

# BEFORE IT'S TOO LATE

A Vision to Reform the  
Kuwaiti Economy

Authored by 29 Kuwaiti  
Scholars Specialized in  
Economics and  
Business

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# Introduction

The current state of the Kuwaiti economy is unsustainable. The affluent privileges that generations of Kuwaitis have grown accustomed to since the discovery of oil are under threat of extinction, and its inevitable downfall and looming economic slump are difficult to predict as it has been exacerbated by amalgamations of reasons. Among them are the local demographic changes, regional and international geopolitical tensions, the global shift away from non-renewable hydrocarbon energies toward clean and renewable energies, the sporadic shocks in recent years such as the global financial crisis in 2008, the collapse of oil prices and the ongoing Coronavirus (Covid-19) pandemic, and any possible future shocks that are hard to predict. All of which raise the prospect of an economic catastrophe that will lead to a radical and permanent change in the lives of Kuwaitis, their relationship with the state, and their reassurance for the well-being of future generations.

Kuwait will face serious socioeconomic challenges in light of these changes along with the prevalence of consumption-driven behaviors of











individuals, public and private institutions, the rentier culture deeply-rooted in society, the legislative and executive branches dealings with the country's wealth, and the shortsightedness of the legislative and management approach, which is lacking in farsighted strategic planning and objective evaluation based on scientific evidence. In light of these factors, it is likely that Kuwait missed the opportunity to avert the inevitable catastrophe completely, leaving us only with the hope of trying to mitigate its effects, and correct the path the country has taken in order to best adapt to the radical changes and challenges we face ahead.











Kuwait is at a critical juncture that requires a national dialogue between economic decision-makers, business people, scientific researchers, and the general public. We—a group of young academics specialized in economics and business from the College of Business Administration at Kuwait University—aim to contribute to this dialogue from a new and alternative perspective. We, collectively, have witnessed closely the impact of the










2008 financial crisis and how it has reshaped the economic theories and concepts during our graduate studies. This transformative period also coincided with a global revolution in the abundance of data and research productivity that established a new approach to evidence-based public policy making.


We present this vision to reform the current economic trajectory. We aim to draw the attention of citizens, the business community, and economic decision-makers in the executive and legislative branches to an indisputable fact: the sustainability of the welfare state for future generations is not possible without sacrifices and concessions made by our current generation. The grave challenges upon us cannot be confronted with defeatism and surrender, nor with idealistic promises detached from reality. With the collapse of oil prices and the Covid-19 pandemic, it is incumbent upon us to have an honest dialogue about the trade-offs we face, as crises are an opportunity for evaluating experiences and correcting the path forward that should not be wasted.

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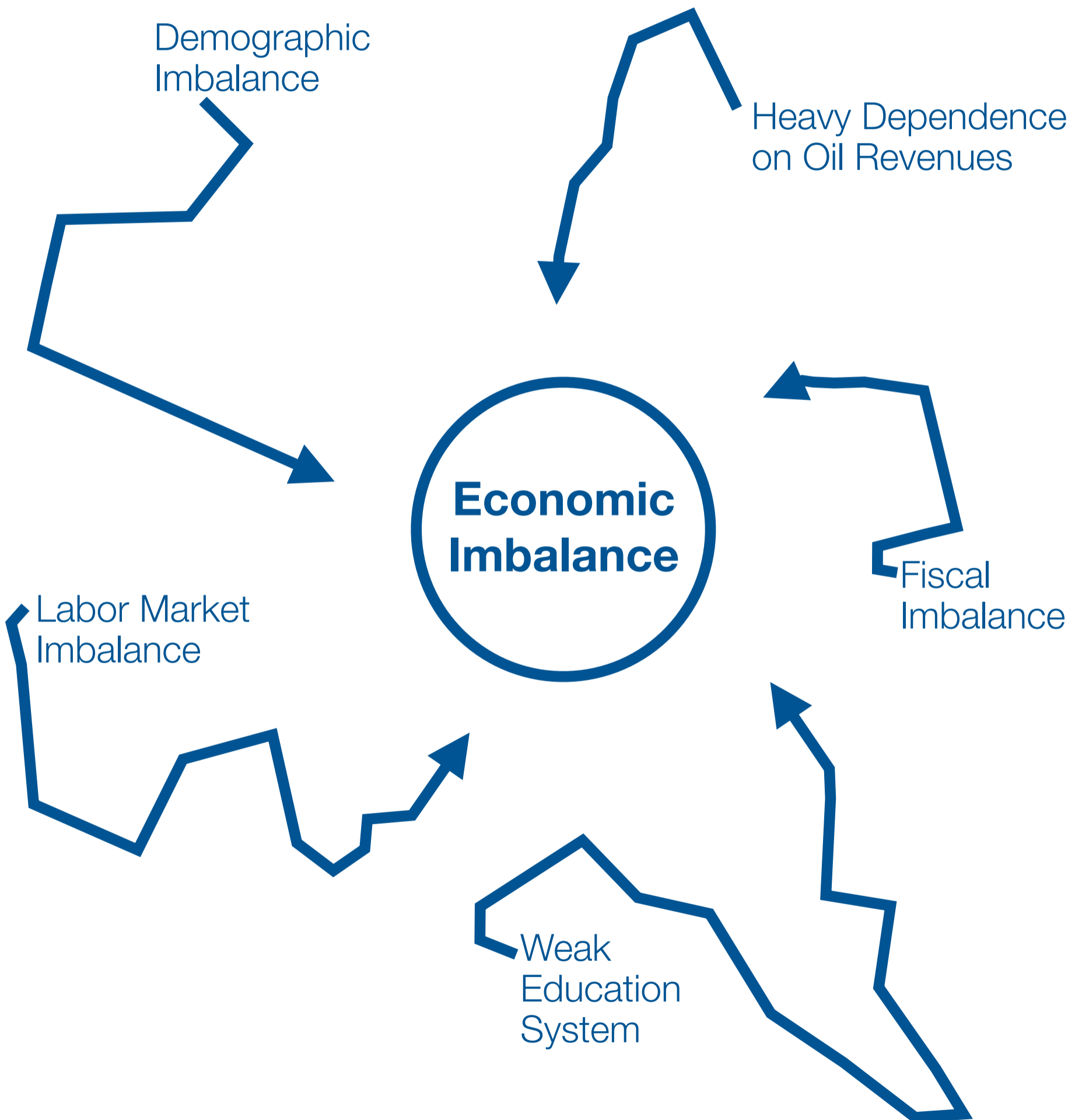
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**“The sustainability of the welfare state for future generations is not possible without sacrifices and concessions made by our current generation.”**

# The Problem

The structural imbalances in the Kuwaiti economy did not occur overnight, but emerged over time and were deepened by accumulating crises. Therefore, it is instructive to first present these imbalances before delving into solutions.



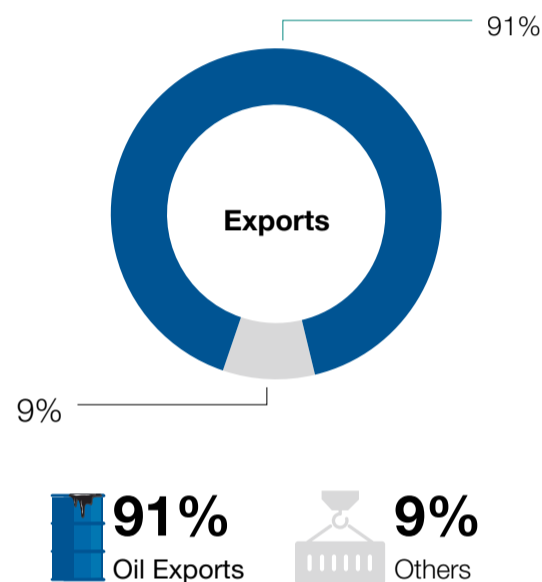
## 01

## First: Heavy Dependence on Oil Revenues

The contribution of the oil and natural gas industry to the Kuwaiti economy (43% of GDP) is the highest among Gulf countries. Oil represents 91% of Kuwait's exports, while oil revenues accounted for 91% of total public revenues in the past decade, according to Ministry of Finance data. These facts illustrate that the economy is held hostage to fluctuations in oil prices caused by factors that we cannot control, such as global demand and geopolitical circumstances.

