches 55 years of age, and is a housewife without an income for herself, she is entitled to receiving social aid from the government. In 2016, these costs comprised 37.8% of total government spending on social aid.<sup>113</sup>

This law raised divergences in society about its necessity, with detractors arguing that the law is economically unsound. They argue that these women, at this stage of life, no longer have family related costs, and that household income is not taken into account.<sup>114</sup> Another argument used by critics is that this aid does not incentivize women to participate in the economy.<sup>115</sup>

However, as mentioned during our January 2021 roundtable discussion, Dr Blandine Destremau underscored that changing the overall status of women within the labor market does not only concern labor market issues. It also implicates wider societal questions and social problems, related to the patriarchal structure of society in Kuwait, and existing moral and social norms. Distributing welfare benefits to women is the counterpart to them being dependent on their husbands, fathers, brothers or other men in the family. This provides a concrete example of social protection ambiguity: protection of certain groups considered vulnerable, but also instituting and maintaining gender roles, generational roles, and relations of dependence. Creating an environment that encourages an increase in the participation of women within Kuwait's labor force thus also involves not only their own aspirations and will. It also must consider moral and pragmatic norms of family and power stability, their interplay with generational structures, and the changing of subjectivities between older and younger women.

Another category of women eligible for social aid in Kuwait are unmarried women 35 years and older (receiving 5.2% of social aid in 2016), who do not work. Critics of this provision argue that some women would choose to stay at home rather than search for a job, as the amount of 559 KWD in their eyes is quite decent. Current aid does not include conditions to incentivize this category of women to return to the labor market.

Lastly, divorced women are another category of women eligible for social aid (in 2016 this was 19.1%).

## Aid to the elderly

Respect for the elderly is important in Kuwaiti society, with elderly people generally living in the house with their children. Citizens above 60 years old, who do not have an income, or an income lower than 559 KWD a month, receive monthly social aid (559 KWD). This is paid in complement to Kuwait's pension system.

## Aid to disabled people

Kuwait provides social aid to its disabled citizens. A married person who is disabled receives 575 KWD a month, plus 50 KWD extra per month for each child, and 100 KWD a month for a disabled child. For an unmarried disabled citizen, the monthly allowance is 475 KWD. The Public Authority for Disabled Affairs (PADA) is the government body responsible for the implementation of all aspects related to disability welfare. In the context of Kuwait's Vision 2035, Kuwait's government began a collaboration with the World Bank in 2016 to create a technical cooperation program. This program strengthens investment in human capital of disabled persons, and favors their participation in an inclusive society (i.e. through vocational trainings, medical rehabilitation, etc.).<sup>116</sup>

## Aid to minors

This aid is provided to Kuwaiti women who are widowed, and have children under the age of 18 in their care. Aid is provided to them via the Public Authority for Affairs of Minors.

## Beit Al-Zakat

The Kuwaiti Zakat House is an important charitable institution, both inside and outside of Kuwait, and is considered to be a government organization. It assembles the *zakat*<sup>117</sup> of Kuwaitis, and uses it for Islamically-recognized caritative activities.

## Some concluding remarks

There are a number of challenges for Kuwait's aid system for vulnerable individuals defined in the categories mentioned above:

- > Many forms of aid mentioned here are regressive in the sense they disproportionately benefit richer households, they only focus on the recipients revenues and do not take into account other sources of revenues in the household.<sup>118</sup> While in certain cases, this can strengthen independence and equality (e.g. certain categories of women), it also leads to situations in which people whom receive aid are not necessarily in financial need, thereby accumulating resources.
- > The current system of social aid provides a benefit of 559 KWD to individuals per month. This amount is equivalent, and not lower than the minimum wage in the public sector. This creates disincentives to take a paid job at the same level.
- > Women are overrepresented as a category receiving aid. This aid is not made conditional

113\_ For a comparative overview of family policies in the Gulf today see: De Bel Air, F., Destremau, B., Safar, J. 'Marriage and Family in the Gulf Today', Arabian Humanities, Issue 10, Spring 2018, <https://journals.openedition.org/cy/4399>.

114\_ <https://www.alraimedia.com/Home/Details?id=c1f318c7-5f77-480e-a38d-8629789a1af0> (accessed 17 April 2020).

115\_ Interview with the undersecretary of social development in the Ministry of Social Affairs and Labor, Hannah Al-Hajeri, December 2019.

116\_ [https://www.kw.undp.org/content/kuwait/en/home/operations/projects/human\\_development/achieving-kuwait-2035-vision-towards-persons-with-disability.html](https://www.kw.undp.org/content/kuwait/en/home/operations/projects/human_development/achieving-kuwait-2035-vision-towards-persons-with-disability.html) (accessed 18 April 2020).

117\_ Zakat is a form of almsgiving treated in Islam as a religious tax, which is usually 2.5% (1/40) of a Muslim's total savings, and wealth above a minimum amount.

118\_ In many OECD countries, social aid is calculated also based upon the income of other members of the family living under the same roof.

upon programs and trainings to favor their entry or reinsertion into in the labor market. Such trainings do exist (for example within the Department of Social Development at the Ministry of Social Affairs and Labor) but at present, these programs are not obligatory for those receiving aid. Impact studies have not yet been done to measure how these programs contribute to job market participation and human capital investment.<sup>119</sup>

## SOCIAL INSURANCES

Kuwait's social insurance system is obligatory for citizens, but not for the expatriate population. It covers citizens both in public and private sectors. Table 6 presents the main social insurances benefits.

For Kuwaitis, it is obligatory to contribute to social insurance (which is 7% of their income), deducted by the Financial Remuneration Fund. In the private sector, the private employer pays 10% to the Fund, and the government contributes 10% monthly. The authority managing social insurance is the Public Institution for Social Security (PIFSS; Kuwait's Pension Fund). Social security covers retirement, disability, work injury, sickness and death (see table 6 for main social insurances).

In 2013, Kuwait introduced an unemployment insurance (Law Nr. 101) to provide insurance against unemployment for Kuwaiti employees in the private and oil and gas sectors, in case of their dismissal. Under this law, they are entitled to receive 60% of their last monthly salary for a period of six consecutive months. It is based upon a monthly contribution from the employer, employee and the public Treasury, each paying 0.5% of wage.<sup>120</sup> This law was introduced to protect Kuwaiti private sector employees, and adds to the existing insurance schemes in case of disability, work injury, sickness and death. It was introduced together with similar unemployment insurance schemes in other GCC countries in 2013.

Kuwait's Labor Law provides for terminal indemnity payments for expats, provided they have completed three years of service. Expats therefore do not pay contribution, and also do not benefit from access to Kuwait's social insurance system. Some employers offer corporate pension schemes, but many expats pay into their home country's pension plan.

Regarding retirement pension, the minimum age to retire is relatively early, set at 55 years of age for men, and 50 years of age for women. Whereas, in Qatar and the Emirates for example, the minimum age of retirement is set at 60 years for both men and women in the public and private sectors.<sup>121</sup>

**Table 6: Social insurance in Kuwait**

Type coverage	Authority	Employee contribution	Public sector employer contribution	Private sector employer contribution	Coverage	Obligatory or voluntary
Basic insurance	Public Institution for Social Security (PIFSS) which is Kuwait's Pension Fund	7% of income/m. to Financial Remuneration Fund (unless the salary is less than 270 KWD/m. In that case the employer pays for both contributions)	10% of income/m. to Financial Remuneration Fund	10% of income for Kuwaiti employees in private and oil sectors. Expats do not have social security obligations. Expats do not pay income taxes and do not have access to Kuwait's social security system. Some employers offer corporate pension schemes, but many expats pay into their home country's pension plan.	Pensions on retirement, allowances for disability, work injury, sickness and death	Obligatory for citizens but at present there are no social security obligations for expats. Kuwait's Labor Law provides for terminal indemnity payments for expats provided they have completed three years of service.
Supplementary insurance	PIFSS	For Kuwaiti employees earning more than 1,500 KWD/m. The elements excluded from the salary in the basic insurance are covered here. 5% of the complementary salary/m.	10% of the complementary salary of Kuwaiti employees	10% of the complementary salary of Kuwaiti employees	Ibidem	Obligatory for citizens in all sectors and jobs.
Unemployment Insurance for Kuwaitis in private sector (Law Nr.1010)	PIFSS	0.5% of income/m.	0.5% pf income/m. paid by Public Treasury	0.5% of income/m.	Kuwaiti employees in private sector	Obligatory for Kuwaiti employees in private sector

119\_ Interviews with Hana Al-Hajeri, undersecretary of social development within the Ministry of Social Affairs and Labor, Kuwait City, December 2019. She is responsible for six departments, under which departments for women and children. For women there are professional training programs in the fields of crafts and small businesses to support them to be active on the labor market. While the purpose of these programs is to have people participate again in the labor market, there are no impact studies to measure the impact of such programs.

120\_ [https://www.ilo.org/dyn/natlex/natlex4.detail?p\\_lang=en&p\\_isn=97071](https://www.ilo.org/dyn/natlex/natlex4.detail?p_lang=en&p_isn=97071) (accessed 20 May 2020).

121\_ <https://www.aljarida.com/articles/1507055503932615500/> (accessed 27 April 2020).

There is a basic insurance scheme (covering incomes up to 1,500 KWD/month) and a supplementary insurance for those earning between 1,500 and 2,750 KWD/month. Insurances are covered by the social insurance law *qanun al-ta'minat al-'ijtima'iyya*.

In 2019, a pension reform planned to extend the minimum age for retirement, as well as the minimum years of work prior to retirement. Now, to retire at 55 years of age, a man needs to have worked for 30 years. In this particular case, he will receive 95% of his basic salary and 60% of other elements of the salary, with a maximum retirement benefit of 1,500 KWD per month. Earlier retirement is possible from the age of 50 for men, but in this case, 2% of retirement benefits will be deducted for each year of early retirement. A man can also retire after 25 years of work, but then 10% of retirement benefits will be deducted for each year below 30 years of work experience.

The new law also equalized retirement rights for married and unmarried women. For a woman, the minimum age for retirement is 50 years old, with 30 years of work experience. In that case, she receives 95% of her last monthly salary, 60% of other benefits of that salary and with a maximum of 1,500 KWD a month. She can retire earlier at 45 years of age and older, but will lose 2% of her retirement benefit (in case she has 30 years' work experience). She can also retire with 25 years of work experience, but then 10% of her retirement benefit will be deducted for each year less than 30 years worked. Early retirement was accepted by the new law for women with disabled children under their custody.<sup>122</sup>

The average pension was 1,246 KWD per month in 2016 (compared to 895 KWD in 2007). This is more than the average government salary, and a rather high amount for a pension.<sup>123</sup>

The Public Institution for Social Security (PIFSS) was created in 1976 as an integrated pension fund covering all aspects of social insurance for citizens. 30 billion KWD were invested in the PIFSS by the government upon creation, and the PIFSS was charged to have 6.5% return on investment yearly. Yet the PIFSS has rising actuarial deficits as its return to investment have systematically been lower than 6.5% (around 4.5%), leading the government to inject money in the fund to finance deficits. For several years, the PIFSS has been suffering from actuarial deficits (19 billion KWD in 2019).<sup>124</sup> It has also suffered from corruption within the fund: the former head of the PIFSS was accused of misappropriating the use of funds, and was replaced by a new director.<sup>125</sup>

In view of a growing and ageing society in Kuwait, with a relatively high number of young graduates to be integrated into the labor market, there will be an important rise in beneficiaries of social insurance in the

future. At present, 369,000 employees are registered in the fund as insured, 140,000 people receive retirement pensions, and around 50,000 students will be employed in the coming five years and therefore insured.<sup>126</sup>

Given the generous nature of the pension system, a relatively short period of contributions, and the strong financing role of Kuwait's government, this system is considered costly and unsustainable.

## LABOR MARKET AND EDUCATION POLICIES

A fourth, important component, of the welfare system in Kuwait are labor market policies. These policies are inextricably linked to social investment goals, as labor market policies ultimately aim to strengthen the capabilities of people to either enter the labor market or to reinsert themselves, and to be a productive force in the economy. Therefore, we also present in this report some educational reforms aimed at improving labor market integration for students.

### Educational reforms aimed at improving labor market inclusion

To prepare for the requirements of a more dynamic, less oil-dependent labor market, Kuwait has started a series of educational reforms, in cooperation with external partners. In 2011, it adopted the Integrated Education Reform Project (2011-2019) to enhance the quality of education. Agreements were also signed with the World Bank, and new schools have been built under public-private partnership frameworks (i.e. school is managed and built by a private player, but the curriculum and administration are managed by the MoE).