### Kuwaiti Exports

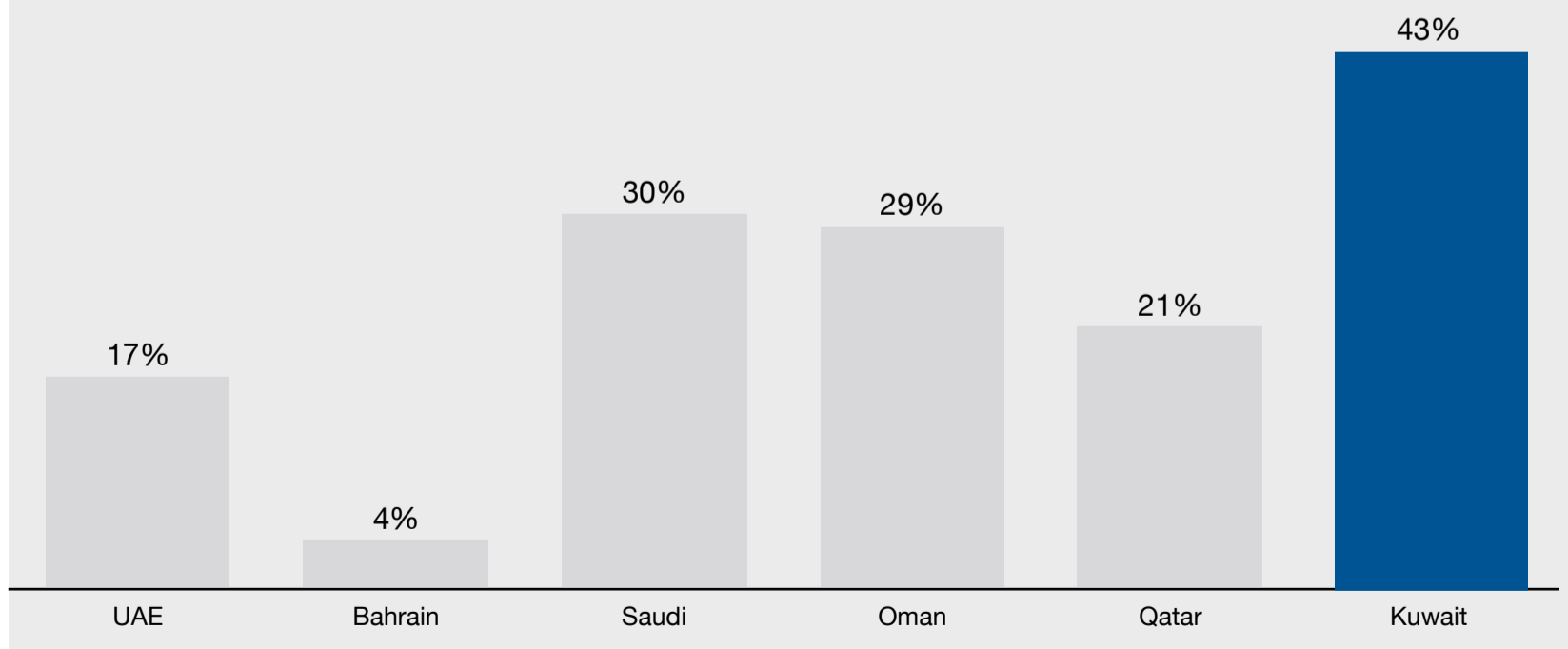
Source: Central Bank of Kuwait, 2019



The majority of Kuwait's Exports is unrefined crude oil

### Oil & Gas Revenues as % of GDP

Source: World Bank, 2018



02

## Second: The Imbalance in Public Finances

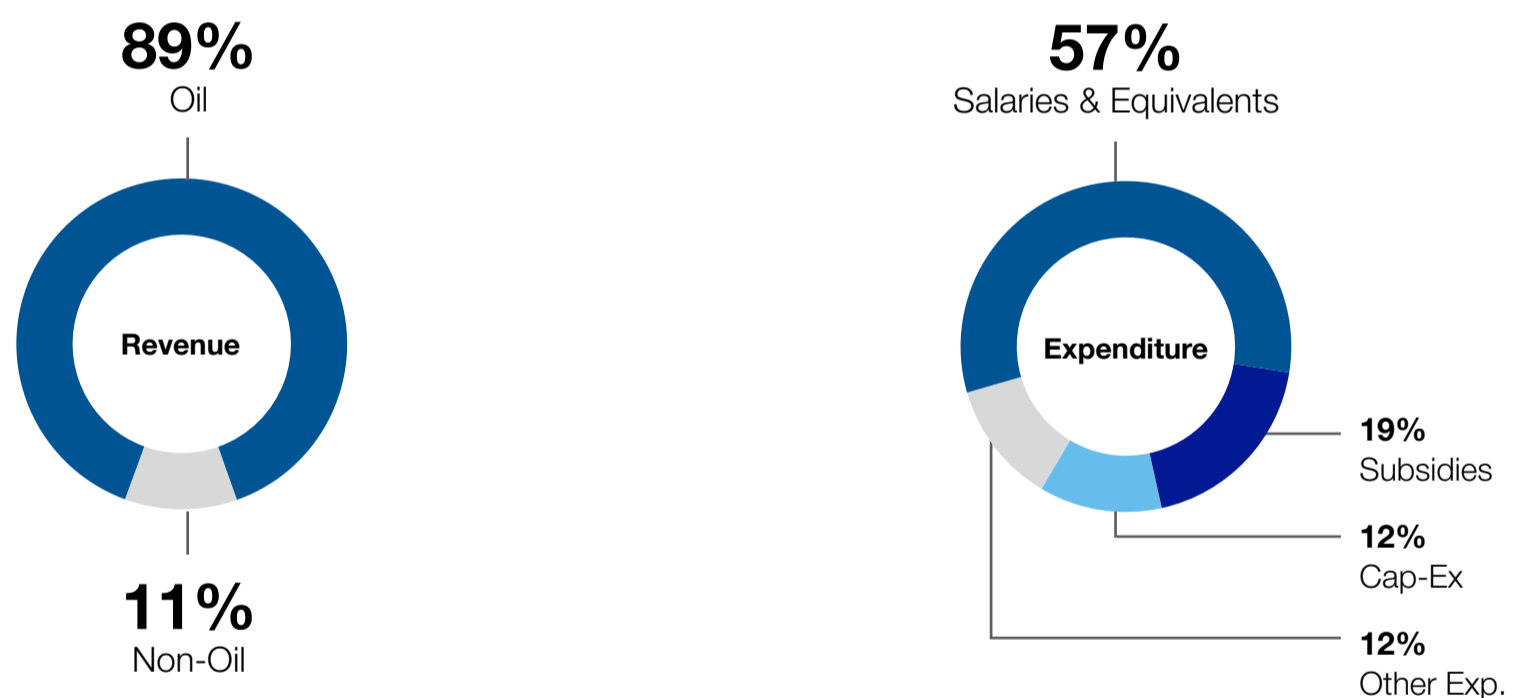
The most telling evidence of the danger of being tied to oil prices is the extreme fluctuation in public revenues in recent years. Since 2015, Kuwait has accumulated budget deficits amounting to KWD 28 billion (including transfers to the future generations' reserves and out of budget withdrawals), according to Ministry of Finance data.

Public expenditures represent the other side of the problem totaling KWD 21 billion in 2019/2020 closing accounts, with government salaries and equivalents, as well as subsidies accounting for 76% of public spending. In sum, Kuwait draws from its oil reserves to primarily finance current expenditures with limited developmental returns.

The projected deficit for the 2020/2021 budget was estimated at KWD 9 billion. That was prior to factoring in the economic impact of the collapse in oil prices and the COVID-19 pandemic, meaning the deficit is expected to be much worse than anticipated. The government's proposal to raise the national debt to cover the deficit through borrowing will not suffice, as borrowing from the future generations reserve to cover the deficit will expose it to the risk of depletion within one generation according to some projections. Even worse would be the risk of drowning the country in debt in light of the deterioration of its financial solvency and a single source of income.