Despite these reforms, there is still a lack of alignment with the labor market, and relatedly a lack of constructive dialogue with private sector stakeholders.<sup>127</sup> Strengthening alignment between the labor market and education has also been integrated as a policy goal under Kuwait's Vision 2035 Creative Human Capital pillar.<sup>128</sup>

Despite considerable government investment, the quality of education in Kuwait still lags behind international standards.<sup>129</sup> Much of government spending on education is allocated to paying staff salaries, and educational reforms have not yet reached the satisfactory level that provides people with the necessary skills to flourish in a dynamic economy. Kuwait has a high teacher-student ratio, and the teaching profession is highly desired due to generous benefits such as long holidays.<sup>130</sup> (The Ministry of Education is one of the most populated ministries, with 75,080 Kuwaitis registered as employees in

122\_ <https://arabic.cnn.com/business/article/2019/01/07/bjan19-kuwait-economic-law-social-security-early-retirement19-employees-advantages> (accessed 27 April 2020).

123\_ <http://www.arabtimesonline.com/news/kuwait-lowest-retiring-age-among-gcc-countries-pifss/> (accessed 28 April 2020).

124\_ An actuarial deficit is the difference between future social security obligations and the income of the social security trust fund as at present. <https://alqabas.com/article/5711616-الفقار-الكويت-الاول-عالميا-في-سن-التقاعد> (accessed 1 May 2020).

125\_ <https://alqabas.com/article/379355-محطات-في-تخفيف-الرجحان-عزل-حروب-وملاحق> (accessed 28 April 2020).

126\_ <https://alqabas.com/article/5711616-الفقار-الكويت-الاول-عالميا-في-سن-التقاعد> (accessed 30 April 2020).

127\_ Wafa Saad, 'Kuwait National Development Plan 2015/202 and the education labor market alignment policies', SCPD.KPPC.HC.2018.46, pp. 14-15.

128\_ Wafa Saad, 'Validation of the human capital and public administrations White papers and their integration in the next KNDP 2020/2025', second deliverable report June 2019, KPPC/UNDP Kuwait.

129\_ Ibidem, p. 13.

130\_ Interview with Dr. Mohamed Al-Sharika, Kuwait City, 7 December 2019.

2016; Annual Statistical Abstract CBS 2016/2017). In 2011, Kuwait's Government, under the pressure of Parliament, promulgated a law increasing the salary of schoolteachers from 700 KWD a month to 1500 KWD.<sup>131</sup>

Developing training programs that enhance the quality of teaching, and stricter entry requirements for those certified as teachers would strengthen the overall quality of education in Kuwait. Yet, there seem to be a number of challenges in making such training programs successful. So far, there is no strategic plan for teacher training clearly linked to Kuwait's 2035 Vision, and, relatedly to the needs of the private sector.<sup>132</sup> These needs would require a stronger focus on technically training Kuwaiti citizens in the fields of STEM (Science, Technology, Engineering and Math). A significant percentage of Kuwaiti students focus on non-STEM fields such as the social humanities and social science, with few trained in technical skills for demanding private sector jobs.<sup>133</sup>

The institute which offers technical, vocational training – Public Authority for Applied Education and Training (PAEET) – suffers from a lack of quality of its training programs, and in certain cases, from low enrollment rates and motivation among staff and students. Interviewees within the PAEET argued that students do not feel sufficiently motivated to participate in courses for several reasons: sometimes they do not consider the course well-adjusted to modern-day requirements; sometimes there is a certain dislike of manual and practical trainings (such as in the fields of air-conditioning or car mechanics); a lack of enforcement mechanisms monitoring students participation also contribute to generally low enrollment rates in PAEET vocational training classes.<sup>134</sup> In addition, the courses offered by PAEET do not correspond well to the needs of the private sector. One of our interlocutors, a former manager at PAEET, expressed these problems:

'An example is the High Institute for Energy, they have 176 teachers and teach 109 students. The students are not obliged to apply and don't like it to be enrolled. Even when they apply, they often realize that they don't like the course (not updated) and therefore they drop out. It is not aligned with the need of the private sector. If you go, for example, to Fawaz company (for air-conditioning in Kuwait) and ask them what skills they need from graduates, they will tell you something which is not available in the whole institute.'<sup>135</sup>

Other issues relate to the implementation of education reforms. According to our interlocutors within the PAEET and the Arab Bureau of Education for Gulf States, in certain cases, budgets allocated for educational reforms have not been spent. Another issue is a lack of impact studies to measure the impact of projects. Sometimes teachers are not open to implement changes, either because new modalities

are not in their interest (having become accustomed to a certain mode of work) but also because they feel not sufficiently involved in decision-making. This leads to reforms, in many cases top-down, and then Parliament comes in to use political prerogatives to obstruct reforms. For example, this occurred with the competency-based curriculum which was part of a law proposal to be integrated in Kuwait's curricula. The project failed because teachers did not want to do the training programs, and members of the educational committee in Parliament put pressure on the Minister of Education to stop the project following complaints the latter received from angry teachers protesting in front of the Minister's house.<sup>136</sup>

Educational reforms therefore still have a long way to go before they allow students to acquire the necessary skills to thrive in a dynamic economy. Traditional public-school curricula over emphasize on memorization and obedience, instead of encouraging critical thinking. This is also due to a strong role of nationalism and respect for authority in school classes. Dr Rania Al-Nakib (2015) describes how discipline and obedience are at the core of public school teaching in Kuwait. Based upon her research of participant observation in Kuwaiti schools, she concludes that the current public school educational system breeds passivity and obedience, but goes against the needs of a knowledge-based society.<sup>137</sup> Positive developments such as curricula reforms and the Emir's initiative of 'Kuwait Listens' (2013) to integrate the youth in decision-making still face challenges of top-down decision-making. Albeit, their successful implementation will contribute to enhancing inclusive citizenship, as well as the role of youth and their aspirations in society and economy.

Tertiary education also suffers from a number of challenges in Kuwait, and at this stage does not incentivize students to pick majors necessary for the future economy with a stronger private sector (i.e. technical majors in STEM fields). Kuwait University (KU) cannot absorb the growing number of high school students wanting to study at the university level, with certain departments completely saturated. New, private universities have been built over the past decade, and around 4,000 students receive yearly a scholarship to study at private universities in Kuwait<sup>138</sup>. However, the large majority of Kuwaiti students still study at Kuwait University which remains for free for citizens. Because of the fact that there is under capacity in certain departments at KU which are highly demanded (such as humanities), the system selects student for their major. Factors such as gender, age and GPA in high school influence admissions decisions, and students have to select several major preferences – without a guarantee to be given the major of their preference.

131\_ Interview with Dr. Mohamed Al-Sharika, Kuwait City, 7 December 2019.

132\_ This is also what is concluded by Wafa Saad in her research on education-labor market alignment in Kuwait. She concludes there is a lack of an economic growth agenda 'with clear definitions of priority economic sectors to help focus on economic growth'. Wafa Saad, 'Kuwait's National Development Plan 2015-2020', p. 19.

133\_ Most Kuwaiti students are enrolled in humanities and arts facilities and only 30% is enrolled in the STEM fields. International Labor Organization (ILO), 'Decent work country programme for Kuwaitis (2018-2020)', p.4.

134\_ Interview with Dr. Mohamed Al-Sharika, Kuwait City, December 2019.

135\_ Interview with Dr. Mohamed Al-Sharika, Kuwait City, 7 December 2019.

136\_ <https://www.aljarida.com/articles/1478272943763538000/> (accessed 20 April 2020).

137\_ Al-Nakib, R., 'Education and democratic development in Kuwait: citizens in waiting', Chatham House, Middle East and North Africa Program, March 2015.

138\_ Wafa Saad, 'Kuwait's National Development Plan 2015-2020', p. 11.



**Table 7: Main labor market policies in Kuwait**

	Institution	Amount of aid	Number of beneficiaries	Duration	Type of aid	Beneficiaries
<b>Job Search Allowance</b>	MGRP and Civil Service Commission (CSC)	Between 175 and 200 KWD/m. dependent on qualifications and marital status	28,436 Kuwaitis since the start of the program in 2000	Monthly max. 1 year	Category	Citizens between 18 and 40 years old who have been registered at the CSC/MGRP for more than six months.
<b>Training programs</b>	MGRP		78,777 Kuwaitis		Category	Citizens who are registered as job seekers
<b>Da'm al-'amala</b>	Manpower and Government Restructuring Program (MGRP)	Between 456 and 1,248 KWD/m. dependent upon qualifications and marital status	90,000 Kuwaitis since 2009	Monthly	Category	Citizens working in private sector

This is combined with the fact that after graduation, students – registered as the Civil Service Committee (CSC) waiting for a job (the job agency for the public sector) – will also be allocated a government job based upon the selection of the system, taking into account age and marital status. Some of our interlocutors at the GSSCPD argue that this system contributes to frustration among Kuwait's youth as they are not fully capable of studying the majors they want and ending up in the jobs they aspire to have.<sup>139</sup> Another problem is that no incentives exist to reorient the youth to studies in STEM fields, for example via preferential scholarship systems for those fields, or guaranteed jobs in the private sector through applied internships.

## Labor market policies

Beyond educational reforms, one can find three main specific labor market policies in Kuwait: job search allowances, training programs, and the *da'm al-'amala* aid aimed at favoring the entry of Kuwaitis in the private labor market. Table 7 presents the main labor market policies of Kuwait.

### Job search allowance

The Manpower and Government Restructuring Program (MGRP), and the Civil Service Commission (CSC) pay Kuwaitis between the ages of 18 and 40 (actively searching for a job and registered in the CSC/MGRP for more than six months) monthly compensation for a maximum duration of one year. This compensation depends upon the level of education completed. In 2015/2016, yearly job allowance costs amounted to 1 million KWD. The CSC is the only job placement agency for the public sector in Kuwait. The MGRP is the department responsible for providing jobs for Kuwaitis in the private sector, and for ensuring the right implementation of Law 19/2000 supporting Kuwaiti workers in the private sector.

It is rare for Kuwaitis after the age of 40 to still be searching for a job, as many by then will have been allocated a government job. The CSC where people register for finding a job gives priority to age and marital status (e.g. older individuals, whether or not he/she has

responsibility over a family) in allocation of government jobs.<sup>140</sup> Growing pressure on government finances, and a shortage of sufficient work opportunities in the private sector for young Kuwaiti graduates, makes this situation more and more difficult to be sustained in the future. There are thus many attempts to favor Kuwaitis' employment in private sector jobs, as well as in the free sector (SMEs).

Over recent years, unemployment has been on the rise in Kuwait, and therefore the number of people currently waiting for a job amounts to approximately 25,000 Kuwaiti citizens.<sup>141</sup> In the past, those waiting for a job were mainly those who did not hold degrees in tertiary education, but today unemployment also concerns those who have a BA, an MA or even PhD degrees.<sup>142</sup> Youth in Kuwait comprise a relatively large percentage of unemployed workers: at present around 14.37% of the youth is unemployed. In 1991, this number was only 4.28%, witnessing a peak in 2015 following the drop in oil prices.

Table 8 below describes the amount of money provided to unemployed persons, depending on their level of education. Young graduates waiting for a job maintain their student allowance (200 KWD) while job searching. As mentioned above, one issue is that many of those waiting for a job want to work in the public sector, and are not interested in working for either the private sector or in the so-called free sector of SMEs.

**Table 8: Monthly job search allowance**

Education	Monthly allowance for couples	Monthly allowance for singles
BA or more	200	175
College	175	150
High School	150	125
Middle School and two years training	150	125
Middle School and one-year training	125	100
Less than middle school and one-year training	100	75

139\_ Interview with advisors at the GSSCPD, Kuwait City, December 2019. One of the interlocutors argues the following: 'So if you cannot choose your major and you don't get the job you want, then what are your expectations. There are no incentives for the youth. And the labor market does not need university graduates, it needs people with concrete skills.'

140\_ Interview with Dr. Ala Zaghlul, GSSCPD, Kuwait City, December 2019.

141\_ Interview with Fares Al-'Anezi, Deputy Director National Fund for small and medium-sized enterprise development, Kuwait City, December 2019.

142\_ Ibid.

## Da'm Al - 'Amala

Since 2001, the Kuwaiti government has tried to strengthen the presence of Kuwaitis in the private sector through providing monthly subsidies for Kuwaitis working in the private sector. These are provided by the Manpower and Government Restructuring Program (MGRP) and are informally known as *da'm al-'amala* (wage support).

The basic allowance levels depend upon family status and education level, which is also the case for salaries of public sector workers (same type of differentiation). After a series of important public sector salary increases, the *da'm al-'amala* allowances were almost doubled. Today, a Kuwaiti who is single and holds a BA Degree in engineering receives 790 KWD a month extra on top of his/her private sector salary (around 300 KWD). If he/she is married, he/she receives 898 KWD a month on top of salary. A single Kuwaiti holding a high school degree receives 557 KWD. An expat with a BA in the private sector will receive approximately 800 KWD a month, so the Kuwaiti will receive a lower base salary. However, this is subsequently compensated by rather generous state support, thus a Kuwaiti's total take home pay is significantly higher than the salary of an expat in a similar job.

As stated by our interviewees, business elites tend to be reluctant to hire Kuwaitis, though the *da'm* helps them to employ at relatively cheap terms. One of the reasons seems to relate to the fact that Kuwaitis are more vocal than non-Kuwaitis, and can use their legislative rights to protest to oppose company lay-offs. This is what happened, for example, in 2014 when the oil prices went down quite dramatically, and when Kuwait's telecommunication enterprise Ooredoo fired over 600 Kuwaitis (along with many non-Kuwaitis). Following the decision, Kuwaitis demonstrated against the company, and created a hashtag against Ooredoo calling for Kuwaitis to change their provider.<sup>143</sup>

Another reason behind the reluctance of employers to hire Kuwaitis is that their work ethics are considered to be different than expatriate staff, and maintain the assumption that Kuwaitis would have lower labor productivity and discipline.<sup>144</sup>

Initially, the *da'm* program was quite successful in increasing private sector employment of Kuwaitis. It rose from 30,000 in 2005, to 67,000 in 2009. However, since 2010, the effect has been reversed following a rise in public sector salaries - leading to a number of Kuwaitis to abandon their private sector jobs for public sector employment. There was subsequently an almost doubling of subsidies aimed to reduce the public-private salary gap, but this still did not considerably strengthen private sector employment of Kuwaiti citizens. Since the early 2010s, private employment of Kuwaiti citizens has been stagnating.

According to a recent poll (2019) of the Public Authority of Civil Information and the Civil Service Bureau, only 4% of those employed in the private sector are Kuwaitis; meaning that the government's efforts to strengthen Kuwaiti employment are still far from having achieved their goals (although the program is one of the most extensive and expensive in the region).<sup>145</sup>

According to many reports and experts' views, this is due to different reasons:

**1\_** Reluctance of private sector elites to employ Kuwaitis. As told to us during interviews, business elites tend to prefer lower cost labor, and although the *da'm* program significantly reduces their costs, another reason behind their reluctance to hire Kuwaitis is that they cannot fire them as easily as foreigners. Kuwaitis are more vocal, have parliamentary rights, and can oppose decisions such as layoffs. Also, Kuwaitis are generally considered to possess less technical knowledge and therefore tend to be not the first choice of businesses.

**2\_** Kuwaiti citizens prefer public sector jobs. Working conditions in the public sector are better and easier than in the private sector: productivity demands are lower, working hours are less, wage is higher and a public sector job guarantees job security for life (one cannot be fired unless under extreme circumstances). Current unemployment rates in Kuwait are highly driven by this preference of Kuwaitis to work in the public sector.<sup>146</sup>

**3\_** Mismatch in skills of Kuwaiti citizens and private sector needs. Kuwaitis tend to lack the technical skills and vocational training needed for taking up private sector jobs. Most Kuwaiti students are enrolled in humanities and arts, and only 30% major in STEM fields.<sup>147</sup> Survey data also suggest a limited willingness of graduates to adapt their skills to labor market needs. Public sector jobs are still preferred because of their more comfortable labor conditions.<sup>148</sup>

## Reforms aimed at developing Kuwait's private sector

Kuwait's private sector, as well as other private sectors in the GCC, has been heavily dependent on government and oil-derived resources. Most of government resources come from wealth creation in the oil industry, but the strategy of Kuwait and GCC economies has been to use oil resources to build other sectors and diversify away from oil.<sup>149</sup> The construction sector and service sectors are the two second most developed sectors, after the oil industry.

Labor markets are highly segmented in Kuwait, and the private sector has relied mostly on cheap, low-skilled expatriate labor. Realizing the need to reduce

143\_ <http://alwatan.kuwait.tt/articledetails.aspx?id=386450&yearquarter=20143> (accessed 14 January 2020).

144\_ Various interviews with relevant stakeholders in Kuwait. One of our interviewees says the following about it: 'Without the *d'am*, the businessmen will be most upset as they will be forced to pay more money to Kuwaitis against their interests. For this reason, the government is not capable of enforcing high numbers of Kuwaitis in certain sectors such as telecommunications. Businessmen don't want Kuwaitis as they are costly and a headache. They will not want to leave, they make noise around you. Expats are easier to fire'. Also: Gulseven, O, 'Challenges to employing Kuwaitis in the private sector'. Gulf Affairs, Autumn 2015.

145\_ <https://www.alanba.com.kw/kottab/abdullah-alabdeljader/886638/22-02-2019-احداثيات-الفرق-العمادة-وقرر-عمل-الكويتيين> (accessed 14 January 2020).

146\_ International Labor Organization (ILO), 'Decent work country programme for Kuwaitis (2018-2020)', p.4. [https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/genericdocument/wcms\\_656564.pdf](https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/genericdocument/wcms_656564.pdf) (accessed 14 January 2020).

147\_ Most Kuwaiti students are enrolled in humanities and arts facilities and only 30% is enrolled in the STEM fields. International Labor Organization (ILO), 'Decent work country programme for Kuwaitis (2018-2020)', p.4.

148\_ Mohamed Nour, Samia, Technological change and skill development in Arab Gulf countries, Springer, 2013, p. 164.

149\_ Saeed, M. and Shreeje, A., 'Kuwaiti government initiatives and efforts towards nationalizing the labor market', Australian Journal of Islamic Studies, Vol. 9, December 2018, p. 7.



dependence on foreign labor, on oil, and the need to create new jobs for nationals in the private sector, Kuwait's government engaged in policies to strengthen the overall quota of Kuwaitis, and reduce the number of expats in the private sector. However, Kuwait and the GCC at large have seen a relatively slow rate of technological adaptation to increase labor productivity because the availability of cheap labor made the resort to technological innovation to enhance productivity less needed.<sup>150</sup>

Kuwaitization policies have been accompanied with important investment in education and vocational training by the government, and in the massive wage subsidy system (*da'm al-'amala*) to employ nationals in the private sector. Yet challenges remain as to the effectiveness of such programs. These policies have not led to the intended increases in citizens participation in the private sector. Banks were required to nationalize 60% of their work force, and it is in this sector that one can find the highest number of nationals.

Kuwait's Vision 2035 includes a series of ambitious construction projects in health and transportation sectors. For example, building new hospitals, new cities, the development of an additional International Airport, and a new bridge (the Sheikh Jaber Al-Ahmad Bridge) that would link Kuwait to a future Silk City.<sup>151</sup> These projects require massive amounts of technically-skilled manpower, and could be a source of employment for citizens trained in the technical professions such as engineering. So far however, there remains a reluctance from the private sector to hire Kuwaitis, and from graduates to work in private sector jobs for reasons enumerated earlier.

Kuwait's private sector is quite small, and heavily dependent on government patronage, with most activities of private sector elites focusing on activities such as being the contractors (*muqawil*) for international brands and companies, or being active in real estate and construction.<sup>152</sup> The private sector itself is dominated by an oligarchy of old merchant families who held power in pre-oil Kuwait. These families were granted a privileged position in the private sector, but within a subservient capacity.

The power of the merchant elite has been contested in recent years by the middle classes in Kuwait, who have criticized the uncontested privileges of this elite, and their dependence on government support. Under the pressure of the parliament and youth groups, the government has been trying to reform the private sector, and open it for competition (nationally and internationally).<sup>153</sup> One measure was the creation in 2013 of the National Chamber for Small and Medium-Sized enterprises (SMEs) to strengthen the role of new, young entrepreneurs in the private sector. More recently, in June 2019, an amended Tender Law (nr.74) was promulgated that explicitly gives a role to SMEs in the attribution of tenders. As such a contractor needs to give at least 10% of the work for the project to an SME,

and 30% of tenders have to go to local contractors to strengthen local production. Although all these measures are steps into the direction of opening up the private sector, democratizing it and favoring competition and innovation, their implementation remains a challenge and will only succeed if subject to independent oversight.<sup>154</sup>

With Kuwait's particularly vocal Parliament – representing a society accustomed to welfare entitlements – Kuwait's government will have to find common ground among the broader public in order to reform the labor market and the welfare system, making it sustainable for future generations and better aligned with a knowledge-based economy. We propose some guidelines toward a common vision for reforming Kuwait's welfare system in the second part of the report.



150\_ Steffen Hertog, 'The Future of Migrant Labor in the GCC: Literature Review and a research and policy agenda', LSE, p. 2.

151\_ For a summary of the government's construction projects, see: <http://www.mpw.gov.kw/sites/en/DevelopmentPlans/Pages/5YearsPlan.aspx>

152\_ Azoulay, Rivka, 'The politics of Shi'ite merchants in Kuwait', in *Business Politics in the Middle East*, Steffen Hertog, Giacomo Luciani and Marc Valeri (eds.), London: Hurst and company, April 2013.

153\_ Ibid.

154\_ The National Chamber for SMEs is a top-down instrument (bestowed with a budget of 2 billion KWD) in which SMEs remain dependent on government patronage and could therefore also face challenges to entrepreneurial initiatives that threaten particularly well-entrenched interests.

PART II

# REFORMING THE WELFARE SYSTEM IN KUWAIT



# INTRODUCTION

In this second section of our report, we argue that specifically adjusted social policies, improved educational policies, and labor market reforms can contribute to achieving goals outlined in Kuwait Vision 2035. Particularly in terms of human capital creation, and mobilization for a knowledge-based economy driven by the private sector.

Indeed, recent work conducted by various authors, including Dr Bruno Palier, have underlined how new perspectives on social, educational and labor market policies can contribute to increasing growth, create more jobs, improve overall job quality, and to improve social cohesion and inclusiveness. These new strategies have been defined as “social investment” policies. After briefly presenting this social investment perspective, we argue that the main principles, goals and functions of social investment policies could represent general guidelines for reforming Kuwait’s welfare state, and guarantee achieving goals and key pillars outlined in Kuwait Vision 2035. We subsequently use this social investment perspective as a compass for proposing a series of welfare, education and labor market reforms.

As creating human capital is the backbone of social investment, when proposing reforms, we first address Kuwait’s educational system. Within this section, we promote some key ideas for improving the overall efficiency of Kuwait’s public education system, to which a significant percentage of Kuwait’s annual budget is dedicated.

In a second step, we focus on labour market reforms. Mobilizing human capital, including in the private sector, is key to social investment. The reforms of Kuwait’s labor market we propose are primarily aimed at decreasing present segmentations of the labor market, and improving working conditions in the private sector. We argue that this method is a positive solution for promoting Kuwaitization of the private sector. We also propose reforming the recruitment policy of government administrators, a comprehensive reform of unemployment coverage, and to make workforce support allowance (*da’m al-’amala*) temporary. We strongly believe that in order to further advance recruitment of Kuwaiti nationals in private sector jobs, it is necessary to establish a strong alliance between private sector employers and employees.

Lastly, we propose reforms of existing social benefits in Kuwait so that they are less passive and more oriented towards mobilizing human capital. Hence, we suggest reforming subsidies provided for energy, water and food, in addition to shifting Kuwait’s universal subsidized housing to a means-tested subsidized housing system. We also maintain that it is important to ensure women have financial autonomy, but also enable them to balance familial obligations and work. We then provide evidence of the importance in preparing Kuwait’s welfare system for an inevitable ageing crisis, and suggest changes in the pension system’s parameters and expansion of care services for the elderly. Our final reform proposal at the end of this section underlines the necessity of diversifying sources of revenues for welfare.

This report’s conclusion presents a summary of our proposals, and a hierarchy, organization and sequencing of these proposed measures to be undertaken.



# I. KNOWLEDGE ECONOMY AND SOCIAL INVESTMENT POLICIES

This section aims at presenting social investment strategy and policies, which serves as a guiding compass for assessment and reform proposals in this second part of the report. It underlines why Kuwait needs social investment in order to be able to reach its Kuwait Vision 2035.