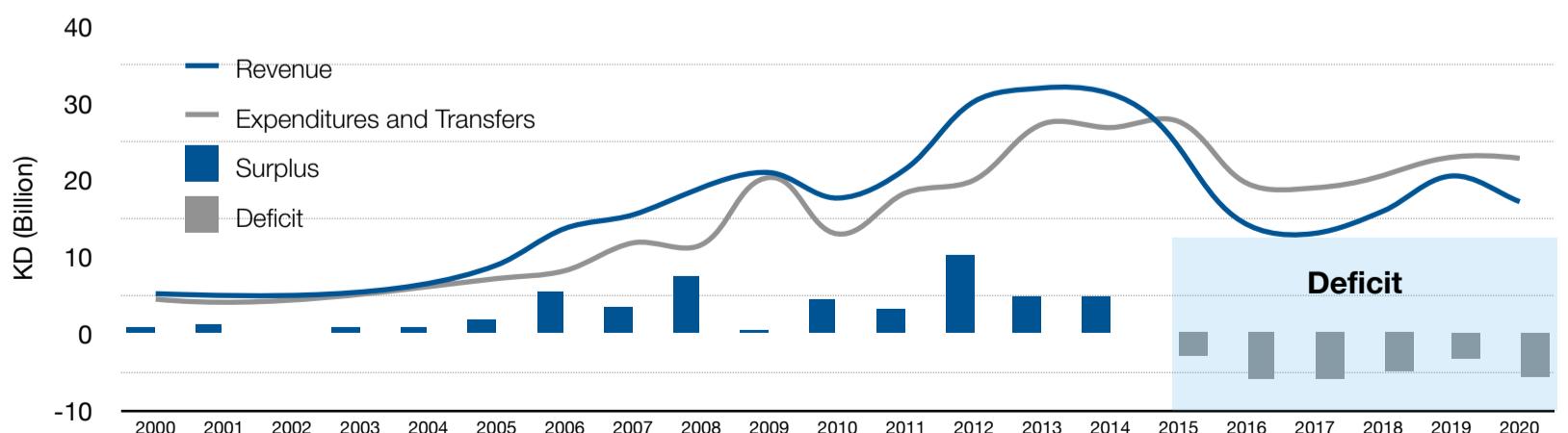
### Revenue and Expenditure Breakdown

Source: Kuwait Ministry of Finance, Closing Accounts 2019/2020



### Public Finances

Source: Kuwait Ministry of Finance, Closing Accounts 2000-2020



## 03

## Third: The Imbalance in the Labor Market

According to data from the Public Authority of Civil Information, the labor force in Kuwait is about 3 million workers, in which Kuwaiti nationals only constitute 15%. Eighty-four percent of Kuwaiti workers are predominantly employed in the government public sector, whereas Kuwaitis make up only 4% of employees in the private sector. This indicates the sector's high dependency on foreign workers.

The public sector employs a fifth of workers in the labor market, meaning that there is a government employee for every three nationals - the lowest ratio among Gulf countries according to data made public by the GCC Statistics Agency. This reflects Kuwait's outsized public sector and its inefficiency that ultimately results in more pressure placed on public finances through increased spending on salaries. In addition, the relatively inflated wages in the public sector contribute to the reluctance of Kuwaitis to work in the private sector.

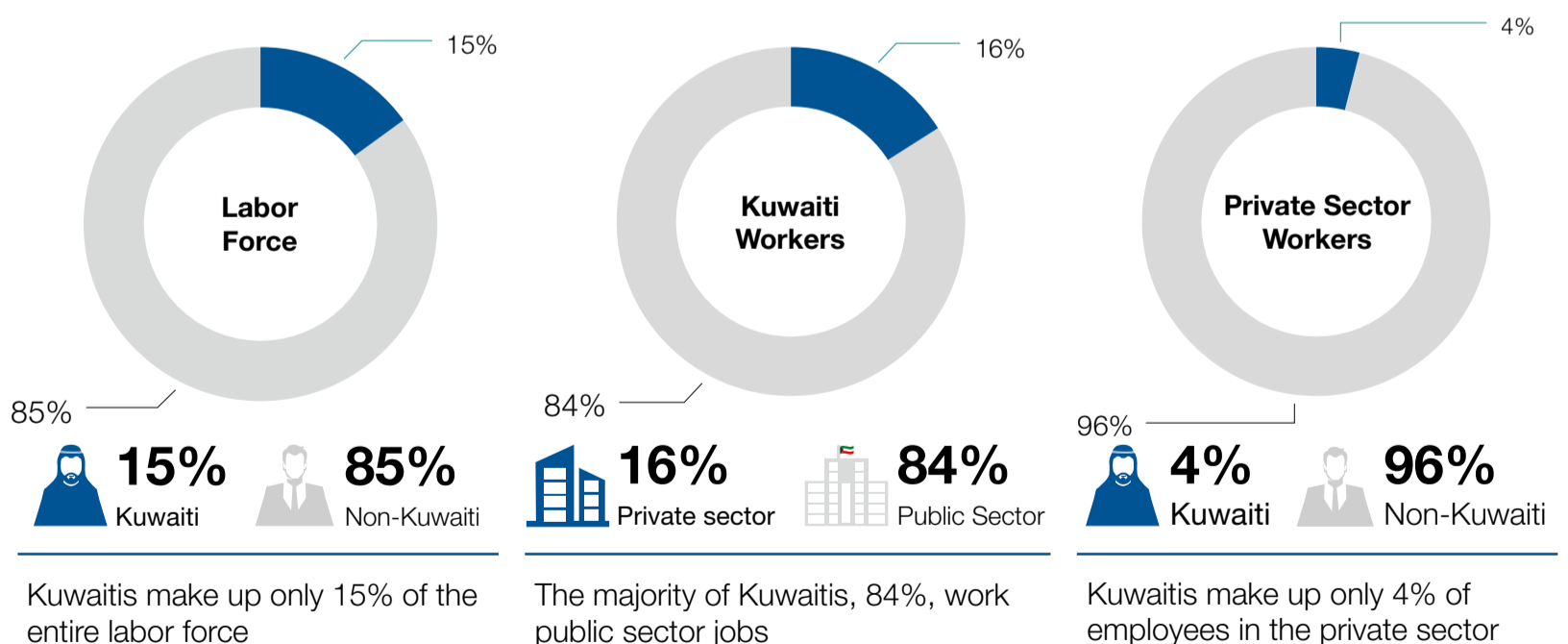
Moreover, an analysis of the influx of new graduates into the labor market is necessary to understand the seriousness of the continuing imbalance. Ninety-six thousand new jobs are required to absorb the

graduates of the next five years, while an estimated 298,000 new jobs are required over the next 15 years. This represents 64% of the size of the current government sector and 73% of the current Kuwaiti workforce, taking into account that the private sector in its entirety currently employs only 64,000 Kuwaitis.

It is inconceivable that the already inflated public sector will be able to absorb these numbers even as non-Kuwaiti employees are replaced, in addition to the increased pressure that this will create on public finances. Moreover, the private sector cannot be counted on with its current reliance on employing cheap foreign labor and importing consumer goods. Therefore, the only logical way forward to create real and productive new jobs is to restructure the economy under a long-term plan, with the small and medium enterprises sector playing a pivotal role in this endeavor.