As is clear in many presentations of Kuwait Vision 2035, in order to boost an economic model alternative to the one based on oil export, Kuwait would like to develop private sector activity in high-skilled, high-paid jobs, with emphasis on finance and trade. This means that Kuwait wants to become a “knowledge-based economy” and develop what has been called “dynamic service sectors”.

## DYNAMIC SERVICES IN A KNOWLEDGE ECONOMY

Knowledge economies can be defined as economies placing “a greater reliance on intellectual capabilities than on physical inputs or natural resources”.<sup>155</sup> In order to develop a private high-productivity service sector, one needs to work on the firm side (develop specific investments in new activities and firms), but one also needs to work on the workforce side: prepare the population and the labor market so that they are able and willing to take up high-skilled jobs. Firms’ incentives to stay in or move away from a certain country depend among other things on the skill profile, and the education and training system they find in a country as well as on the availability and preparedness of the workforce to take up high-skilled jobs.

What are the services to be developed for Kuwait to become a productive knowledge-based economy? Amongst the best specialists of Information and Communication Technologies (ICT) revolution and service economies, Anne Wren<sup>156</sup> has identified three types of service sectors: the low skilled, low paid ones (that she calls the “non dynamic” services) that one can find in retail, hotels, restaurants and domestic services sectors; the welfare services based on interpersonal services like care, health care and education that are very often financed and provided by the state; and the private “dynamic services” found in sectors like finance, communication, computer and business services. She has shown that contrary to the two previous service sectors, the dynamic services are increasingly characterized by relatively high levels of productivity growth, ICT intensity and are tradable (an important share of exports in many developed countries are made of dynamic services).

As shown in the first part of our report on the Kuwaiti welfare system, welfare service jobs are primarily

occupied by Kuwaitis working in various government ministries. The private sector in Kuwait is mostly made of non-dynamic services (in retail, hotels and restaurants, and domesticity) with jobs occupied mostly by non-Kuwaiti expatriate workers. There are very few high skill jobs in the banking and oil extraction sectors, here again occupied by expatriate workers, and a few Kuwaitis.

As shown by Anne Wren, dynamic service sectors are more ICT intensive, more heavily traded internationally, and have a greater capacity for productivity growth than their non-dynamic counterparts. It is therefore key for Kuwait to facilitate the expansion of high productivity private service sectors that can replace oil export as the dynamic drivers of growth, and that Kuwaitis citizens occupy the new jobs created in these dynamic services.

This report does not address regulatory and public investment reforms necessary to develop these private dynamic services but on the educational, labor market and social policies that are necessary to support the development of dynamic services.

## REQUIRED SKILLS TO DEVELOP DYNAMIC SERVICES

What is the skill profile necessary for a knowledge economy to bloom and dynamic services to develop? In order to answer these questions, one needs first to understand the relationship between skill profiles and technological changes. Here again, Anne Wren’s work is key to understand which skill is necessary for the development of dynamic services.<sup>157</sup>

As prior shown by important labor market economists like David Autor,<sup>158</sup> new technologies (ICT, robots and computers) are highly effective at performing repetitive routine tasks which can be specified by programmable instructions – even where required programs are highly complex (for example, bookkeeping or clerical work). As the theory of “task-biased technological changes” demonstrates, technology acts as a substitute for labor in performing these routinized tasks. These tasks are typically carried out by workers at medium-skill levels (those with secondary, or some – but not complete – college education). Therefore, the relative demand for labor at this skill level is reduced. (Wren, 2021, p. 271).

In contrast, Anne Wren emphasizes that new technology is less effective at performing non-routine cognitive tasks requiring high-end general skills, i. e. “flexibility, creativity, generalized problem solving, and complex communications” (Autor, Levy and Murnane (2003) p.5) and education in STEM (science, technology, engineering,

155\_ Walter W. Powell, and Kaisa Snellman, “The Knowledge Economy”, Annual Review of Sociology, 30, 2004, pp. 199-220.

156\_ See Ann Wren (ed.), The Political Economy of the Service Transition, Oxford University Press, 2013.

157\_ We rely here on the chapter produced by Anne Wren entitled “Strategies for Growth and Employment Creation in a Services Based Economy: Skill Formation, Equality, and the Welfare State” for a book co-edited by Anke Hassel and Bruno Palier, Growth and Welfare in Advanced Capitalist Economies, 2021, Oxford University Press.

158\_ See David H. Autor, Frank Levy, and Richard J. Murnane, “The Skill Content of Recent Technological Change: An Empirical Exploration”, The Quarterly Journal of Economics, 118 (4), 2003, pp. 1279-1333.

and mathematics). As Anne Wren underlines, technology here “serves to complement the skills of the (typically college educated) workers who perform those tasks: faster access to more complete market information, for example, may improve managerial decision-making, but it cannot yet substitute for that decision-making. Since technology is a complement to rather than a substitute for this type of human capital, investment in the new technology increases, rather than reduces the demand for college educated labor” (Wren, 2021, p.271).

As Anne Wren concludes, on technological change, dynamic services and skills, “ICT acts as a substitute for labor at medium skill levels and complements the skills of workers with college level education. In this regard, successful expansion in high-end service sectors requires up-skilling and increasing numbers of workers receiving high quality tertiary education, the importance of ensuring effective investment at the tertiary level, and also in facilitating tertiary enrolment and access. Recent research indicates, however, that it also implies a critical role for investment in school-based learning beginning as early as the pre-primary level, since education at this level is increasingly regarded as a key determinant of tertiary outcomes” (Wren, 2021, p. 272).

Hence, in terms of the skills necessary to promote dynamic services, ensuring development of pre-primary early childhood education and care system is essential. In addition, rather than produce mid-skill level students, it is key to produce tertiary education and college educated students who perform in general skills and STEM. From the first part of the report, we know that the Kuwaiti national workforce is relatively well educated,<sup>159</sup> but still not at the required level and probably not in the right disciplines.<sup>160</sup> Moreover, a huge majority of those skilled workers do work in the public sector and not in the private sector, which remains reluctant to hire them. To attract more Kuwaitis in dynamic services, there is not only a need to improve the educational system but also to change incentives for both Kuwaiti workers and private employers.

## SOCIAL INVESTMENT

Institutions of the welfare state are important for facilitating the transition to a knowledge-based economy, which has the potential to create a lot of high-skilled jobs in dynamic services and generate wealth for both citizens and the state. Like many authors, Zysman et al.<sup>161</sup> found that social policies and educational and labor market regulations provided crucial institutional and regulatory preconditions for making the transition to fruitful knowledge economies compatible with social cohesion. Generally speaking, the specific labor market, education and social policies that are very supportive (and even necessary) to develop dynamic services have been gathered under the umbrella term of “social investment”.

The social investment perspective is intended to sustain a knowledge-based economy, where human capital and capabilities are drivers of productivity and economic

growth. The knowledge-based economy rests on a skilled and flexible labor-force, which can easily adapt to constantly changing needs of the economy, but also be the driver of these changes. The social investment perspective also aims at modernizing passive welfare states so as to better address the new social risks and need structure of contemporary societies, such as the need to reconcile work and family life, lack of continuous careers, more precarious forms of contracts and possessing low or obsolete skills.<sup>162</sup>

The social investment approach rests on policies that both invest in human capital and capabilities development (early childhood education and care, education and life-long training) and that help to make efficient use of human capital and capabilities (through policies supporting employment of parents, women and single parents through active labor market policies, but also through specific forms of labor market regulation and social protection institutions that promote flexible security), while fostering greater social inclusion (notably by facilitating access to the labor market for groups that have traditionally been excluded). Crucial to this approach is the idea that social policies should be seen as a productive factor, essential to economic development and to employment growth. Without a healthy and educated population that reproduces itself, productivity of the economy cannot be sustained. Social policy is not simply a means for the provision of individual security and redistribution, but also for efficient organization of production. Social policy is in fact seen as a precondition for economic growth.

The “social investment” strategy is thus able to regenerate the passive welfare state, promote social inclusion, create more and better jobs, and help address the challenges posed by the economic crisis, globalization, ageing and climate change. Social investment underlines the economic and social relevance of policies that invest in the nation’s human capital such as the development of quality day-care, education, health care, economic support to families, and policies to support women’s labor force participation.

### Prepare in order to have less to repair

In this perspective, social policy should aim at “prepare” the population to prevent certain social and economic risks associated with changing employment conditions and family patterns, in order to have less to “repair” through passive income maintenance schemes after the risk has occurred. Social policies should allow individuals and families to maintain responsibility for their wellbeing via market incomes, rather than through passive benefits. Social policies should be “productive”, in the sense that they should promote and support employment and economic growth.

159\_ In 2015, 20.1% of Kuwait’s national labor force held a secondary degree, 20.6% a degree just under university level and 44.8% a university degree or higher. Out of the economically active Kuwaiti men, 38% held a university degree, in contrast to 53.5% of Kuwaiti degree-holding women active in the labor force.

160\_ A significant percentage of Kuwaiti students focus on non-STEM fields such as the social humanities and social science, with few trained in technical skills for demanding private sector jobs. Only 30% is enrolled in the STEM fields.

161\_ John Zysman, Stuart Feldman, Jonathan Murray, Niels Christian Nielsen and Kenji Kushida, “Services with Everything: The Digital Transformation of Services from Economic Sinkhole to Productivity Driver”, BRIE Working Paper 187a, 2010.

162\_ Nathalie Morel, Bruno Palier, Joakim Palme (eds.), *Towards a Social Investment Welfare State? Ideas, Policies and Challenges*, Bristol, Policy Press, 2012.



The State is assigned a key role in 1. Fostering development of human capital (through investments in education and training); 2. Providing the necessary services and benefits to help make efficient use of human capital (policies providing support for labor market participation, particularly among categories such as young and/or lone parents, e.g. day-care services); 3. Avoiding human capital depletion (provision of in-work benefits – rather than social assistance or allowances – as well as support for job training and job search in addition to unemployment insurance). Social investment policies enable individuals to prevent and/or overcome difficult life events and life transitions without losing their capacity to support themselves economically. According to this perspective, social investment policies help to create, strengthen, maintain, re-establish, and use individuals' capabilities and skills.

One can thus identify three main functions of social investment policies. Social investment policies can first refer to an investment in skill and human capital formation (skill creation). Second, it can comprise an investment in the mobilization of human capital for labor market participation (skill mobilization). Third, it can represent an investment in the preservation and improvement of human skills and capabilities to better handle life events and transitions (skill preservation). Skill creation focuses on the formation of resources, human capital and capabilities. Skill mobilization focuses on the effective use of existing human resources. Skill preservation focuses on the maintenance or improvement of the capabilities. Social investment policies aim at fulfilling (one or more of) these functions.<sup>163</sup>

Social investment policies include social policies focusing on early childhood education and care, lifelong learning, policies to support young people, active labor market policies, policies to reconcile family and work, collective and quality care for dependent persons.

Developing quality childcare facilities for the youngest children makes it possible to meet the needs of families and children, to support the professional investment of mothers, but also to create stable, more qualified and better protected jobs, unlike private jobs in home services which are often low-skilled, precarious and low-paid. Offering policies to support women's professional investment not only allows women to benefit from the investment they have made by engaging in education, but also allows society to benefit from the investment made in the human capital of the female population. Women's increased participation in the labor market leads to higher growth,<sup>164</sup> a larger tax base, and ensures the long-term financial sustainability of social protection systems. Increasing women's participation in the labor market also reduces the risk of poverty for families and children (the risk of poverty is always lower in households where the two parents work). Enabling women to have careers they want, and which correspond to their qualifications, also requires a policy of equality in the family sphere, and in particular a thorough restructuring of parental leave, which should encourage households to share the care of young children more equally. Without this rebalancing of tasks, women tend to arbitrate between motherhood and

professional careers, and increasingly to the detriment of motherhood, particularly when they have higher levels of education.

Social investment is not just a question of developing human capital, but also of protecting its value throughout working life. A social investment strategy is based on the organization of professional transitions, access for all to long and qualifying training throughout life, support for mobility through active job-search assistance policies, and guarantee of high income during periods of vocational training and job-seeking without loss of social rights. It is under these conditions that professional mobility, or the lengthening of careers, become socially acceptable. It is also a question of investing in the quality of work so that there is not too great a gap and source of frustration between the level of qualification of individuals and requirements of the job held.

In this vein, unemployment is linked to a lack of adequate skills to fill today's jobs, and this lack of adequate skills and education is also expected to stymie future economic growth and employment creation. That is, unless the necessary investments are made to foster human capital and capabilities development.

In the following sections, we will revisit characteristics of Kuwait's welfare systems and underline those which are not in line with the social investment perspective (and should thus be reformed), and those which should be developed in order to better support citizens in their entry into a knowledge-based economy.



163\_ Julian Garritzmann, Silja Häusermann, Bruno Palier, *The World Politics of Social Investment*, forthcoming in 20201, Oxford University Press

164\_ HSIEH, Chang-Tai, HURST, Erik, JONES, Charles I., et al. *The allocation of talent and us economic growth*. *Econometrica*, 2019, vol. 87, no 5, p. 1439-1474.

# II. REFORMING EDUCATION

Our first part of the report ended by describing the current education system and labor market in Kuwait. In this second part, we will review the necessary changes to be implemented in those domains in order to prepare Kuwaiti citizens for the development of dynamic private services companies and jobs. This section begins with a few remarks on the education system, before outlining proposals for labor market changes.

## IMPROVING THE EFFICIENCY OF THE PUBLIC EDUCATION SYSTEM

Building a knowledge-based economy requires the emergence of highly productive, skill intensive sectors (beyond the few ones existing in Kuwait, i. e. oil and banking) and a workforce ready to work in these sectors. From a social investment point of view, it means developing policies of human capital creation and human capital mobilization.

As for creation of human capital, the Kuwaiti situation is paradoxical. On one end, there has been strong efforts to invest in education. As shown in the first part of the report, public spending in education represented around 14% of the government's budget for the 2018/2019 fiscal year and 5% of GDP. Kuwait has a public education system with one of the highest ratios of professor to student: the average teacher-student ratio in 2019 was 1 teacher for every 7.8 students (whereas in the OECD, the average teacher-student ratio was 1 to 15). Public education is free for Kuwaiti citizens. When reaching higher education, students benefit from a very generous tuition system. They also receive subsidies if they attend private universities in Kuwait, and if they study abroad, they benefit from generous scholarships. As a result, the Kuwaiti national workforce is relatively well educated. As shown in the first part of this report, in 2015, 20.1% of Kuwait's national labor force held a secondary degree, 20.6% a degree just under university level and 44.8% a university degree or higher. Out of economically active Kuwaiti men, 38% held a university degree, in contrast to 53.5% of Kuwaiti degree-holding women active in the labor force. Moreover, the level of education is increasing steadily as young Kuwaitis generally pursue tertiary education.

Despite these impressive quantitative results, some elements lead to question the quality of this education system. First of all, many reports and interviews mentioned in our first part demonstrate that the type of skill acquired may not be the best fit for developing a knowledge-based economy in dynamic services. Indeed, we have shown that a significant percentage of Kuwaiti students focus on non-STEM fields such as the social humanities and social sciences, with few trained in technical skills for demanding private sector jobs. Only 30% are enrolled in the STEM fields. As noted to us by Shareefa Al-Adwani, many public high schools in Kuwait are divided into two foci: "Maths and Sciences" and "Arts and Letters." For those that choose "Arts and Letters,"

those students have little / no exposure to Algebra or any higher maths. This negatively impacts their ability to perform at the university level and in their careers. Thus, we encourage the continuance of the fields of maths and sciences, including digital literacy, being taught throughout high school (even for the "Arts and Letters" track).

Moreover, public education is perceived by Kuwaitis as being of a lower standard than private education to prepare for tertiary education and develop the 21<sup>st</sup> century skills the youth needs. A KPPC research report confirms that Kuwait lags behind international standards in education despite heavy investment in the education sector.<sup>165</sup> Part of the problem here seems to be that the majority of the budget for public education goes to salaries rather than to enhancing the quality of teaching.<sup>166</sup> Moreover, the system strongly relies on expatriates rather than Kuwaiti nationals. In the framework of Kuwaitization, it may be necessary to recruit and train more Kuwaiti nationals as teachers in the near future.

Because of a generally perceived higher quality of private education, Kuwaiti citizens have increasingly tried to enroll their children in private schools based on international curricula. Kuwaiti students make up almost one third of the students enrolled at private schools at the intermediate level of education. Private education is costly, and not accessible for citizens with lesser means. One can also see a development of private universities. Hence, Kuwaitis students try to attend private schooling and universities, while the government devotes huge sums of money to finance an expensive public education system.

To reiterate what was already stated in the first part of our report, developing training programs that enhance the quality of teaching, and stricter entry requirements for those certified as teachers would strengthen the overall quality of public education in Kuwait. Yet, there seem to be a number of challenges in making such training programs successful. So far, there is no strategic plan for teacher training clearly linked to Kuwait's 2035 Vision, and, relatedly to the needs of the private sector. These needs would require a stronger focus on technically training Kuwaiti citizens in the fields of STEM (Science, Technology, Engineering and Math).

Other issues relate to the implementation of education reforms. Sometimes teachers are not open to implement changes, either because new modalities are not in their interest (having become accustomed to a certain way of working) but also because they feel not sufficiently involved in decision-making. Educational reforms therefore still have a long way to go before they allow students to acquire the necessary skills to thrive in a dynamic economy.

Traditional public-school curricula overemphasize memorization and obedience, instead of encouraging

165\_ Wafa Saad, "Kuwait National Development Plan 2015/2020 and the Education-Labour Market Alignment Policies: Key Challenges, Gaps and Way Forward", SCPD.KPPC.HC, 2018.

166\_ Ibid.

critical thinking. This is the conclusion of Dr Rania Al-Nakib based on her participant observation fieldwork in Kuwaiti schools, where she observed how the current public school educational system breeds passivity and obedience but goes against the needs of a knowledge-based society.<sup>167</sup> Positive developments such as curricula reforms and the initiative of “Kuwait Listens” (2013) to integrate the youth in decision-making still face challenges of top-down decision-making. Their successful implementation will contribute to enhancing inclusive citizenship, promote the role of youth and take into consideration their aspirations.

Tertiary education also suffers from a number of challenges in Kuwait, and at this stage does not incentivize students to pick majors necessary for an economy with a stronger private sector (i.e. technical majors in STEM fields). This could be done, for example, via preferential scholarship systems for those fields, or guaranteed jobs in the private sector through applied internships.

Kuwait University (KU) cannot absorb the growing number of high school students wanting to study at the university level, with certain departments completely saturated. New, private universities have been built over the past decade, and around 4,000 students receive yearly a scholarship to study at private universities in Kuwait. However, the large majority of Kuwaiti students still study at Kuwait University which remains free for citizens. Because of the fact that there is under capacity in certain departments at KU which are highly demanded (such as humanities), the system selects student for their major. Factors such as gender, age and GPA in high school influence admissions decisions, and students have to select several major preferences – without a guarantee to be given the major of their preference.

This is combined with the fact that after graduation, students tend to enroll systematically on the waiting list of the Civil Service Committee (CSC) in the hopes of being allocated a government job. The system, however, selects candidates in large part taking into account age and marital status. As shown in the first part of this report, this system contributes to frustration among Kuwait’s youth, who face impediments to studying the majors they want, and often end up in public sector jobs that do not match their expectations.

These challenges to public education and higher education systems in Kuwait have already been identified: one of the pillars of Kuwait Vision 2035 is to improve capacity to create human capital. We would like to insist here on the necessity to focus in particular on improving efficiency of the public system, on selecting and training teachers, and aligning educational content with types of skills necessary to develop knowledge-based dynamic service sectors.

As discussed during the January 2021 roundtable with key stakeholders, expanding and improving vocational training and life-long learning in Kuwait is critically important. Dr Shareefa Al-Adwani underlined that professionalization of trade fields (such as plumbers, carpenters, and electricians) is key. These fields should involve formalized education and licensing.

It would provide these fields with greater prestige, professionalization, and certified recognition. In addition, providing opportunities for continued education in the field of digital literacy for older generations is high-priority. For example, this includes training to use email, Microsoft Word, Excel, creating PDFs, scanning papers, searching on Google, and attaching documents. This also includes providing greater awareness and education on cyber-scams and phishing.

Wafa Saad emphasized during our round-table discussion the importance of investing in life-long learning policies and programs. A critical shift in preparing Kuwait’s existing workforce for evolving into a digital economy, and subsequent associated risks of changing employment conditions, disruption, and future automation. There should be new strategies developed to drive re-skilling and up-skilling agendas for older workers, in addition to the existing workforce. Even within the existing higher education system in Kuwait, there is a lack of incentives, financial support, policies and programs for continued education. Establishing appropriate incentives for Kuwaitis to pursue and invest in their continuing education, and re-skilling themselves for the future of work, is highly important.

Beyond these issues, a major problem insufficiently addressed is mobilization of Kuwaiti human capital by the private sector. As is well documented, most Kuwaiti nationals work in the public sector, and as shown in the last section of the first part of this report, the policies of private sector Kuwaitization have failed over the last years. There remains a shared reluctance from the private sector to hire Kuwaitis, and from graduates to work in private sector jobs. This is why we now turn to the labor market reforms we think are necessary to foster development of a vibrant private high-skill dynamic service sector able to provide jobs for Kuwaitis.



167\_ Rania Al-Nakib, “Education and Democratic Development in Kuwait: Citizens in Waiting”, Chatham House, Middle East and North Africa Program, March 2015 (<https://www.chathamhouse.org/sites/default/files/field/document/20150408Kuwait.pdf>).

# III. REFORMING THE LABOR MARKET

In its current shape, the labor market is unable to provide enough quality jobs for Kuwaiti nationals. In order to increase the number of quality jobs in the dynamic services sector (identified above as being the basis of a knowledge-based economy), targeted investments to develop enterprises operating in these domains are necessary. As underlined by Dr Nayef Al-Shammari, there is a general need to expand the size of Kuwait's overall private sector. There is also a need for labor market reforms, which are detailed within this section. Without these policies to educate and train Kuwaitis, there is a risk of contributing to a well-known problem found in several Arab countries, namely the production of hundreds of unemployed graduates.

## LABOR MARKET SEGMENTATION IS DYSFUNCTIONAL

Labor market segmentation between a national workforce who mostly works in the public sector (government administration and state-owned companies)<sup>168</sup> and an expatriate workforce who primarily works in the private sector is a major impediment to the development of a productive, knowledge-based economy. Indeed, labor market segmentation has engendered what could be labelled as a “low cost” private sector, driven by a permanent race to the bottom in terms of wages and working conditions. Having access to potentially unlimited cheap foreign workers whose mobility on the labor market is severely limited by the *kafala* sponsorship system, employers tend to rely on business models that include a large low-skilled, low-paid and minimally productive workforce.

Labor market segmentation also puts a lot of financial pressure on the welfare state. On one hand, allocation of a public-sector job has come to be perceived as a citizenship right by Kuwaitis, being deeply embedded in the social contract. This has impacted functioning of the public sector, in particular government bureaucracy, in which recruitment is based on a policy of over-employment and featherbedding whereby the number of jobs is not driven by actual manpower needs – but by the number of graduates who arrive every year on the labor market.<sup>169</sup> Many Kuwaitis describe it rightly as a policy of hidden unemployment. As a result, state bureaucracy is as labor intensive as the private sector, staffed by too many civil servants who, in reality, hold sinecures, jobs with little or even without any work. This is not only costly, but negatively affects the effectiveness of state bureaucracy.

On the other hand, labor market segmentation contributes to the rise of unemployment among Kuwaitis because it impedes the transition of nationals to the private sector – an objective that is promoted by Kuwaitization. Indeed, while the private sector is the primary job pool, most Kuwaiti job seekers prefer waiting for a public job rather than apply for jobs in the private sector. This is a tendency which, figures show, has

only been marginally altered by the creation of the *da'm al-'amala* allowance. A behavior perfectly rational in the current context. Private sector jobs are unattractive for Kuwaitis because overall conditions of the workforce in the private sector have been tailored for cheap bonded expatriate labor. Despite amendments in the 2010s, labor law has remained fundamentally pro-business in the sense that it offers little protection to labor in terms of working conditions, job security, wages and unionization. All this stands in sharp contrast with the law regulating labor relations in the government sector, which is very protective. Civil servant unions are powerful, and the interests of civil servants are moreover well represented in Kuwait's parliament. By contrast with the race to the bottom which is driving the private sector, this pushes for a race to the top in the public sector in terms of wages and working conditions.

Labor market segmentation also impacts negatively the motivation of employers to recruit Kuwaitis because it creates unequal competition between expatriates and nationals. While the *da'm al-'amala* allowance has at least partially neutralized the issue of the high reservation wage of Kuwaitis, for whom the standard is that of the public sector, it brings no solution to what, in the eyes of many employers, remains the main advantage of expatriate workers under the *kafala* system: they cannot shift jobs without their employer's approval, and are thus bonded laborers. This is unlike Kuwaitis who are highly mobile in the labor market, with a high turnover of those opting for private sector employment.