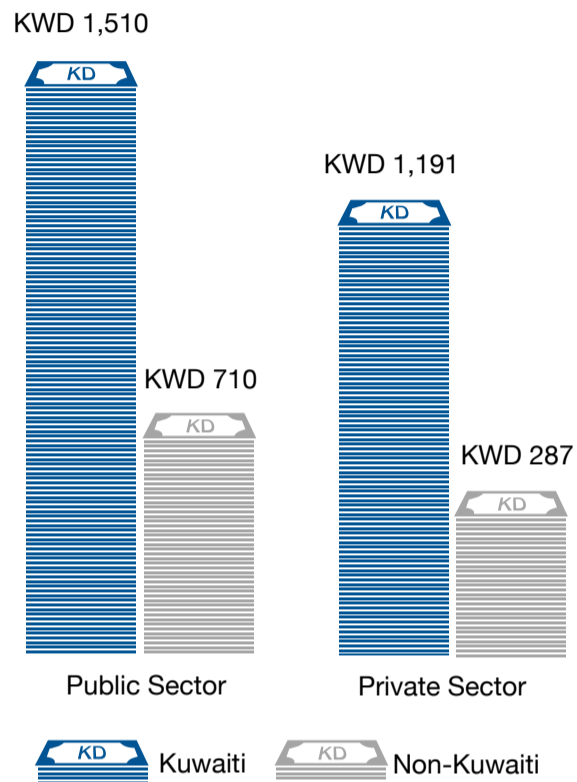
### Kuwait's Labor Market

Source: Public Authority for Civil Information, 2019



## Monthly Wages (average)

Source: Central Statistics Bureau, 2019



## Ratio of Public Sector Employees to citizens

Source: GCC-STAT, 2018

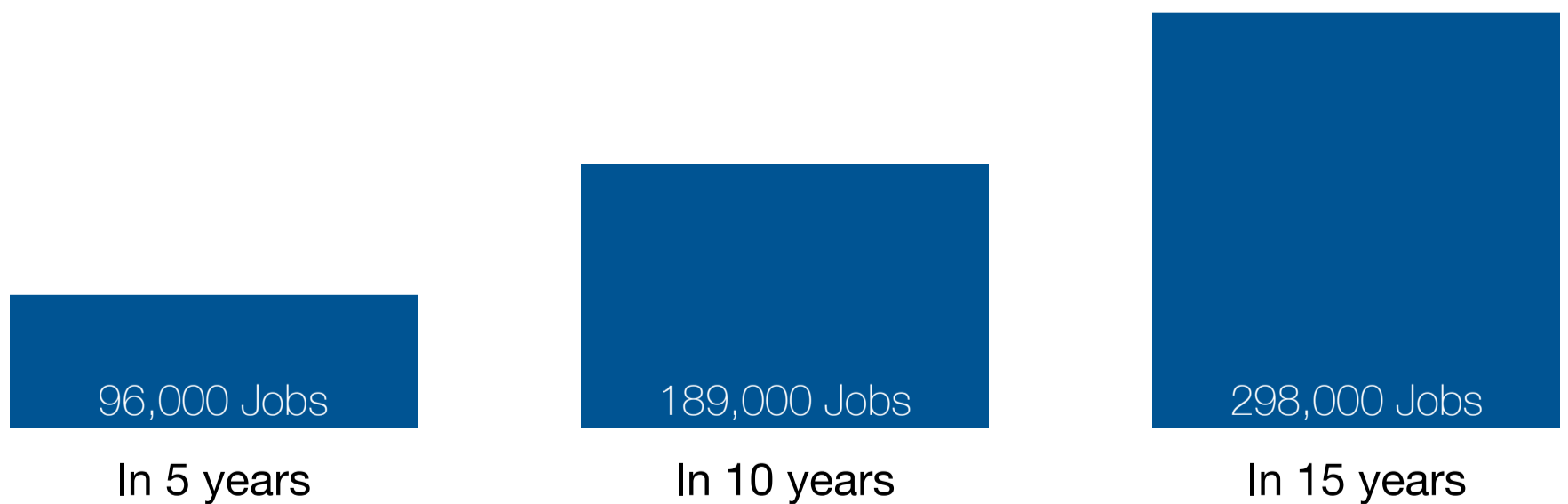


Employee    Citizen

## Net New Jobs Needed

(Workforce entrants - exits)

Source: Public Authority for Civil Information, 2019



## 04

## Fourth: The Weak Educational System: High Cost, Low Scores

The imbalance in the labor market discussed earlier, highlights the importance of the educational system, which is relied upon to provide the necessary human capital. Based on the Trends in International Mathematics and Science Study (TIMSS) test, Kuwait's scores declined between the years 2011 and 2015 and its 4th grade students were at the bottom of the list among their Gulf peers. Kuwaitis were also the weakest in the Gulf in the 2016 Progress in International Reading Literacy Study (PIRLS) test. These results did not improve in higher grade levels, as 8th grade results followed the same trajectory.

### 1 TIMSS Score for fourth grade students

↓ **10%** Drop in Science Scores

Science Test				
Country	Rank	2011	2015	Rank
UAE	1	428 ↑	451	2
KSA	2	429 ↓	390	5
Qatar	3	394 ↑	436	3
Oman	4	377 ↑	431	4
Bahrain	5	449 ↑	459	1
<b>Kuwait</b>	<b>6</b>	<b>347 ↓</b>	<b>315</b>	<b>6</b>

↓ **5%** Drop in Math Scores

Math Test				
Country	Rank	2011	2015	Rank
UAE	1	434 ↑	452	1
KSA	2	410 ↓	383	5
Qatar	3	413 ↑	439	3
Oman	4	385 ↑	425	4
Bahrain	5	436 ↑	451	2
<b>Kuwait</b>	<b>6</b>	<b>342 ↓</b>	<b>327</b>	<b>6</b>

Source: TIMSS & PIRLS Int'l Study Center

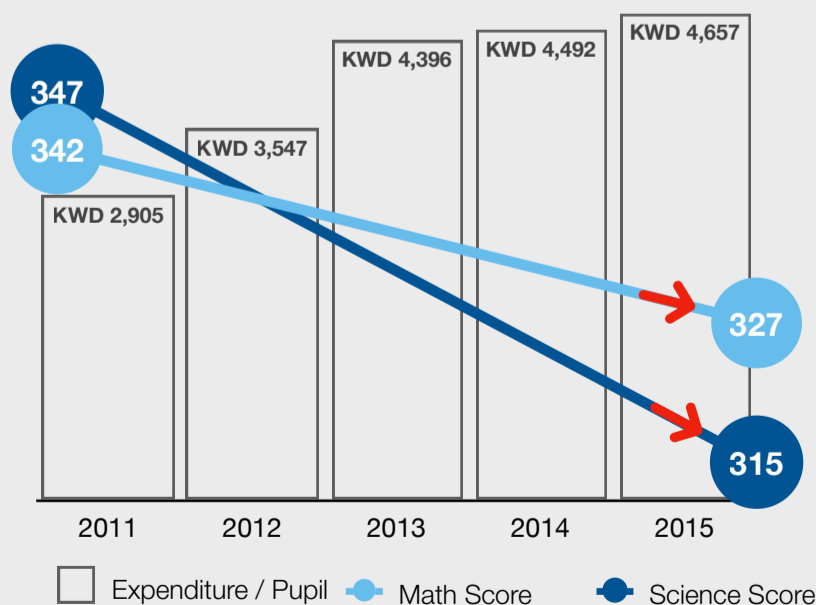
## 2

### Education Expenditure

This deterioration in testing scores is not explained by a reduced investment in education. On the contrary, the Ministry of Education's expenditures increased by 63% between 2011 and 2015, as shown by the ministry's closing accounts. Furthermore, the per-pupil expenditure increased by 38% for the same period, which reflects a low spending efficiency concerning educational outcomes.

↑ **38%**  
Increase in expenditure per pupil in five years

↑ **63%**  
Increase in Ministry of Education Expenditures



Source: TIMSS & Ministry of Finance Closing Accounts

## 05

## Fifth: The Demographic Imbalance

In what can only be considered as an abnormal economic, social, and cultural situation, Kuwaitis represent a minority in their homeland. This persistent demographic problem is only a natural consequence of the aforementioned structural imbalances. The almost-total dependency on oil for state revenues being mostly directed to pay government salaries has led to a preference among Kuwaitis to work in the government sector and their reluctance to join the private sector. At the same time, the state continues to facilitate the private sector's reliance on foreign workers by bearing part of their costs through subsidies for healthcare, fuel, electricity, and water consumption. These facilities that the private sector enjoys are not tied to the diversification of the economy and the employment of Kuwaiti workers. Therefore, the resulting wage gap between the public and private sectors and between Kuwaiti and non-Kuwaiti workers, in addition to the weak educational outcomes that lowers the competitiveness of Kuwaiti workers, are all factors that contribute to the demographic imbalance in the population.

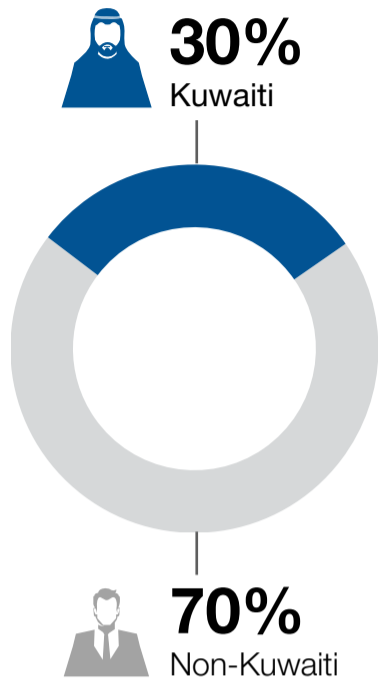
Looking at the characteristics of foreign workers (excluding domestic workers), we find that 76% of them are of low education levels. Approximately 846,000 uneducated workers reside in Kuwait, with an additional half a million workers with a primary or

intermediate education, 97% of which are employed in the private sector, according to data provided by the Public Authority for Civil Information. These figures indicate the private sector's strong dependency on the numerical expansion in employing cheap, low-skilled labor with limited rights rather than investing in raising productive efficiency.