In this context, reforming progressively the *kafala* system with a final objective of abandoning it is crucial. This first and foremost implies increasing mobility of expatriate labor in the labor market by allowing them to shift jobs without their employer's approval. This would increase bargaining power of expatriates in the eyes of employers, thus this would contribute to increase wages and improve overall working conditions. In addition, this would push employers to consider labor as a human capital in which to invest by training employees and motivating them to stay, which is an essential pre-requisite for a shift to more productive business models. Coupled with an active policy of professional training for Kuwaitis, this would moderate labor market segmentation by reducing the skill and wage expectation gap between expatriate and national workers. This would have a positive impact on Kuwaitization, by making private sector jobs more attractive for Kuwaitis and Kuwaitis more attractive for employers. To further motivate employers to invest in human capital, the government could decide to restrict visas for unskilled and low-skilled expatriates. Overall, reducing labor market segmentation means improving quality of both the expatriate and Kuwaiti workforce, in order for them to compete for private sector jobs on a more equal footing.

To further diminish unequal competition between expatriates and Kuwaitis for private sector jobs, the minimum wage for private sector workers,

168\_ In this report we understand the “public sector” as including both government administration and state-owned companies.

169\_ As well described by Michael Herb, *The Wages of Oil. Parliaments and Economic Development in Kuwait and the UAE*, Ithaca, Cornell University Press, pp. 19-20.



which currently stands at 75 KD monthly, should be progressively but significantly increased. As emphasized by Dr Nayef Al-Shammari, a higher minimum wage would attract more Kuwaitis to the private sector, and also contribute to attracting more-experienced and educated expatriates. Results that would thus contribute to increasing the overall quality of Kuwait's private sector.

To avoid creating negative competitive advantages from companies based in other GCC countries, efforts should be made to coordinate labor policies among members of the GCC and, in particular, agree on a minimum wage at the GCC level.

## **REFORM THE RECRUITMENT POLICY OF THE GOVERNMENT ADMINISTRATION**

A sound reform of Kuwait's labor market cannot avoid government sector reform, and in particular, of its recruitment policy – an objective of ending logic whereby the number of jobs is driven by the number of job seekers. The final objective is that Kuwaiti job seekers shift away from a knee-jerk reflex of applying for a government job after graduation, and consider private sector job offers.

The list system favors what labor economist Ragui Assaad calls “queuing behaviors”,<sup>170</sup> which are prevalent across much of the Arab world and whereby university graduates wait, sometimes for years, for a public sector job through waiting list systems. While waiting to get off these waiting lists, young professionals jump from one job to another in the private sector. To curb this type of conduct, waiting lists should be dropped, and be replaced by an open system whereby job seekers apply for specific jobs whose profiles are publicly advertised. Candidates who are not recruited are subsequently not placed on a waiting list. They may only apply to another job offer.

## **A COMPREHENSIVE REFORM OF UNEMPLOYMENT COVERAGE**

Covering unemployment risk is essential in a project that aims to develop the private sector, and augment its role in growth and employment. Introducing an unemployment insurance scheme in 2013 was a very positive development in this respect, contributing to improve the quality of private sector jobs, and thus increasing their attractiveness for Kuwaitis.

However, reflecting labor market segmentation, coverage of unemployment risk is currently divided into the job search allowance and the unemployment allowance. The former is granted to Kuwaiti first time job seekers who have applied to a government sector job and have waited for one for more than six months. The latter is granted to Kuwaiti laid-off employees of the private sector.

Maintaining this dual model entails two problems.

First, it complicates counting unemployed and determining the overall unemployment rate since unemployed individuals are counted by two different institutions: the Civil Service Commission and the Public Institution for Social Security.

Second, it does not cover all types of unemployed Kuwaitis. In particular, it does not support first time job seekers looking for a job in the private sector. This is not coherent with the objective of Kuwaitizing the private sector and, again, favors queuing behaviors.

Thus, we propose two alternative solutions with different “political costs” and differing levels of feasibility:

The first option is a single comprehensive allowance supporting the different types of unemployed:

- First time job seekers who have applied for a job in the public sector for a period of more than six months
- First time job seekers who have been seeking a job in the private sector for a period of more than six months
- Laid-off employees of the private sector
- Laid-off employees of the public sector

This would further contribute to alleviating pressure on the public sector by rendering private sector jobs more attractive.

Another, more effective option, is complete cancellation of the job search allowance. Supporting first time job seekers in the public sector is not only unfair and detrimental to Kuwaitization of the private sector, it also links candidacy in the government sector to an allowance in a highly automatic way – contributing to the growing waitlist of the Civil Service Commission.

In both cases, allowance should be conditional upon registration at the Manpower and Government Restructuring Program and compliance with its requirements (professional training, accepting job offers in the private sector, etc.).

## **MAKE WORKFORCE SUPPORT ALLOWANCE TEMPORARY**

Workforce support allowance (*da'm al-'amala*) belongs to a well-known and rather diverse family of employment subsidies that target categories of workers who face specific difficulties in the labor market. In Europe for example, countries implement this type of subsidy to foster employment of the youth, seniors, low skilled workers, disabled, etc. Subsidies usually go to employers, for example in the form of fiscal exonerations. The objective is to reduce cost of labor for employers.

All GCC countries implement employment subsidies to push for workforce nationalization. Nationals are considered to be disadvantaged in a labor market dominated by expatriates. To support them, states provide allowances that complement the wages of nationals who work in the private sector. The measure is considered as likely to have a double effect. It is hoped that it will attract nationals to the private sector

170\_ Ragui Assaad, “Making Sense of Arab Labor Markets: The Enduring Legacy of Dualism”, The Institute for the Study of Labor (IZA), Bonn, Discussion Paper No. 7573, August 2013, p. 3 (<http://ftp.iza.org/dp7573.pdf>).



by increasing their wages. However, the aim is to push employers to recruit nationals by decreasing the cost of national labor: in terms of wages, hiring a national has the same cost as hiring an expatriate.

The Kuwaiti workforce support allowance is particularly generous in comparison with Gulf neighbors: it is very high (sometimes the majority of the wage is constituted by the allowance) and is permanent. In other GCC states, this allowance is more modest in terms of amount and is temporary in nature.

Overall generosity of the Kuwaiti system is not only costly, it goes against the objective of Kuwaitization by contributing to maintain low wages in the private sector. Low skills and labor intensive business models that perpetuate the low cost private sector can only marginally absorb the Kuwaiti workforce. Indeed, it seems that the aim is not to support the wages of Kuwaitis, help employers to train them and thus make them more productive. Rather, it seems that the aim is to permit employers to spend for Kuwaitis as little money as they spend for expatriates.

In order to shift away from this counter-productive dynamic, we propose to make the workforce support allowance temporary. Yet, as underlined by Dr Steffen Hertog, this reform should be progressive. Otherwise, Kuwaitis will not be able to compete with foreigners on the private labor market, at least within the low- to mid-skilled segments, where wages will remain low for a considerable period of time. First stages of this reform should work to adjust its amount to actual wages and, in particular, curtail it for higher paid Kuwaitis. As underlined by Dr Shareefa Al-Adwani, Kuwaitis in the private sector can indeed earn higher wages depending on the type of sector. However, there are exceptions. For example, in the education sector, expatriates tend to earn more than Kuwaitis, while in the case of Kuwait's banking sector, it is the contrary.

## **BUILD AN ALLIANCE IN SUPPORT FOR WORKFORCE NATIONALIZATION**

One of the problems with workforce nationalization is that it is a purely top-down policy. It is imposed from above by state elites, and resisted by both job seekers and employers. This is without mentioning the lack of interest of MPs, most of whom are or have been civil servants, and take overall little interest in private sector issues. As a result, there is no alliance to promote this reform. The absence of relay in society interested in supporting reform is a major impediment to its successful implementation.

The experience of neighboring countries facing similar difficulties shows that supporting the creation of trade unions in the private sector has a positive impact on workforce nationalization. Bahrain and Oman have authorized unions in the 2000s. They operate at the

company and sector levels, and elect the board of general federations. These federations operate at the national level and are associated to labor policy combining together with business representatives (members of the boards of the chambers of commerce). Both nationals and expatriates can join unions, although only nationals can be board members.

In both countries, unions have adhered to workforce nationalization and, with support of the state, have acted at the company level to push for implementation of existing regulations (nationalization quotas in particular, but also minimum wages), playing a genuine monitoring role at the company level. Unions have also contributed to improvement of employees' working conditions and the regulation of labor conflicts. In companies where a genuine dialogue was established between unions and the board of directors, unions have contributed to stabilize the national workforce. Successful collective organization to defend rights and interests creates a link with the company, motivates employees to stay and invest in their work rather than perpetually seeking elsewhere for better opportunities.<sup>171</sup>

Kuwait has long distinguished itself among GCC countries by its pluralist civil society, with numerous associations and a free press. Yet, while the right to unionize is enshrined in the 1963 constitution, unions are strikingly absent from the private sector which, in the current period, needs it the most. Unions are mostly found in the public sector<sup>172</sup> and those Kuwaitis who wish to create unions in the private sector say they face tremendous difficulties to do so.<sup>173</sup> The fate of the Committee for Private Sector Employees is telling. It was created in 2000 by the General Banking Union – to date the only licensed union of the private sector, with the aim of representing the employees of the private sector and, in particular, weight in the negotiations over the *da'm al-'amala* allowance. The Committee never obtained the license to operate officially as an association, and as a result, can only work on an informal basis that impedes its participation in negotiations over labor policy. According to members, the Kuwaiti government takes no interest in further formalizing collective representation of private sector workers because of the small number of Kuwaitis in the private sector. Another reason is that businesspersons wield significant influence on ruling elites. As a matter of fact, business in Kuwait is globally aligned with the ruling family in its struggle with the parliament,<sup>174</sup> which business elites tend to see as a “super trade-union” of civil servants hostile to the private sector. Difficulties for organizing collectively private sector workers are also linked to the ossified character of the General Federation of Kuwait Workers. Created in 1967, it is dominated by a coalition of unions from the oil and the government sectors which, by a mixture of regulations and informal politics, exclude newcomers and, thus, only represents a minority of the existing unions (15 of the 71 officially licensed unions).

As a result of these different factors, Kuwaitis working in the private sector who wish to set up unions at

171\_ Laurence Louër, “The Arab Spring Effect on Labor Politics in Bahrain and Oman”, *Arabian Humanities*, 4, 2015 (<http://cy.revues.org/2865>).

172\_ In 2016 there were 71 officially licensed unions according to the figures of the Ministry of Social Affairs and Labor handed over to Laurence Louër.

173\_ This conclusion is built on a series of interviews made by Laurence Louër in Kuwait in 2012, 2013 and 2015 with unionists and Kuwaiti workers of the private sector.

174\_ Mehran Kamrava, Gerd Nonneman, Anastasia Nosova and Marc Valeri, *Ruling Families and Business Elites in the Gulf Monarchies: Ever Closer?*, Chatham House, Middle East and North Africa Programme, November 2016, p. 8 (<https://www.chathamhouse.org/2016/11/ruling-families-and-business-elites-gulf-monarchies-ever-closer-0>).

the company level say they are afraid of retaliations by their employers, and feel there is no support from the government. Nevertheless, Bahraini and Omani experiences show that strong state support is crucial to develop a dynamic of unionization among private sector employees. Support means not only regulations that makes it easy to create unions and protect unionists from employers' pressure. It means advertising these regulations, smoothing procedures, facilitating training of union leadership and thus professionalization.

Supporting unionism in the private sector also implies offering private sector unions an institutionalized participation in policy-making along with employers and state representatives, in other words a genuine tripartite framework of policy-making for everything pertaining to economic and labor regulations. In this perspective, we suggest establishment of a national tripartite institution for the private sector, composed of labor representatives (unions), of employers (Chambers of Commerce) and the State. This institution would be tasked with discussing and proposing socio-economic policies, in particular labor market policies concerning the private sector. Such institutions do exist in several countries (in France for example, in the form of a Conseil économique, social et environnemental), and also as part of European Union institutions in the form of the European Economic and Social Committee. Several GCC countries have also established similar institutions: Oman established a Social Dialogue Committee in 2010, and Saudi Arabia established a Forum of Social Dialogue in 2011.