It is clear that much of the country's unskilled labor is concentrated in consumption-based sectors such as services, cleaning, maintenance, sales, and restaurants. Taking into consideration domestic workers, which are the largest contributor to demographic imbalances, it becomes clear that a root cause of the problem is the growing demand for consumer goods and services, whether by individuals or through public services provided by the government. Thus, any honest attempt to fix the demographic imbalance requires a change in consumer behaviors rooted in society, and promoting the values of self-sufficiency and self-reliance. As of 2019, there are 747,000 domestic workers in Kuwait — employed at an inconceivable rate of one domestic worker for every two citizens.

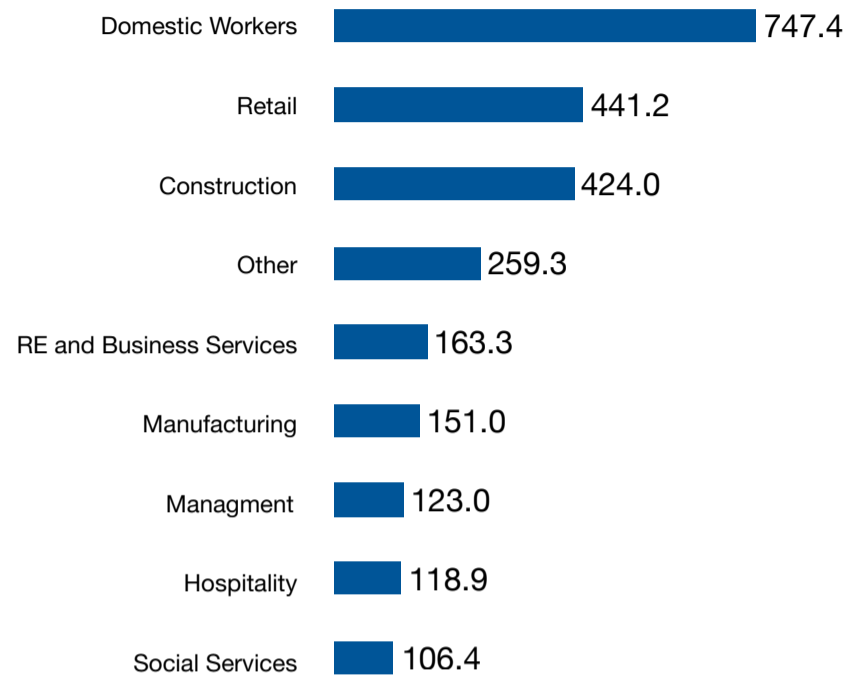
## Population Makeup

Source: PACI, 2019



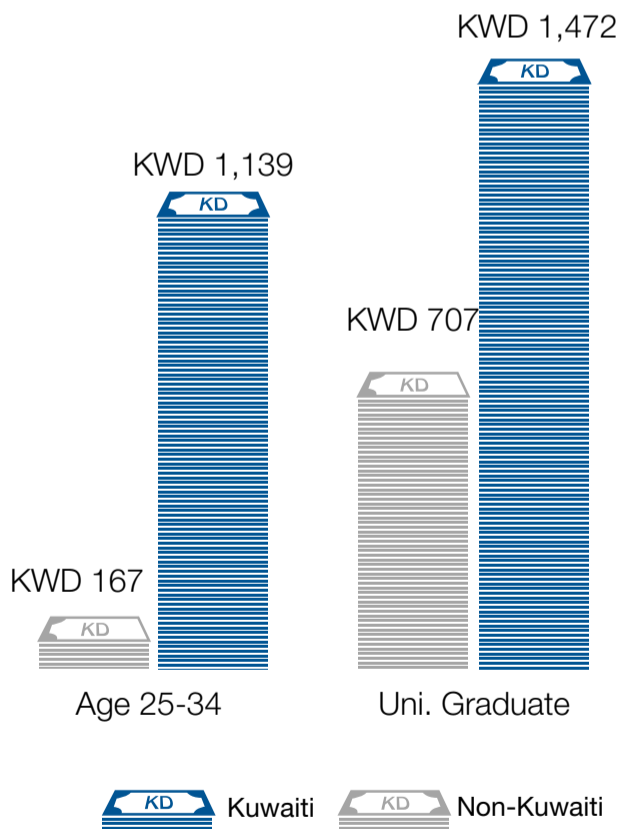
## Foreign Labor by Sector (thousands)

Source: PACI, 2019



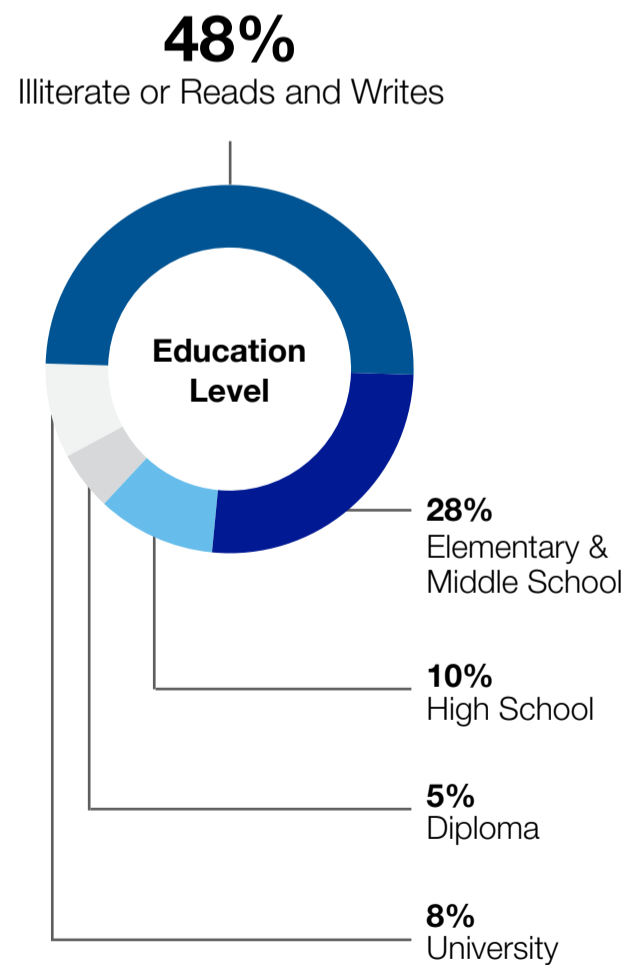
## Monthly Wages (Average)

Source: Central Statistics Bureau, 2017



## Non-Kuwaiti Workers Education Level

(excluding domestic workers)  
Source: Central Statistics Bureau, 2017



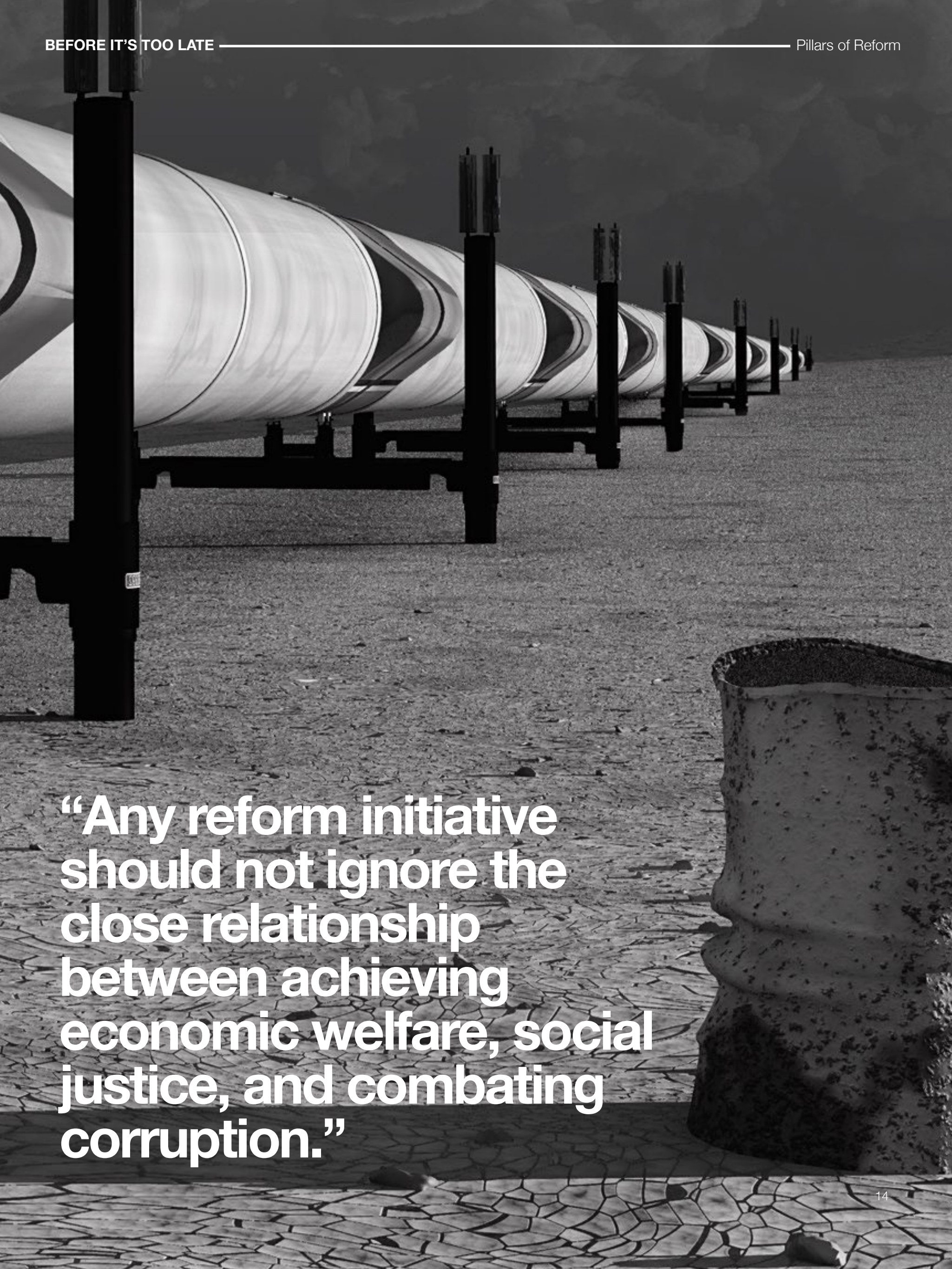
# Pillars of Reform

This is not the first time that the urgent need for economic reform has been raised and discussed. However, what we seek in this vision is a comprehensive treatment of the economic imbalance that targets the roots of the problem rather than its symptoms. It would be a mistake to deal with economic imbalances as separate units while neglecting the spillover effects of public policies across them. Our aim is not to propose short-sighted solutions that disregard their long-term effects, or superficially associating them to the state's financial situation, so that the calls for reform are not contingent on the price of oil. Nor is it our aim to import off-the-shelf solutions from foreign consulting institutions that are detached from a comprehensive understanding of the nature of Kuwaiti society. Any reform initiative should not ignore the close relationship between achieving economic welfare, social justice, and combating corruption.

It will not suffice to cover the budget deficit this year while continuing to depend almost entirely on volatile oil revenues to finance the growth in public expenditures. It would be pointless to develop the private sector if it does not contribute to the diversification of the productive base of the economy and continues its reliance on subsidies financed by oil revenues and paralleling consumer behavior without an added value (in terms of the goods and services that it produces or

imports from abroad as a local agent). While on the other hand, it would be fruitless to encourage Kuwaiti workers to work in the private sector while government jobs remain superior in terms of wages, benefits, and working hours. However, describing the Kuwaiti worker as lacking in productivity and skill neglects the role of the deteriorating educational system and its weak outcomes. Additionally, in the absence of a national policy for immigration and labor recruitment, it is unfair to hold foreign workers accountable for the demographic imbalance in the population. The private sector is not expected to refrain from employing cheap foreign labor while the state bears part of its costs and turns a blind eye on its humanitarian and labor violations. Finally, no reform project will gain popular support without achieving social justice and a serious fight against corruption.

Therefore, the discussion surrounding correcting the country's economic path must be based on a diagnosis of the roots of the problem and addressing it comprehensively within a proper understanding of the reality of our society based on the following four main pillars.



**“Any reform initiative should not ignore the close relationship between achieving economic welfare, social justice, and combating corruption.”**

## 01

## The First Pillar: A Sustainable Economy

Sustainable development is defined as one “that meets the needs of the present without compromising the ability of future generations to meet their own needs”.<sup>1</sup> It is fitting to project this definition onto the reality of the Kuwaiti economy, as the proposed reforms work towards using oil wealth efficiently, diversification of the production base, and supplying public finances with supplementary revenue streams. The reforms aim to preserve the economic welfare system for the current generation and sustain it for future generations through restructuring and ridding it from waste and corruption.

## 02

## The Second Pillar: Transparency and Combating Corruption

Economic reform, if not accompanied by serious steps to combat corruption, will only lead to idealistic promises lacking any credibility. The spread of corruption in public institutions skews the economic decision to benefit individuals with influence and inflate their assets at the expense of the country. Thus, any reform project will not gain public support as long as citizens perceive an absence of integrity, fairness, and transparency in its procedures. With the recurrence of corruption cases in important state institutions, the decline of Kuwait's standing in corruption indicators, and the prevalence of crony capitalism or ‘wasta’ in employment and government transactions, it is understandable that citizens view proposals to lift subsidies and introduce taxes with suspicion. Rather, it is within their right to stipulate that serious government action must be taken to hold accountable those involved in major corruption cases, and to approach hirings, promotions, and public tenders with transparency, and without cronyism or profiteering, so that the people regain confidence in state institutions prior to being asked to make sacrifices.



It is understandable that citizens view with suspicion the proposals to lift subsidies and introduce taxes. Rather, it is within their right to stipulate that serious government action must be taken first to hold accountable those involved in major corruption cases.

1. “Our Common Future” (1987). Report of the World Commission on Environment and Development, United Nations. <https://undocs.org/en/A/42/427>

## 03

## The Third Pillar: Social Justice

When the oil wealth flowed into Kuwait and resources were abundant, the community was small and its members lived a simple life, the state adopted the principle of wealth distribution to its citizens equally through housing policies, government employment, and consumption subsidies over the past seven decades, thus raising the standard of living for Kuwaitis and securing a decent future for their children and grandchildren. In addition, the facilities given to the private sector—such as land, energy subsidies, and tax exemptions—led to the creation of pioneering commercial sectors in various fields.

As society has grown and the lives of its members have improved, and the private sector has reached a sufficient level of maturity, the continuation of this approach is no longer sustainable in light of the scarcity of resources while also facing the challenges previously discussed. Private sector executives with high salaries do not need the employment subsidy; there is also no need to continue to allow the wealthy to compete with others for public housing; it is also unfair that an owner of a large mansion and a small apartment dweller both receive the same subsidy for electricity consumption; lastly, there is no justification for continuing to lease state property at low rates to major companies that do not require the support.

Equality in the distribution of wealth does not necessarily mean equity. Rather, it deepens the gap between the different economic segments of society. Therefore, the country's wealth must be allocated to achieve social justice and the sustainability of the social safety net through restructuring social welfare policies and consumption subsidies to suit the needs of the beneficiaries. Similarly, the facilities provided to the private sector must be redirected in ways that achieve the goals of a sustainable economy and contribute to job opportunities for Kuwaitis.

It must be noted that achieving social justice fundamentally means finding a meaningful and final solution to the statelessness issue (the 'Bidoon'). Any such solution must put the humanitarian aspects of the issue and human capital development at the forefront and involve the main stakeholders—namely the stateless community, civil society, and the judiciary—in its formulation. Regardless of the sensitivities surrounding the issue, any objective analysis will inevitably lead to the conclusion that the continued marginalization of a segment of the population, and denying them the opportunity to participate actively in society, carries a heavy social and economic cost for them and for society as a whole.



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## 04

## The Fourth Pillar: Evidence-Based Policymaking

Over the past decade, a massive data revolution has swept the world prompting governments to use scientific based academic research to assess the feasibility of legislation, public policies, and development projects and the extent to which they achieve their goals. Thus, it is no longer acceptable for legislation and policy-making in Kuwait to continue to be based on personal opinions and popular and political whims, rather than scientific and factual evidence.

Kuwait is rich with specialized academic cadres, having invested in their education at prestigious universities across the globe. These citizens, in turn, are ready to contribute their research efforts to public policies issued by the legislative and executive branches to improve the utilization of public resources and achieve their goals. Their knowledge of society and experiences equip them with insights on Kuwait's economy and its social and cultural dimensions in a manner unparalleled by foreign consultants.

However, several obstacles stand in the way of academic researchers and discourage research productivity. The most important obstacle is the scarcity of data or the difficulty of obtaining it in a practical format that facilitates its analysis. Another obstacle is the absence of legislation and data sharing protocols that make data accessible to researchers while ensuring privacy of its subjects. Equally important is the lack of faith on the part of decision-makers and public officials in the importance of providing data and basing their decisions with empirical evidence. Therefore, economic reform must be accompanied by a general policy at the state level to develop mechanisms for collecting, updating, and publishing data as well as collaborating with researchers towards evidence-based policymaking.