# IV. MOBILIZATION OF HUMAN CAPITAL, ACTIVATION AND TARGETING OF THE WELFARE SYSTEM

Kuwait has a very generous welfare system for its citizens that guarantees a relatively high level of equality amongst Kuwaiti citizens. This welfare system is however quite passive, providing a lot of benefits to all citizens, whether rich or less so, without considering how these generous benefits impact on labor market participation. In 2015, only 45.9% of Kuwaiti citizens were part of the economically active population. If one wants to make sure that the Kuwaiti welfare system remains sustainable in a post-oil economy, there is need to ensure that social benefits contribute when possible to increasing participation in the labor market. Thus, one has to focus welfare reforms on orienting social benefits towards the aim of mobilizing human capital on the same level as protecting people from loss of income. In this last section, we propose welfare reforms that will have an effect of more efficiently targeting welfare allowances to individuals truly in need, and to a reorient welfare towards supporting labor market participation.

## REFORM ENERGY, WATER AND FOOD SUBSIDIES

Universal subsidies on basic food products and energy are an important fiscal tool to support the most fragile segments of the population in low-income countries which do not have a developed welfare state. By contrast, in a country such as Kuwait, which is not only rich but also distributive, maintaining non-targeted subsidies has minimal utility if the objective is to support the poor. Indeed, it is known that, in any context, subsidies benefit disproportionately the rich, and are thus inequitable. In the case of Kuwait, they are moreover causing an abnormally high consumption of energy (fuel and electricity) and water by international standards, which further augments weight on state finances, not the least because oil is increasingly consumed locally rather than sold on international markets.

As other GCC countries, Kuwait has engaged in attempts at reforming subsidies, in particular fuel subsidies. The principle of decreasing or even lifting subsidies is widely accepted at the level of state elites, but is resisted by parliament (and probably by many in society). Overall, it is a politically risky and difficult reform to implement. This is in part why at least some subsidies need to be transformed into a system of means-tested cash transfers to the lower income households. This should be the case for electricity and water subsidies.

Decreasing fuel subsidies could be compensated by means-tested cash transfers. However, in the long run, they could also be balanced by investments in public transportation infrastructures (metro and bus lines) that would permit people to be less dependent on individual vehicles. This is without mentioning the fact that public transportation would contribute to easing the problem of traffic jams that frequently affect Kuwait City.

Food subsidies, through the system of ration cards, appear particularly irrelevant for Kuwaiti nationals and could merely be lifted.

Reform subsidy raises the question of treatment discrepancy between Kuwaiti nationals and expatriates. Currently, fuel subsidies benefit the entire population while others, in theory, only benefit Kuwaitis. As mentioned in our general presentation of the welfare system in Kuwait, there is an indirect redistribution of food subsidies to poor expatriates through charities (p. 26). Reforming subsidies will incur an increase of the cost of living for both Kuwaitis and expatriates, but the later will suffer more because they represent the largest share of the poor. There is a tendency across Gulf countries to make expatriates pay more, and bear a large burden of ongoing welfare system reform. Yet, because wages of expatriates are very low, this is not sustainable without a comprehensive reform of the labor market in the direction we have described previously of creating a more qualitative private sector. This means not only higher wages for both Kuwaitis and expatriates but also more qualitative jobs that, in particular, will include a share of social allowances (for example transportation allowance and private health care) paid by employers.

## SHIFT TO UNIVERSAL HOUSING SUBSIDY TO MEANS-TESTED HOUSING SUBSIDY

In many respects, housing subsidies can be compared to Kuwaiti policies of easy access to jobs in state bureaucracy. Many Kuwaitis perceive state sponsored access to a large individual house (400 m<sup>2</sup>) as a constitutional right,<sup>175</sup> in very much the same way they see a guaranteed job in state bureaucracy. These two policies could actually be considered as the two cornerstones of Kuwait's welfare system. Thus, the same way as they apply automatically for a public job right after graduation, Kuwaitis apply for a government house right after marriage.

175\_ Sharifa Alshalfan, The Right to Housing in Kuwait: An Urban Injustice in a Socially Just System, London School of Economic, Kuwait Programme on Development, Governance and Globalisation in the Gulf States, paper n° 28, May 2013, p. 17.

Similar to the policy of distributing public sector jobs, housing welfare has become highly dysfunctional over the past decades – generating significant discontent amongst citizens. Queuing behaviors are encouraged by a waitlist system, with Kuwaitis now waiting years before acquiring access to state sponsored housing, sometimes even waiting between 15-18 years. In the meantime, the state compensates by handing over an allowance that helps families to pay rent. This bears a resemblance to the job allocation system for government jobs: people enroll in a list and are paid to wait, regardless of their income and socio-economic background. In both cases, the state pays because it is unable to fully implement these unrealistic and dysfunctional policies.

Because housing subsidies in Kuwait are universal for nationals, and not based on a careful evaluation of needs, this has played a part in the distortion of the real estate market in Kuwait. It has notably nurtured speculation practices: people resell at market prices lands and properties that were initially handed over to them at nominal rates, or they lease them out.<sup>176</sup> These practices contribute to the price rise in the real estate market. In the end, real estate is so expansive in Kuwait that the subsidy policy proves unable to help those who really need it in a satisfactory manner. In the same vein as Kuwait's energy subsidy, it benefits disproportionately those who need it the less.

Moreover, Kuwait's housing policies have nurtured urban sprawl in areas far from the center of Kuwait city and its key facilities. Priority is indeed given to a kind of rush to build large individual properties to try – in vain – to fulfill citizens' expectations without paying enough attention to infrastructures. This has resulted in an increasing number of Kuwaitis who live far away from their workplace, as well as important facilities, in a country where public transportation is quasi inexistent.

To this end, Kuwait's housing subsidy is at the same time costly and inefficient, simultaneously nurturing price rise, urban sprawl, traffic-jam and discontent.

A return to a system of subsidy based on income stratification is needed (previously in force until 1984). The policy needs to be better targeted. Both government loans and rent replacement allowance should be modified to be means-tested.

## **MAINTAIN WOMEN FINANCIAL AUTONOMY BUT ENABLE THEM TO RECONCILE FAMILY AND WORK**

In the current welfare system, women represent the largest share of social assistance recipients. Five categories of women are considered as “vulnerable”, and thus eligible to allowances: housewives over 55 years old with no independent income, divorced women with no or low income, unmarried women between 35 and 60 years old who do not work, widows with no or low income, and women married to non-Kuwaiti men.

These categories reveal conflicting conceptions about the position of women in society and the family. They consider women as individuals independent from the family – either their parents or their husband and children – who should be given the financial means to maintain this independence. However, they also consider women celibacy as a social risk to be compensated for. By offering an income to non-working women, these policies tend to disincentive women from working. This goes against labor market policies implemented by the Kuwaiti government, which promote greater labor market participation rates among both Kuwaiti men and women.

One should take note that if the current system is not amended, the cost of compensating for vulnerable women will increase over future years due to the continuous rise of the number of celibate women, and increasing divorce rate. These two trends are not only specific to Kuwait, but are found widely across Gulf countries and even other MENA countries.<sup>177</sup>

In these circumstances, a more consistent policy would provide allowances for unmarried women, divorced women and widows, conditional upon actively seeking work and accept professional training. Concretely, allowance for unmarried women aged 35-60 should be made conditional upon enrolment in the Manpower and Government Restructuring Program. The idea is to maintain autonomy of women, but also to increase their employability.

Only the allowance for the women aged 55 and older would be maintained, as a recognition of specific difficulties in finding work for senior women. Over the long term, if current labor market policies are actively and successfully pursued, the number of recipients of this allowance will automatically decrease, since most women will work and thus have an income after retirement.

The allowance for Kuwaiti women married to non-Kuwaiti men compensates for the fact that nationality law prevents women from transmitting Kuwaiti citizenship, thus that their family does not have access to most of the provisions of the welfare state. An amendment of the nationality law would make this allowance useless (and in line with other policies promoting gender equality).

Overall, rather than granting allowances to non-working women, a consistent policy of support for working mothers should be developed to help remove the obstacles to female labor market participation. Kuwaiti figures show a gap between men and women labor market participation: in 2015, 39.3% of Kuwaiti women were part of the economically active population in comparison to 52.6% of Kuwaiti men. Women often leave work in order to take care of family and children at a certain point in their life. As we show in the part of this report, in 2015, 67.3% of Kuwaiti women part of the economically inactive population had left the labor force to take care of their families

176\_ Ibid., p. 27.

177\_ Françoise De Bel-Air, Jihan Safar and Blandine Destremau, “Marriage and Family in the Gulf Today: Storms over a Patriarchal Institution?”, *Arabian Humanities*, 10, 2018 (<https://journals.openedition.org/cy/4399>).



In line with a social investment perspective, one way to promote female labor market participation is to develop care facilities and services to ensure that women are not stuck at home because of family duties. Developing childcare facilities for young babies (from the age of one for instance) within collective care facilities of quality would have two advantages. It would allow women to be available for work while having children. It would also allow for, as demonstrated by many studies, high quality early childhood care and education facilities to increase the acquisition of cognitive and non-cognitive skills by young children.<sup>178</sup> At present, Kuwaitis tend to have their children under the age of 4 taken care of by their families (e.g. a young married woman stays with her husband's family who takes care of the child, often with the assistance of a foreign maid). The other main alternative to mothers with young children is paid nursery homes, costing approximately between 300-1,000 USD per month, which many cannot afford.

Kuwait's government could decide to provide publicly financed free childcare facilities to all. This would require building numerous facilities (and hence favoring new economic activities), developing the childcare profession (and hence opening a new venue for jobs in the service sector).

## PREPARE THE SYSTEM FOR AN AGEING CRISIS

With the same aim of favoring higher labor market participation (especially for women), one should also think of necessary reforms and services aimed at tackling the coming age crisis in Kuwait.

The ageing or "greying" of societies linked to life prolongation and decreasing fertility has become a major challenge in all developed and emerging economies. With life prolongation, health and pension expenditures are increasing, while new needs for elderly care emerge. These evolutions call for new services of care provision.

The current Kuwaiti population is very young, which in part explains Kuwait's relatively low healthcare spend in comparison with the OECD average. Aggregated data (including Kuwaitis and non-Kuwaiti) indicate a median age of 29 years, but, according to the data of the 2011 census collected and published by the Central Statistical Bureau, it is even lower for Kuwaitis (between 20 and 24).<sup>179</sup> Census figures also show that Kuwait's national population is ageing. A study (using aggregated data mentioned in the first part of the report) forecasts an increase of the number of people aged 65 and over to 4.41 % of the total population by mid-2025, and to 17.90 % in 2050.<sup>180</sup> According to United Nation World Population prospects, life expectancy in Kuwait has increased steadily over the past decades (from 51 years in 1950 to more than 75

in 2019). Meanwhile, while in 2017 the fertility rate of Kuwaiti women was still above the replacement rate at 3.5%,<sup>181</sup> it has constantly declined.

As a result of these demographic trends, the number of elderly people will increase in the long run relative to the overall population. In order to be prepared for such ageing of the Kuwaiti population, one needs to 1. reform the pension system, 2. implement active ageing and 3. develop a formal elderly care sector.

In Kuwait, the minimum age to retire is relatively early, set at 55 years of age for men, and 50 years of age for women. As underlined in the first part of this report, it is rare to find people in Kuwait working beyond this age (e.g. in 2015, only 14% of Kuwaitis in the age bracket between 44-55 years old were still employed). Reforms have already sought to extend the retirement age, with a law passed in 2019 defining a minimum amount of years of contribution (set at 30). While Kuwait has comparable life expectancy to OECD countries, it has much more generous rules for old-age pension. In the OECD countries, on average, one needs to have contributed around 40 to 45 years to be entitled to a full pension.<sup>182</sup> In order to make the pension system sustainable in the future, one thus needs to increase the retirement age for both men and women (circa 65 on average in OECD countries), and the amount of required contribution years to be entitled to a full pension.

However, these reforms would be meaningless if people leave the labor market too early. Hence, one needs to add to this pension reform "active ageing" policies. Inspired by the Finnish example,<sup>183</sup> these policies aim at favoring labor market participation of older workers through lifelong training programs (to avoid human capital depletion) and investment in labor market environment and conditions. It also requires that children (especially women) in their fifties are not prevented from finishing their professional careers because of caring duties.