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# Axes of Economic Reform

The path to rectify the economy is divided into five axes of economic reform that should be taken into account as an integrated package. This is due to the complexity and interconnectedness of the roots of the economic imbalances and the interrelatedness of the proposed reforms. The items contained under these axes represent general directions and objectives, while we leave the task of detailing them and developing action plans to achieve them for expert academic researchers and policymakers based on empirical evidence and practical experiences.

Therefore, the reform items below are the benchmark against which legislation and executive policies concerned with economic affairs should be measured. Key performance indicators (KPIs) must be created to measure progress towards achieving the desired reform goals of each axis in this

vision. These KPIs should also be published continuously to be monitored by the academic, civil, and media institutions of society for the reform process to be evaluated, and corrected on an objective, holistic, and far-sighted basis.

## 01

## First Axis: A Diversified and Sustainable Economy and Sources of Income that Support the Oil Wealth



### A diversified and sustainable economy

#### 1. A private sector with added value to the national economy

- Defining value-added sectors in terms of diversifying the economy, creating job opportunities for nationals, and increasing exports and regional competitiveness.
- Developing sectors concerned with achieving food and health security with the aim of mitigating the impact of disruptions in global supply chains due to geopolitical events, natural disasters, and epidemics/pandemics.
- Forecasting future trends of the global economy and developing sectors that achieve a competitive position for Kuwait, such as information technology, artificial intelligence, data science, and the digital economy.
- Supporting and nurturing these sectors and providing procedural, tax, and logistical facilities for them.
- The Competition Protection Agency should be active in detecting and responding to monopolistic practices in the market.
- Creating opportunities for capital to be invested in the local economy.

#### 2. Sustainable oil wealth and environmental responsibility

- Adapting the national policy for investing, refining, and exporting the oil reserves in line with the global shift towards clean, renewable energies.
- Raise the environmental efficiency of public projects by enhancing environmental compliance requirements and imposing stricter penalties for environmental violations.
- Joining the international efforts to reduce carbon emissions, address climate change, and achieve the sustainable development goals (SDGs).

#### 3. Economic competitiveness and regional integration

- Openness to neighboring regional markets by expanding trade relationships, including the service and information technology sectors.
- Supporting continued efforts of economic integration among Gulf states in order to achieve mutual economic benefit.
- Evaluating the feasibility of mega-projects on the basis of economic diversification, job creation and comparative advantage regionally- independent of political considerations and project mimicry.

## 01

## Diversified and balanced public revenues

### 1. A tax system to support public finances

- Update corporate profits tax rates to contribute effectively to public revenues.
- A progressive tax on high incomes, while leaving middle and low incomes untouched.
- Excise taxes on goods that are harmful to health and the environment.
- Review fees for the use of state property in order to match its market value, as well as public services fees and fines.

### 2. Growing the Future Generations Reserve Fund

- Defining the concept of 'future generations', clarifying the objectives of their reserve, and defining a general framework for the timeline and the circumstances that warrant withdrawing from it.
- Transparency in the strategy and objectives of foreign investments and their returns.
- Transparency in using the assets and revenues of the sovereign wealth fund in financing development projects and covering deficits such that it does not compromise their sustainability for future generations.

### 3. A roadmap to diversify public revenues

- Establishing five-year plans determining relative weights of revenue sources (oil, taxes, and investments) aiming to reduce dependence on oil revenues to finance the general budget.
- Defining interim benchmarks, in which, upon achieving them, non-oil revenues will replace oil revenues in the general budget at weights predetermined in the five-year plans. Then, the surplus oil revenues are transferred to the Future Generations Reserve Fund, for the purpose of achieving balance in revenue sources, mitigating the effects of oil price fluctuations, and saving oil wealth revenues for the future.

## Fiscal transparency

- Upgrading the state budget and closing account to include data on public debt and sovereign investment funds.
- Unifying the section labels of the state budget and the closing account and detailing them to facilitate their technical analysis.
- Append the state budget with economic analysis to determine the extent to which it achieves economic sustainability and development goals.
- Issuing a simplified and accessible version of the state budget ('Citizen's Budget') to inform the general public of the state's financial situation and involve them in the public discourse about it.

## 02

## Second Axis: Public Expenditure Reform



### A fiscally efficient public sector

- The proposals contained in this vision for diversifying the economy and reforming the labor market are key to tackling the inflation of the public sector.
- Restructuring the public sector by disentangling overlapping jurisdictions between institutions and integrating those with similar roles.
- Slowing the growth in public sector employment according to a plan with interim targets, paralleled by creating job opportunities in the private sector to absorb labor market entrants.
- Raising the efficiency of salary expenditures and maximizing their economic return through developing mechanisms for measuring productivity, performance and evaluation criteria, and linking them to financial benefits.
- Subjecting salary increases to economic studies that take into account the state's financial situation, inflation, and the imbalance in the labor market.

### Subsidies that are fair and consistent with economic sustainability

- Reforming social and consumption subsidies by allocating them equitably based on income level.
- Improving the efficiency of subsidies directed at health and education services and reducing waste and misuse.
- Imposing progressive tariffs on energy and water consumption to reduce wastage.
- Linking subsidies provided to the private sector to its contribution to economic diversification and employing Kuwaiti workers, and withholding them from businesses that rely excessively on imports; acting as local agents to foreign producers without adding value.
- Periodically assessing the use of state-owned industrial and agricultural plots to prevent subletting and use contrary to their intended economic objectives.
- Reducing pressure on housing welfare subsidies through increasing housing supply by allowing real estate developers to build affordable homes of various sizes to suit families of different sizes, and developing real estate financing tools to facilitate home buying.

## 02

## Capital projects with developmental returns

- Linking capital projects to long-term development plans and adhering to them irrespective of annual fluctuations in the general budget.
- Evaluating the efficiency of capital projects in terms of maximizing their economic and social return to diversify and sustain the economy.
- Reforming the public tendering system by:
  - Enhancing transparency in the offering and awarding procedures in a way that enhances competitiveness, achieves fairness, and deters profiteering and corruption.
  - Limiting major tenders to companies listed on Boursa Kuwait to expand the beneficiary base.
- Adding quality, environmental compliance, and employment of national labor to the bid evaluation criteria, in addition to the financial cost, with subcontracting contracts covered by these criteria.

## Financial efficiency without waste or corruption

- Review government agencies' budgets periodically for the purpose of eliminating sources of inefficiency.
- Reducing spending on superfluous luxuries such as hospitality services and celebrations, while reassessing the merits of conferences and courses abroad for government officials.
- Automating government services to raise productive efficiency, reduce the documentary cycle, and tighten institutional control to prevent 'wasta' and abuse.
- Reducing energy consumption in government facilities.
- Holding public officials accountable if their decisions lead to court rulings with financial losses to the state as a result of negligence, favoritism, and law violations.

## 03

## Third Axis: Reforming the Imbalance in the Labor Market

Educational reforms are a key prerequisite for reforming the imbalance in the labor market

### Public and private sectors integration without undermining each other's role

#### 1. A public sector with a productive and highly efficient work environment

- Restricting employment in the public sector to meet actual needs and improving the recruitment mechanism to take into account experience, skill, innovation, and academic qualifications.
- Linking promotions and rewards to efficiency and productivity.
- Ensuring an accurate and objective evaluation system that rewards hard-workers and penalizes slackers.
- Providing career development opportunities for hard-workers through courses and training programs and evaluating their benefits.

#### 2. Equal work and wages between the public and private sectors

- Modifying the salary scale in the public sector to reflect the productive value of each job and achieve competitiveness with the private sector.
- Imposing a tax on businesses for employing foreign workers, and directing their revenues to incentivize and train Kuwaitis to work in the private sector.
- Businesses should bear health care costs of their foreign workers.
- Enhancing labor and unionization rights for foreign workers to enhance their bargaining power.

## 03

## Small and medium enterprises that expand the economic base and create national job opportunities

### 1. A national strategy for small business and startups

- Redefining the categories of businesses in line with the economic diversification objectives in terms of size, type of activity, percentage of national employment, and distinguishing between small, entrepreneurial, and high growth enterprises.
- Developing a national strategy to achieve the state's vision of the role of small and medium enterprises and the startup sector in diversifying the economy and creating job opportunities for nationals.
- Establishing a public commission tasked with implementing the strategy by introducing legislation, measuring sector performance, and coordinating between state institutions to facilitate procedures, allocate land, and direct subsidies.

### 2. Small and medium enterprise sector development

- Additional incentives for small and medium enterprises that add value and employ national labor as prescribed for each sector.
- Involving small and medium enterprises committed to the goals of economic sustainability and employing national workers in state projects, and giving them a competitive advantage in public tenders.
- Curbing rent extraction through the reselling of commercial licenses by withholding subsidies, implementing a foreign labor employment tax, enhancing labor rights, and stricter oversight of commercial license holders.

### 3. Incentivizing entrepreneurial and startup businesses

- Updating regulations governing business incubators, co-working spaces, and freelancers.
- Developing financial tools appropriate to entrepreneurial and startup businesses, with the state acting as guarantor or co-financing alongside the private banking and investment sectors instead of direct financing.
- Creating programs to promote entrepreneurship and business incubators at educational and civil society institutions.
- Promoting internships and vocational training at small and medium enterprises for college students and allowing them to work part-time.

## 04

## Fourth Axis: Investing in Human Capital

### An educational system that builds the foundation of the future workforce

#### 1. **Advanced curricula based on human values and ideals**

- Instill the values of integrity, intellectual honesty, and reward for effort.
- Building skills of critical thinking, logical analysis, scientific research, and rhetorical and written expression.
- Incorporating activities that develop personality, teamwork skills, communication, and the values of democracy, tolerance, and community service.
- Encouraging and rewarding creativity, innovation, and initiative.

#### 2. **A diligent teacher entrusted with future generations**

- Financial incentives and benefits to attract outstanding students to the teaching profession while also raising performance standards and accurate evaluations.
- Obtaining a teaching license and renewing it periodically according to international best practices and standards.
- Providing professional development opportunities for teachers through high-quality training programs.
- Raising admission standards in colleges concerned with training and graduating teachers.

#### 3. **Competitions between schools for excellence and development**

- Raising standards of management evaluation among schools and granting moral and material incentives for outstanding ones.
- Conducting standardized interim tests at the national level and publishing the results of school performances.
- Providing parents with the option to enroll their children in schools within their educational district to enhance competition among them in accordance with regulations to maintain education quality and school capacity.

#### 4. **Social, cultural and cognitive diversity among students enriches their educational attainment**

- Celebrating diversity rather than forcing students into a unified and standardized educational experience.
- Balance between providing students with comprehensive knowledge and skills, and developing their individualistic and specialized interests.
- Developing counseling services to inform students about higher education options, majors, and career prospects.

## 04

## Higher education that prepares a productive and entrepreneurial worker



### 1. Higher education that fuels as well as steers economic development

- Changing the negative perception surrounding technical professions and attracting graduates of applied and vocational education to them through training and scholarship programs.
- Modernizing the system of financial incentives for scarce majors in line with the real needs of the economy.
- Establishing new and emerging majors in local higher education institutions and study-abroad scholarships, while reaffirming the importance of arts and humanities disciplines in creating a well-informed society.

### 2. High-quality higher education

- Raising the standards of admission and academic accreditation in higher education institutions and study-abroad scholarships in line with international standards, and preserving the independence of admission decisions from political and social pressures.
- Reforming the 'Merit Scholarship Program' by raising and unifying ranking standards and limiting it to prestigious universities and programs.
- Establishing a new public university with high standards to compete with Kuwait University.
- Attracting foreign academic talents to diversify expertise in public universities and institutes.
- Linking the internal scholarship policy to the academic level of private universities and the quality of their outputs.

### 3. An active academic community that informs public policy with scientific research

- Increasing the research budget and raising the standards for obtaining grants.
- Linking the facilities granted to public and private higher education institutions to their research output.
- Raising the standard for evaluating research for the purpose of hiring, tenuring, and promoting faculty members, taking into consideration the quality of scientific journals, citation impact, and differences in publishing standards between scientific fields.
- Creating specialized research and teaching tracks for faculty members that are linked to research productivity and teaching load, as is the case in many universities around the world.

## Private-sector partnerships in developing human capital

- Stricter oversight of private universities to ensure compliance with scientific and academic standards in curricula and teaching methods, and curbing the predominance of the profit motive in admission policies, student assessment, and faculty hiring.
- Private sector that contributes to training Kuwaiti workers through internships and job training programs and continuing education.
- Private sector partnerships with higher education institutions to develop specialized programs and courses for vital economic sectors.

## 05

## **Fifth Axis: Reforming the Population's Demographic Imbalance**

Labor market reforms are a key prerequisite for reforming the demographic imbalance.

### **A national immigration and residency policy that supports economic development and takes into account social and cultural identity**

- Establishing a public commission to implement immigration and residency policies and regulate the recruitment of foreign workers and their rights and obligations.
- Setting the number of workers and specializations that are permitted to be recruited in line with economic development objectives, and which cannot be filled from the national labor force.
- Setting a maximum growth rate of the non-Kuwaiti population that is linked to the economic growth rate and does not exceed the natural growth rate of the Kuwaiti population.
- Setting a maximum limit for the percentage of any non-Kuwaiti community residing in Kuwait, taking into account social, cultural, and security considerations.
- Incentives for high-value foreign expertise (university professors, doctors, and investors who create job opportunities for Kuwaitis), such as permanent residency and home ownership.

### **Reducing dependence on domestic workers**

- Providing family support services such as school transportation and children daycare in government and private institutions as well as flexible working hours.
- Charging the employer for health insurance fees for the domestic worker to reflect the real cost of government health services.
- Diversifying housing options, especially small-sized homes, for those who desire them, which reduces the need for domestic workers to upkeep them.
- Developing the commercial home services sector to reduce the need for families to host resident domestic workers.

### **Preserving the dignity of foreign workers and combating human trafficking**

- Abolishing the existing sponsorship system due to its disadvantages represented by labor and humanitarian violations against foreign workers.
- Assertiveness in combating human and residency permit trafficking crimes, imposing their social and economic costs on the perpetrators, and barring them from recruiting foreign workers and obtaining government contracts and facilities.
- Raising the minimum wage for unskilled workers to improve their living conditions and incentivize businesses to raise their productive efficiency.
- Tightening fines on owners of rental properties used for housing foreign workers when they violate safety and space requirements, and compel companies contracting with the government to provide decent housing for their workers.

# Conclusion

We present this vision to correct the current economic trajectory and contribute to a national dialogue about the welfare state and its sustainability for future generations by focusing on the roots of the economic imbalances and the means to address it. Any reform initiative must be independent of oil price fluctuations, temporary crises, and political and populist sentiment. The Kuwaiti economy requires radical and comprehensive restructuring that implements long-term reforms that treat the root causes of the problem rather than its symptoms. The reforms must be based on key economic pillars: diversifying and sustaining the economy; combating corruption for Kuwaiti citizens to regain the confidence in state institutions; rethinking the philosophy of wealth distribution, social welfare, and economic facilities; implementing evidence-based approach to policymaking and management through reducing the obstacles that researchers from different fields face in obtaining data and conducting their research to fulfill their patriotic role in informing public policies.

We are aware that many of the reforms presented in this vision have been mentioned in previous initiatives and studies. However, reiterating them does not reduce their merit and urgency. On the contrary, it is a damning testament of the failure of the current approach that is based on delayed reform, the absence of objective evaluation, and the predominance of political and populist considerations over legislative and policy-making processes at the expense of empirical evidence. This rentier-based approach to dealing with the country's wealth and its future has only deepened the economic imbalances and reinforcing their root causes.

Each passing day we postpone adapting to local demographic changes and regional and international developments, will only bring the current generation closer to the demise of its economic welfare and increase the likelihood of depriving future generations of it. The continued reliance on a single source of income and directing its revenues to current expenditures burden the public finances and push us towards painful choices: financing deficits by squandering by public reserves or compromising state sovereignty and solvency.

This vision draws a long-term picture for Kuwait, the realization of which requires radical and often unpopular decisions that entail reshaping the relationship between citizens and the state. The challenges facing our country require us to be honest with ourselves and comprehend that the era of wealth distribution as we have known it has passed. In order to preserve our children's future, we must begin to make sacrifices now. Kuwaiti citizens must be able to believe in the fairness and integrity of reforms, and here lies the importance of basing them on the aforementioned pillars and implementing the reforms comprehensively and without selectivity. Time is not on our side, and the cost of delay on our current and future generations increases every day.



In order to preserve our children's future, we must begin to make sacrifices now, and this requires Kuwaiti citizens' faith in the fairness and integrity of reforms.

# BEFORE IT'S TOO LATE

An Honest Vision to Reform the Kuwait  
Economy

Presented by 29 Kuwaiti Scholars Specialized  
in Economics and Business

November 2020

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