At present in Kuwait, elderly people generally live in the same house with their children. With ageing, the problem of vulnerability amongst the elderly will increase. More and more elderly people will need care for everyday life. If no formal elderly care facilities are planned, care taking may fall on the children of the frail elderly, and particularly on women, who thus would have to retire early from the labor market without being able to finish their professional career (and pay enough contribution to the pension system to be entitled for a full pension). To avoid both a "care crisis" and increasing poverty amongst old women, one thus need to plan the development of formal elderly care facilities, be it in the form of retirement homes or in the form of care at home by professionals. As for childcare, this requires development of care professionals, well trained and paid, subsidized by public funding, to develop a new private service sector.

178\_ J. Bennett and C. P. Tayler, *Starting Strong II: Early Childhood Education and Care*, OECD, 2006.

179\_ State of Kuwait, Central Statistical Bureau, *Annual Statistical Abstract 2018-2017 Edition 53*, p. 34 ([https://www.csb.gov.kw/Pages/Statistics\\_en?ID=18&ParentCatID=2](https://www.csb.gov.kw/Pages/Statistics_en?ID=18&ParentCatID=2)).

180\_ Mustafa Younis, Maha Al-Hajeri, Yucuf Celik, Adnan Kisa, Patrick Richard, Jai Parkash, "Healthcare of Aging Population of Kuwait", *Ageing International*, 2015 ([https://www.researchgate.net/publication/257770795\\_Healthcare\\_of\\_Aging\\_Population\\_of\\_Kuwait](https://www.researchgate.net/publication/257770795_Healthcare_of_Aging_Population_of_Kuwait)).

181\_ Nasra M. Shah, "Dangers of Using Aggregated Data for Understanding Socio-Demographic Realities of the Gulf Region", *GLMM - EN - No. 01/2017*, pp. 7-8 ([https://gulfmigration.org/media/pubs/exno/GLMM\\_EN\\_2017\\_01.pdf](https://gulfmigration.org/media/pubs/exno/GLMM_EN_2017_01.pdf)).

182\_ OECD, *Pensions at a Glance*, 2019.

183\_ Hannu Piekola, *Active Ageing Policies in Finland*, ETLA Discussion Papers No. 898, 2004.



## DIVERSIFYING THE SOURCES OF REVENUES FOR WELFARE

Currently, the majority of welfare spending is funded directly by the state's treasury, which is itself funded by selling hydrocarbon resources on international markets. There are only two insurance-based systems financed by contributions of employees and employers (in addition to a contribution through the public treasury):

- Social security system which covers old-age, disability, sickness, work injury and death insurance of Kuwaiti employees of the public, oil and private sectors as well as the Kuwaiti self-employed
- Unemployment scheme

As underlined in the first part of this report, the Kuwaiti government increasingly confronts fiscal issues as oil incomes fluctuate and, since 2014, decrease, and as current spending increases due in particular to a high wage and pension bill. Some long-term demographic dynamics are further burdening the welfare system, such as the increase of women celibacy notably due to increasing divorce rates, a declining birth rate and the ageing of the Kuwaiti population.

To meet current and future welfare expenses, the Kuwaiti welfare system needs to diversify its sources of income by increasing the share of social contributions by employees and employers. The efficiency of such a move towards insurance-based services would be reinforced by labor market policies aiming at increasing the labor market participation of Kuwaiti nationals: the more Kuwaitis work – both men and women – the more they will contribute to the welfare system and make it sustainable in the long run.



# CONCLUSION

## A SUMMARY OF PROPOSALS AND SOME CONSIDERATIONS ON THEIR POLITICAL FEASIBILITY

The reform of Kuwait's welfare state that we propose in this report focuses on three domains: education, labor market and social protection. It should be noted that in many respects, reforms in these domains are inter-dependent and intertwined in the sense that they hold an impact on each other.

### IN THE DOMAIN OF EDUCATION, WE ARGUE IN FAVOR OF:

- Expanding pre-school infrastructures in order to develop Kuwaiti human capital at the earliest age (from age one) and fostering the employability of women.
- Improving efficiency of the public system through an amelioration of selecting and training teachers.
- Investing in STEM education (science, technology, engineering, math) in order to align educational content with the types of skills necessary to develop knowledge-based dynamic service sectors.

### IN THE DOMAIN OF LABOR MARKET REFORM, WE ARGUE IN FAVOR OF:

- Fine-tuning to the extent feasible segmentation of the labor market by cancelling the *kafala* sponsorship system as soon as possible.
- Restricting visas for unskilled and low-skilled expatriates to improve overall quality of the expatriate workforce, and reduce labor cost gap between Kuwaitis and expatriates.
- Increasing the level of the minimum wage for all private sector workers in Kuwait, to reduce labor cost gap between Kuwaitis and expatriates.
- Reforming recruitment policy of government administrators by cancelling the waitlist system of Kuwait's Civil Service Commission, and ceasing to use public employment as a channel of wealth distribution.
- Reforming unemployment allowances to make them more equitable, and more favorable to the objective of private sector Kuwaitization.
- Making Kuwait's wage subsidy system (*da'm al-'amala*) temporary in order to move the private sector away from "low cost" business models.
- Fostering creation of trade unions in the private sector to generate an alliance for Kuwaitization.
- Creating a national tripartite institution for the private sector to participate in the elaboration of socio-economic policies.

### IN THE DOMAIN OF SOCIAL PROTECTION, WE ARGUE IN FAVOR OF:

- Shifting most universal subsidies (e.g. water, energy, and housing) to means-tested cash transfers to lower income households.
- Lifting food subsidies.
- Reforming allowances targeting women considered vulnerable in order to foster female employability.
- Restructuring Kuwait's pension system by augmenting the global retirement age in order to face an inevitable ageing crisis, and increase Kuwaitis' labor market participation.
- Developing a formalized elderly care sector in order to manage Kuwait's ageing population, and facilitate women's labor market participation.
- Diversifying revenue sources for welfare by increasing shares of insurance-based schemes.

## POLITICAL FEASIBILITY OF WELFARE REFORMS IN THE KUWAITI CONTEXT

During our round-table discussion with stakeholders, a dialogue emerged on political feasibility of reforms advocated for in this report and, as underlined by Wafa Saad, their subsequent sequencing. Welfare state reform is a conundrum for any government, repeatedly shown by existing academic research on politics of European welfare states. Kuwait, with its vibrant political life and well-organized socio-economic interests, is certainly no exception.

That being said, we would like to underline that this report must be understood and emphasized as a long-term proposition. In the short run, priority should be placed on implementing measures that foster labor market participation of Kuwaiti men and women and, most importantly, their incorporation in up to par private sector jobs. This requires implementation of all educational measures advocated for in this report (i.e. expansion of pre-school infrastructure, selection and training of teachers, and important investment in STEM as underlined by Dr Shareefa Al-Adwani).

Priority should be given to social protection measures. In particular, reforming allowances for non-employed women with the creation of an obligatory condition for unmarried working-age women to actively seek out work opportunities, and/or undertake professional training. Measures to develop and enhance child care facilities are also vital to foster the participation of women in Kuwait's labor market. All these measures must also take into consideration their cultural acceptability and implementation in Kuwait, i.e. involving the discussed groups within our report (such as women), as underlined by Dr Blandine Destremau in our debate.

Our round table discussions also greatly focused on labor market measures, with two of them debated in particular. Firstly, our proposal to make the workforce support allowance (*da'm al-'amala*) temporary and secondly, establishment of a higher minimum wage in Kuwait. We concur that the workforce support allowance plays a key role in fostering employment of Kuwaitis in the labor market. Curtailing this allowance is not the most urgent measure to implement, and would even be counter-productive at this early stage of private sector Kuwaitization. Yet, there is room for maneuver to begin reforming on the line of what in our eyes should be a very important general orientation of welfare reforms: the shift from regressive universal subsidies to targeted means-tested allowances. As underlined by several participants, there are important wage disparities for Kuwaitis across private economic sectors and well-paid Kuwaitis also benefit from the workforce support allowance. Decisions could be taken in the short term with regards to curtailing this allowance for higher compensated Kuwaitis (who do not need this allowance as a necessity). As underlined by Wafa Saad during the January 2021 roundtable discussion, in order to tackle various policy incoherencies and misalignment between Kuwait's public and private sectors, there is a need to address reforms of the public sector employment policy in parallel with those of the *da'm al-'amala*. This means putting an end to "queuing behaviors" incited by this system, canceling the wait-list system, and what goes with it - the job search allowance.

In regards to Kuwait's minimum wage, a consensus emerged among roundtable participants that the long-term goal should be to set minimum wage at a fairly high level. This is with two objectives in mind: attracting Kuwaitis to the private sector and fostering shift towards a more qualitative private sector. Yet increasing the minimum wage (currently 75KD a month), should be gradual - accompanying a rising quality of the private sector rather than preceding it.

Even gradual reforms are likely to be resisted by strongly organized vested interests. As underlined by Dr Steffen Hertog, welfare retrenchment reforms (targeting of current universal measures, shrinking of subsidies such as food vouchers, or energy subsidies) will affect first and foremost Kuwait's middle classes whose interests are well represented in Parliament. What our report underlines is the necessity to build an alliance for reforms with Kuwaiti private sector workers by fostering private sector unionization and tripartite mechanisms of policy-making. This proposal is based on the idea that Kuwaitization is having an impact on Kuwait's class structure, fostering the emergence of a category of middle class private sector employees who have different interests than the middle class civil servants who are the traditional constituency of MPs. This new emerging class, which is meant to broaden as Kuwaitization will progress, should be collectively organized. In order to maintain support of this new middle class for further labor market reforms, they should also be associated with policy-making decisions. They should also be supported by the state to successfully confront employers' vested interest in the status quo (in terms of wages and working conditions). We agree that employers are more "defeatable" (sic Dr Steffen Hertog) than middle class organized interests. This is why we also consider that reforming the *kafala* system, which mostly benefits private sector employers, is among those measures that have the potential to be implemented in the short term. In particular because such reforms have already been undertaken successfully by neighboring Gulf states (i.e. Bahrain, Qatar, the UAE) with quick positive effects. Priority should be given to abolition of the No-Objection Certificate, i.e. creating the possibility for expatriates to change jobs at will. In the UAE, a recent study has shown that this legislative change has had a swift and positive impact on expatriates' wage levels.<sup>184</sup>

Labor market reforms advocated in this report focus on reorganizing private sector on a more qualitative basis and making it less dependent on state subsidies. This also implies that employers will pay alone the costs (wages, working conditions, etc.) incurred by working with a manpower who is free, holds rights and is organized in order to assert them.

184\_ Suresh Naidu, Yaw Nyarko and Shing-Yi Wang, "Monopsony Power in Migrant Labor Markets: Evidence from the United Arab Emirates", *Journal of Political Economy*, 124 (6), 2016.

# ANNEX 1

## LIST OF INTERVIEWEES

**Hanan Al-Hajeri** (Undersecretary social development, Ministry of Social Affairs and Labor)

**Huda Al-Rashed:** (Director Social Safety Net Committee, Ministry of Social Affairs and Labor)

**Dr. Mohamed Al-Sharika** (Director of Information Sector, Arab Bureau of Education for Gulf States)

**Dr. Ala Al-Zaghlal** (Advisor GSSCPD at the planning sector)

**Wafa Saad** (Policy advisor Public Administration and Human Capital, UNDP Kuwait)

**Prof. Sungsoo Chun** (Policy advisor in Health, UNDP Kuwait)

**Fares Al-Anezi** (Deputy Director General of the National Fund for Small and Medium-Sized Enterprises)

Apart from these in-depth interviews, **Dr Rivka Azoulay** also met several times with representatives of the GSSCPD and KFAS during her stay in Kuwait in December 2019. She further participated in the two-day New Kuwait Summit 2019 where she had the chance to meet and interact with different stakeholders involved in Kuwait's economic reform strategy.

# ANNEX 2

## LIST OF FIGURES AND TABLES

**Figure 1:** Kuwait's population pyramid according to age group and gender (2018)

**Figure 2:** Sectoral employment Kuwaiti men in public sector

**Figure 3:** Sectoral employment Kuwaiti women in public sector

**Table 1:** Kuwait's HDI trends based on consistent time series data and new goalposts

**Table 2:** Kuwait's budget: summary of revenues and expenditures

**Table 3:** Government expenditure on Basic Social Services

**Figure 4:** Government expenditures on main sectors of universal aid (2018/2019)

**Figure 5:** Health indicators Kuwait in perspective

**Table 4:** Prices for Energy Products GCC

**Table 5:** Social aid to vulnerable categories in Kuwait

**Table 6:** Social insurance Kuwait

**Table 7:** Main labor market policies Kuwait

**Table 8:** Monthly job search allowance

